

Warehouse Club in China Retail Market Development Status Analysis and Improvement

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ABSTRACT

Warehouse Club is a form of retail where goods are sold and stored in one space. General merchandise retailers offer a limited range of goods and fewer services at lower prices to end consumers and small businesses. The Warehouse Club is not new. It has been in the United States for nearly 50 years. Recently, the concept of "Warehouse Club" seems to become an essential vane of developing China's commercial supermarkets. Nevertheless, the Warehouse Club does not seem to be doing so well in China. This paper analyzes the development history of the American retail industry and studies the successful case of Costco in the Chinese market. After combining with the development of China's retail industry, it is concluded that copying the American Warehouse Club's business model will not have a future in the Chinese market and put forward a three-step new marketing plan.

Keywords: Warehouse Club, Retail industry, E-commerce, Digital strategy.

1. INTRODUCTION

Warehouse Club is a retail store. General merchandise retailers provide a limited range of fast-moving items for end consumers and small business organizations in the form of fewer services and lower prices [1]. This shopping mall usually has a large scale, less investment, low price, most of the idle warehouse, plant operation: very few luxurious decorations, all with simple and natural characteristics. Warehouse club retail has become one of the most successful retail models in the United States [2].

Now, foreign brands represented by Makro, Walmart, Costco, and the newly rising domestic Warehouse Club brands represented by Hema X member store and Yonghui are expanding and developing in China's retail market.

Although the warehouse retail industry is developed and popular with consumers in the United States, the development of the warehouse retail industry in China seems to be not going well. Walmart was one of the first major international brands to enter China. In 1996, it opened its first store [3]. In its nearly 30 years in China, Walmart has opened only a dozen Sam's stores. Walmart's position in China's hypermarket sector has fallen from second place in 2011 to fourth place in 2021, with no market share gains coming from e-commerce

giant Alibaba Group Holding Ltd. Fierce competition from local rivals such as Germany's Metro AG and France's Carrefour SA has pushed Germany's Metro AG and France's Carrefour SA to the brink SA out of the market in China [4].

At present, the Warehouse Club industry is in the initial practice stage. The failure of the development of China's warehouse retail industry shows that the success of the West cannot be replicated in the Chinese market only by copying. The Warehouse Club has to change.

2. THE HISTORY OF AMERICAN RETAIL

To understand a market, we must first understand its history and development process. The retail industry itself is a modern product born with the development of the commodity economy. The earliest retail evolved from the self-employed, known as mom-and-pop, a colloquial phrase that refers to the small, family-owned, and independent company [5]. Take the United States as an example. In the evolution process, wholesale plays an essential role in developing American commodity trade. Wholesalers circulate and exchange goods by organizing weekly markets and opening small specialty stores.

In the 18th century, for all the adversity they suffered, The Union Pacific and Central Pacific workers still finished laying nearly 2,000 miles of track in 1869 [6].

With the completion of the first east-west railroad in the United States, industrial growth and the expansion of the transportation system led to new means of shipping, The obtained dynamic wholesale practice [7]. It created a new process of standardization and timeliness for modern logistics systems. The rapid development of logistics systems allowed factories to supply specialty stores across the country, eventually leading to a broader range of products and more extensive retail facilities. So in the late 19th and early 20th centuries, dominant agriculture was replaced by manufacturing and industrial [5]. Another impetus for the development of the retail industry is the emergence of Fast Moving Consumer Goods (FMCG) in the market. Many critical consumer goods companies in the American market include Tyson Foods, Coca-Cola, Unilever, Procter & Gamble, Nestle, PepsiCo, and Danone [8]. The brand will be deeply rooted in people's hearts by branding, packaging, and unification of goods. In addition, with the emergence of TV, refrigerator, and automobile, TV expands brand awareness, refrigerator enables FMCG to be stored for a longer time, and automobile expands the purchase quantity and scope of consumers.

Finally, the retail market of the United States also appeared large-scale market integration. By 1962, the big-box Store was born. During this year, Walmart, Target, and other three brands entered the retail sales in the United States and opened their legend [9]. The concept of Warehouse Club was put forward by Sol Price, the founder of Price Club, in the 1970s. He and his son opened the first Price in San Diego on August 1, 1976, Club [10]. Price Club allows enterprises to purchase

goods at a price slightly higher than the warehouse sale Price. In this way, the scattered purchasing power of individual members can be gathered together, and large quantities of orders can be placed directly with the manufacturers. In this way, the additional costs of intermediate distributors and wholesalers can be saved, and the Price discounts can be obtained from the manufacturers. Get its retail prices to members down to the lowest possible level. As soon as this kind of large-scale warehouse, membership, select goods, chain sales form emerged, it became popular in North America and developed into a new business form immediately.

The three components of retail are civil facilities, supply-side and demand side. The completion of the civil facilities railway, the emergence of FMCG on the supply side, and the increase of purchasing power on the demand side are all conducive to the rapid development of the retail industry. It can be concluded from the history of retail development that every significant development and reform of the retail industry is based on the development and transition of civil facilities, supply-side and demand side.

3. THE CURRENT STATE OF THE WAREHOUSE CLUB

3.1. Warehouse Club status in the United States

As of 2021, the Warehouse Club and Supercentre Industry generated over \$500 billion in revenue in the United States, employing more than 1.5 million people [11].

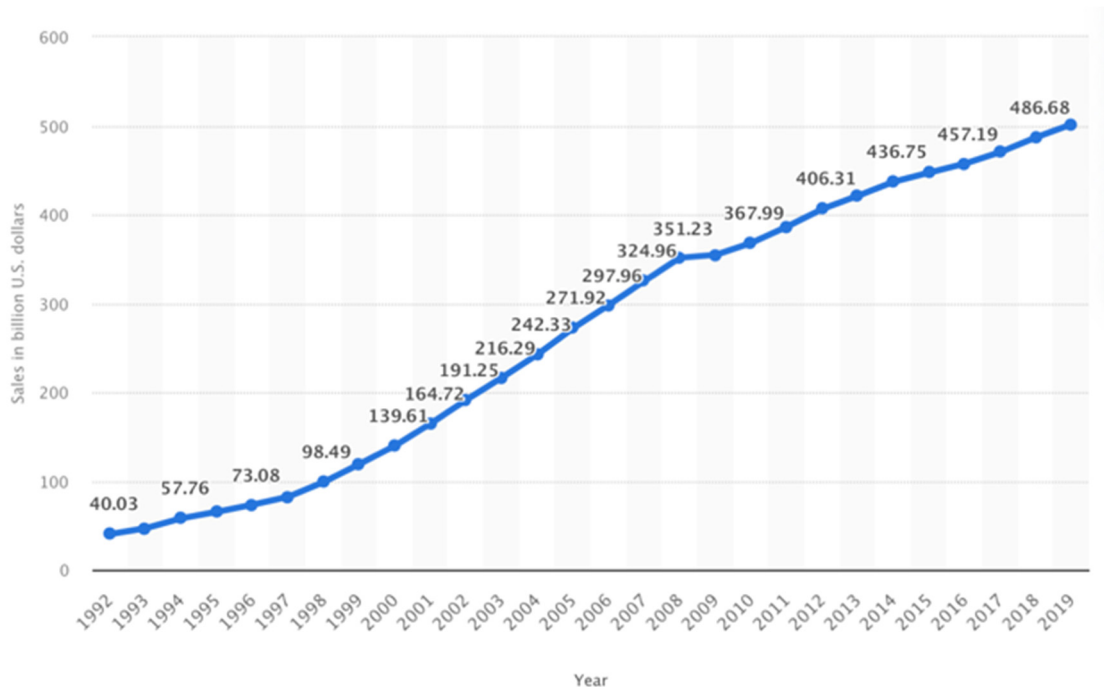


Figure 1 Warehouse clubs and supercenter store sales in the United States from 1992 to 2019

Even in 2019, when COVID-19 broke out, it maintained 6.45% growth despite the global economic downturn. The sales of the three largest Warehouse clubs in the United States have also maintained an increasing

trend in the past five years. Costco and Sam's Club (owned by Walmart) are the two most leading Warehouse Club stores in the United States, followed by BJ's but smaller than the first two.

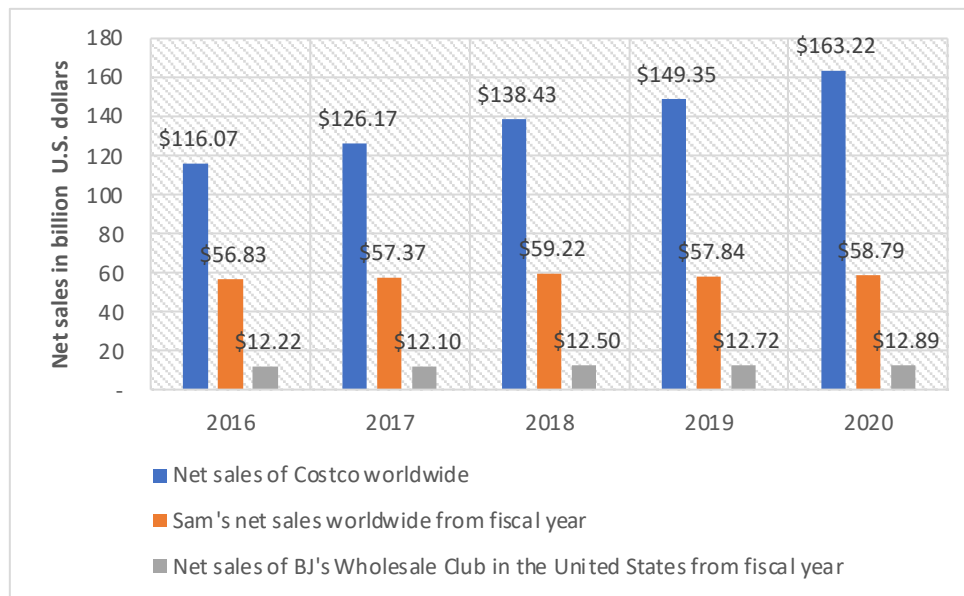


Figure 2 Net sales of Costco, Sam and BJ from 2016 to 2020

3.2. Warehouse Club status in the China

Although China is the world's retail one of the most attractive expansion targets of the company [12]. In China, however, the Warehouse Club is not as popular with consumers as it is in the U.S. Costco's first store in China opened in Shanghai on August 27, 2019 [13]. One of Beijing's oldest and best-known retail companies, Lotte CTA Makro by south Korean enterprise groups to a 1.28 billion yuan (us \$184.73 million) takeover [14]. Price Smart, because of capital chain rupture, finally had to close the store [15]. Sam's Club is one of Costco's older rivals that has survived reasonably well, but it is not doing well either. According to the southern metropolis daily report that from 2016 to 2020, Walmart China has shut down more than 80 stores [16].

Furthermore, Costco and several other Warehouse Club in the Chinese market operating situation presents an obvious difference. Although 2019 Costco opened its first store in Shanghai, China, and Shanghai is also planning to open the second house [17]. However, this store alone is a foretaste of Costco's popularity in China. Costco soon the new store has just opened in Shanghai, China, shoppers, had packed the aisle, but Costco had to close the door. Costco's stores in China are among the best-performing globally, the company said in March 2020. Although each Costco has an average of 68000 family members, the Shanghai store is almost five times the number of members [18]. There are two reasons for Costco's success in the Chinese market.

3.2.1. Test the waters in online markets before entering China

International retailers have adopted a variety of entry modes to penetrate the Chinese market. With the increasing influence of information technology on retail business, online cross-border e-commerce can enter the market with lower cost and risk [19]. Five years before opening in Shanghai, Costco first entered the Chinese market in 2014, when it began selling to Chinese consumers through Alibaba's Tmall global cross-border e-commerce platform. And after three years, products range from food, supplements, beauty products, electronic products, and clothing to furniture and wine [20]. It has accumulated data for policymakers to analyze. Let Costco have a specific understanding of the Chinese market. These five years of data enable them to understand the needs of consumers and target groups have a precise positioning. It has an excellent reference index for the first store's site selection and brand localization.

3.2.2. The marketing strategy is in line with the buying desire of middle class consumers

The Chinese middle class behaves like their counterparts worldwide, spending their income on a range of goods and services. Demand for luxury goods is soaring as China's middle class grows and creates wealth in the market. The Chinese government will earn \$7250 to \$62500 (us \$60000 to \$500000) between income is defined as the middle class [21]. A McKinsey analysis

predicts that this group of consumers will reach 550 million within three years, more than 1.5 times the current population of the United States. The giant American consumption and many Chinese companies now want the world's largest middle-class market share [22]. As far as high-end brands are concerned, Costco's business model of bulk sales has well captured the psychological demands of middle-class consumers. Costco supplies many foreign premium luxury goods such as high-end handbags from designer brands such as Chanel, Hermes, and Prada. Wholesale discounts offer a way to buy local luxury goods at lower prices, such as high-end liquor brand Moutai, which costs 1,499 yuan at Costco but normally retails for 2,500 yuan at the market. [23]. This marketing strategy of offering branded products at more affordable prices is in line with the desire of middle-class consumers to buy quality products at more affordable prices.

4. WAREHOUSE CLUB IS NOT THE FUTURE OF CHINA'S RETAIL MARKET

Costco's success in China is just a success, not the success of the warehouse Club in China because this is not the mainstream of China's retail market. E-commerce is the future of China's retail market. In the past two decades, due to the popularity of portal sites, services provided through portal sites have significantly developed. Online sales in China have grown by about 25 percent each of the past seven years to reach about \$1.9 trillion by 2020, accounting for 25 to 50 percent of total retail sales, While the United States for 10% to 20% [24].

Of all the different forms of business, e-commerce has experienced the fastest and most steady growth in recent years [25]. The substantial expansion and popularity of providing services through portal websites has dramatically changed the way of business and has been consolidated as a leader in all industries (Market value analysis of a Chinese e-Commerce holding Group: A multicriteria approach). As a result, leading data analytics firm GlobalData forecasts that China's e-commerce market will achieve a compound annual growth rate of 12.4%, From 2021, 13.8 trillion yuan (\$2.1 trillion) growth in 2024 to RMB 19.6 trillion (\$3 trillion) [26]. The speed of logistics in China is developing rapidly. The logistics industry is a comprehensive service industry integrating transportation, telecommunications, customs, and storage and is an integral part of the national economy. It promotes industrial structure adjustment and transformation of the pattern of economic development, enhancing the competitiveness of the national economy plays an important role [27]. Automatic sorting line, refrigerated trucks, and low labor costs to promote the rapid growth of China's express delivery industry, China Daily processing ability to express parcel reached 140 million pieces [28]. In China, the customer could receive the goods on the second day after placing orders and receive goods in order on the same day [29]. According to the statistics on the number of online consumers in China in the past 15 years, the number of Online consumers in China has maintained continuous growth and got a rapid increase in COVID-19. Consumers are increasingly shifting from offline to online due to the COVID-19 pandemic.

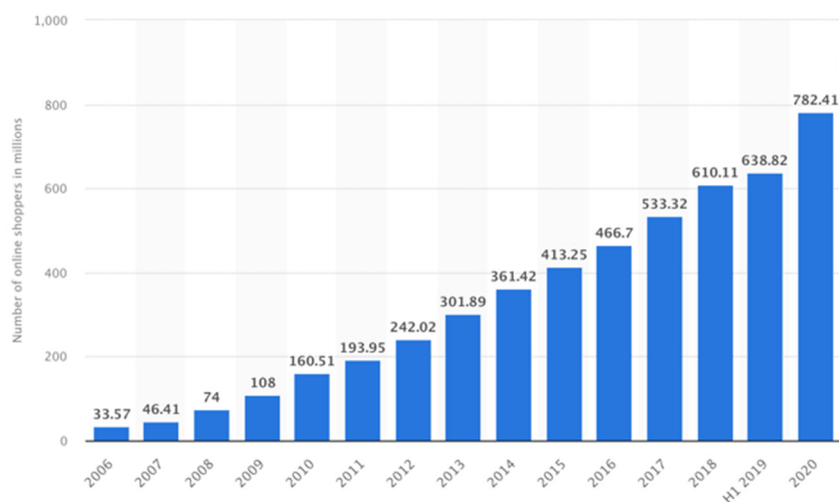


Figure 3 Number of online shoppers in China from 2009 to 2020

Chinese consumers are also buying online in large quantities. In 2018, China's express delivery volume reached 50.71 billion pieces, exceeding the combined volume of the United States, Japan, and European developed economies and accounting for more than half of the world's total. It means that the average Chinese is

36 [28]. Moreover, the numbers are increasing every year. Chinese consumers have acquired the habit of shopping online. That means few household goods and necessities worth stockpiling on a large scale. Unless it is a very scarce item or an exclusive product, it is rare in China. Chinese consumers no longer have to go to offline

supermarkets to get what they need. However, in the Chinese market, where the express delivery arrives the next day and within half a day, it is unnecessary to go to the Warehouse Club to stockpile goods on a large scale. It can be concluded that the business model of Warehouse Club in the United States is not the development trend of China's retail format. Chinese e-commerce shopping experience is more convenient, from e-commerce to warehouse Club is a complete step backward. There will be no future if the Us Warehouse Club is copied into the Chinese market.

5. THE WAREHOUSE CLUB HAS TO MAKE SOME CHANGES

As mentioned above, the supply side and the demand side will lead to the development of retail. The current development of China's retail industry is also affected by these three factors that have changed. The rise of the logistics industry represents the development of civil facilities. The change of supply-side represented by the emergence of e-commerce and the influence of the formation of online consumption habits on the demand side jointly promote a new round of development of the retail industry. The unit price of Warehouse Club is low because of the marketing strategy of small profits and quick turnover. However, it is also applicable to e-commerce. The rapid development of the logistics industry can also avoid second shopping in a short time. The continued popularity may be part of the appeal, but they also appear online when the products are on the shelves. The warehouse Club's advantages no longer exist in the new retail market.

Warehouse Club's new marketing model requires two steps. The first step is that Warehouse Club also needs to develop e-commerce and adopt a new marketing model combining online and offline. Although warehouse Club does not have a price advantage compared with e-commerce, compared with local retailers, warehouse Club's marketing strategy still has a price advantage. Especially for hypermarkets and supermarkets, low prices are a critical competitive factor in grocery retailing [30]. because consumers are very price sensitive. However, it is far from enough to operate offline in China's current retail market. By referring to the successful case of Costco in China and taking advantage of the highly developed logistics industry in China, Costco sells its products to all Chinese consumers through cooperation with e-commerce platforms. They are breaking through the limitations of space and offering goods to consumers all over China instead of just in the store's location. Tapping potential consumers can also improve brand awareness and influence. In addition, the same-day Grocery Delivery Service is set up within a specific range of stores by taking full advantage of geographical location. Merchants can sign cooperation contracts with the Online Grocery Delivery Company.

When a customer chooses the desired goods online and pays for the order, the Online Grocery Delivery company staff will pick up the goods and deliver them to the customer. Generally, the delivery time will not exceed 2 hours. Shorter delivery time than the express delivery on e-commerce platforms will be an advantage for retailers with offline physical stores. It can provide goods in a shorter time to meet the urgent needs of consumers.

The second step is to implement a digital strategy. In the three elements of retail development, civil facilities, the supply side, and the demand side, the first two elements are the main impetus for the development of the retail industry, but the demand side is the entire existence of the retail industry. The retail industry is closely related to "people." No matter how it evolves in the future, the most fundamental aspect of the retail industry is the grasp of "people," including the grasp of human behavior and humanity. Warehouse Club needs substantial data collection, statistics, analysis, and service capabilities to digitize it. Big data and cloud computing technologies will be the new trends in the development of retail chains through the analysis of "people" to understand their positioning in the Chinese market and formulate effective product strategy and suitable scene environment. Digital growth is an essential condition for retail chains' competitive and efficient growth. The survival of Retail companies in the market increasingly depends on the effectiveness of their [31].

6. CONCLUSION

In this work, by taking a practice-theoretical standpoint, the warehouse Club is analyzed according to the historical development process of the American market and the current situation of the Chinese market. Through the study and comparison in this paper, the retail market in the United States is quite different from that in China. Given the current situation of the Chinese market and the forecast in the future, the sales model of Warehouse Club in the United States is not applicable in the Chinese market.

In the above analysis, three components of retail development are proposed: civil facilities, supply-side and demand side. Through the study and comparison, there are differences between the three significant factors of the retail industry in Chinese and American markets. It is the crucial reason for acclimatization after the Warehouse Club entered the Chinese market. Therefore, I put forward a two-step improvement plan for the current situation of China's retail market to adapt to the growing e-commerce market in China. As future work, Warehouse Club develops the marketing strategy of online sales and implements the strategy of online and offline operation. Warehouse Club can still maintain certain advantages after localization in China and adapting to the Chinese retail market. In the future, whether Warehouse Club can maintain in the Chinese

market for a long time needs to implement the digital strategy. It depends on the mastery of data tools and the study of "people." The two-step new marketing model can help Warehouse Club usher in a turning point to win the future of China's retail market.

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