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[Field Research]

Study of Chinese Distribution Market Trends*

Shuai Su**

Abstract

Purpose - This paper aims to explain that the Chinese distribution market will continue to bring tremendous business opportunities to commercial enterprises, given the relatively strong economic fundamentals and substantial government-led measures to boost domestic demand.

Research design, data, methodology – A survey was conducted on China's retail market data during 2012. By empirically analyzing the data for retail sales of online markets and franchises, we conclude that the online retail market in China will continue to grow.

Results - Based on data from 2012, 2013 is expected to be a challenging year for the retail sector, as both external and internal pressure is likely to persist. This paper outlines some major challenges facing retailers in China.

Conclusions - The study shows that retailers in the Chinese market will face some major challenges: 1) the Chinese retail market is considerably affected by an uncertain economic outlook 2) an unfair environment of competition exists and 3) product safety is a serious issue. However, in the future, China's retail market will continue to bring tremendous business opportunities to commercial enterprises, given the relatively strong economic fundamentals and substantial government-led measures to boost domestic demand.

Keywords : Chinese Distributors Market, Distribution Politics, Challenges.

JEL Classifications : M31, M12, F23.

1. Introduction

In China, The distributors of different parties involved in the product supply chains, such as retail sales, online retail, franchise, etc. China's retail market is still highly fragmented with the bigger retailers achieving just 41.2% of the market share in 2012, the retail market size of apparel in China was 1,617 billion RMB in 2012,

representing year-on-year growth rate of 14.1%. The 2011-2016 CAGR is expected to be 9.3%. According to the National Bureau of Statistics (NBS), the total retail sales of consumer goods rose nominally by 14.4% year-on-year (yoy) to reach 9,822.2 billion RMB. The real growth in retail sales was up by 11.2% year-on-year.

Chinese online retail market has been growing fast. Online retailing is clearly on the rise. Though not many online apparel players are making money, most of them bet on a future trend that more consumers will shop online while the offline store acts as a showroom. Online retailing is obviously a rising star – It accounted for 6.23% of the market share in 2012, spiked sharply from 67.5% years ago. According to the National Bureau of Statistics (NBS), the transaction value of online retail market was reached 1310 billion RMB in 2012, accounting for 6.23% the total retail sales in china.

Franchise business in China is flourishing. According to the China Chain

Store and Franchise Association (CCFA), The top 100 franchise businesses in China achieved a total sales revenue of 1870 billion RMB in 2012, increased by 10.8% year-on-year ,accounting for 9% the total retail sales in china.

2. Overall performance of the Chinese distribution

2.1. Retail sales

In 2012, the Top 100s achieved a total sales revenue of 1,650. 7 billion RMB, which was lower than that in 2010 due to the adjustment of survey methodology. According to the CCFA, the adjusted yoy growth rat.

<Table 1> 2007-2012 performance of the top 100 chain retailers

Year	Retail sales (billion RMB)	year-on-year Growth (%)
2007	1002.2	21
2008	1199.9	18
2009	1360.0	14
2010	1545.5	14.8
2011	1417.0	20
2012	1617.0	14.1

Source: China Chain Store and Franchise Association of 2012 report Exhibit 2 shows the top 10 chain retailers ranked by total retail sales in 2011. Please refer to Appendix 2 for a detailed list of the top 30 chain retailers in 2011.

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** First Author, Professor of Shandong University of political science and law, jinan, China.

E-mail: su.shuai@gmail.com. Tel: :+86-156-6582-383-71234

<Table 2> The top 10 chain retailers in 2011 and 2012

2011		2012	
Rank	Name of company	Rank	Name of company
1	Bailian Group Co.,Ltd	1	Suning Appliance Co.,Ltd
2	Suning Appliance Co.,Ltd	2	Bailian Group Co.,Ltd
3	Gome Electrical Appliance Group	3	Gome Electrical Appliance Group
4	China Resources Vangurad Co.,Ltd	4	China Resources Vangurad Co.,Ltd
5	RT-Mart Shanhai	5	RT-Mart Shanhai
6	Chongqing Commerce	6	Wal-Mart (China) Co.,Ltd
7	Carrefour China Inc	7	ChongqingCommerce
8	Yum! Brands Inc	8	Yum! Brands Inc
9	Wal-Mart (China) Co.,Ltd	9	Shangdong Inzone Group
10	Shangdong Inzone Group	10	Carrefour China Inc

Source: China Chain Store and Franchise Association of 2012 and 2013 report

2.2. Online retail market

The burgeoning population of Internet users is one of the major drivers of Online retail market. According to China Internet network Information Centre, the population of Internet users in China reached 538 million as of June 2012, with a penetration rate of 39.9%. At the moment, the majority of the top online retail players in China are still pure-click players. Exhibit 3 demonstrates the top 30 B2C online retail players ranked by transaction value in 2012.

<Table 3> 2012 the top 10 B2C online retail players ranked

	Player	Category	Sales (billion RMB)
1	Tmall	Online supermarket	200
2	360 buy	Online supermarket	60.1
3	Suning	Home electronics	18.3
4	Amazon china	Online supermarket	10.4
5	Yihaodian	Online supermarket	6.8
6	yishun	Home electronics	6.8
7	Vancl	Apparel	6.54
8	Dangdang	Home electronics	5.19
9	Shop.qq.com	Online supermarket	4.42
10	Coo8	Home electronics	4.41

Source: China Chain Store and Franchise Association of 2013 report

According to iResearch, online transaction through mobile purchase was estimated to reach 1310 billion RMB in 2012, five times more than the transaction value in 2010. With increasing penetration of tablet PCs and smart phones, m-commerce is set to continue its impressive growth in coming years. It is expected that retailers in China will pay increasing attention to m-commerce; many of them will develop new applications on mobile platforms, either for brand building, promotion or as a purchasing platform.

The government has placed increasing emphasis on the development of online retailing in recent years. For instance, the Ministry of Commerce (MOFCOM) promulgated the *Guiding Opinions for the Development of E-commerce in the 12th Five-Year Plan Period* in October 2011, and the *Circular on Issues Concerning Promotion of Sound and Fast E-Commerce Development* in February 2012. A key initiative is to encourage and support large retail enterprises to set up

online stores. Going forward, we believe online retailing in China would continue its growth momentum.

2.3. Franchise

Franchise business in China is flourishing. According to the China Chain Store and Franchise Association (CCFA), there were about 5,000 franchise businesses in China in 2011, up from 4,500 franchise businesses in 2010. The top 120 franchise businesses in China achieved a total sales revenue of 373 billion yuan in 2011, increased by 9.6% yoy. The top 120 franchise businesses operated 218,000 stores in total, 88.1% of the total (i.e. 192,000 stores) was operated by franchisees. The top 120 franchise businesses created 25 million employment opportunities in 2011. Nevertheless, increasing operating costs is one of the major challenges Facing china's franchise. Labor and sourcing cost of the top 120 franchise businesses rose by 8-10% in 2011, while rental cost increased by 10%. To better regulate the franchise industry in China, the MOFCOM released the *Guiding Opinions on Promoting Healthy Development of Commercial Franchising During 12th Five-Year Plan Period* in January 2012, hoping to provide a clearer regulatory framework for the industry. The new *Administrative Measures for Archival Filing of Commercial Franchises (2011 Revision)* has also come into force on February 1, 2012.

3. Government policies related to distribution sector in China

The government has been working on a number of fronts to facilitate the healthy development of the distribution sector. and these shows a slew of measures announced recently.

The Chinese government of the state council launched "Opinions of the General Office of the State Council on the Policy of Accelerating the Healthy Development of the Logistics Industry" in 2011 August. The State Council of the Premier Wen Jiabao highlighted eight measures to promote a healthy development of the logistics industry in the committee meeting of the State Council in June 2011:

- Reduce tax burden of logistics enterprises
- Enhance policy support on land use in favour of logistics industry
- Promote a better operational environment for trucking services
- Improve the management of logistics enterprises
- Encourage integration of logistics facilities and resources
- Promote the innovation and application of logistics technology
- Strengthen financial support for logistics industry
- Support the development of agricultural products logistics

The State Council promulgated The Opinions in August 2011. On top of the eight measures mentioned, an additional measure was:

- Enhance the coordination among stakeholders within the logistics industry

The Chinese government of the MOFCOM, MOF, PBC launched "Opinions on Expanding 12th Five-Year Plan Period" in October 2011. The government set the following targets during the 12th Five-Year Plan Period:

- Total retail sales of consumer goods to reach 32 trillion RMB, with an annual growth rate of 15%
- Retail sales of online retailing to reach 2 trillion RMB, with an annual growth rate of 30%
- Consumption to reach 35 trillion RMB, with an annual growth rate of 13%
- Consumption rate to reach 50% Major tasks include:
 - Facilitate rural distribution
 - Promote non-store retailing
 - Promote credit card consumption
 - Encourage multi-format retailing
 - Support direct sourcing
 - Promote "green" consumption and to safeguard consumption safety

The Chinese government of the MOFCOM launched "Guiding Opinions on Promoting the Healthy Development of Commercial Franchising during The 12th FYP period :

The government set the following targets during the 12th Five-Year Plan Period:

- Increase the number of franchisees and the scale of franchise operations
- Improve the industry standard
- Support the development of large franchise businesses Major tasks include:
 - Revise and improve the Regulations for the Administration on Commercial Franchising
 - Support the use of business information systems

The Chinese government of The State Council launched "Opinions of the State on Further Reformation of the Development of the Distribution Sector in August 2012.

The Opinions aim at establishing a modern distribution system, reducing the ratio of total logistics cost to GDP, enhancing the competence of large-sized distribution Acceleration of enterprises, adopting modern information technology, and improving the market environment, etc. Major tasks include:

- Strengthen the distribution network such as the urban-rural transportation, in-town delivery, etc.
- Improve supply chain efficiency
- Improve logistics facilities, e.g. large-sized distribution centers, agricultural cold chain facilities, etc.
- Enhance the level of informatization in the distribution sector, e.g. adopting Internet of things, cloud computing, global position-

ing system, e-barcode, etc.

4. Conclusion

In the future, the China's retail market will continue to bring tremendous business opportunities to commercial enterprises given the relatively strong economic fundamentals and substantial government-led measures to boost domestic demand. Nonetheless, the year 2012 is expected to be a challenging year for the retail sector as both the external and internal pressure is likely to persist. The followings are some major challenges facing retailers in China.

4.1. Uncertain economic outlook imposes considerable impact on the Chinese retail market.

According to World Bank's report, the global economy is entering into a new phase of uncertainty and the outlook of the US economy is still uncertain. Global economy in 2012 is full of challenges. China's economy grew at its slowest pace in almost three years in the first quarter of 2012, with its gross domestic product expanding only 8.1% during the period. danger; the retail market in China is expected to grow at a slower pace in the near future. According to aPricewaterhouseCoopers (PWC) report¹⁵, retail sales on a volume basis are forecast to grow at 9.8% in 2012.

4.2. un-fairer competition environment

In China, many large-scale retailers levy cumbersome charges on suppliers, causing poor retailer-supplier relationship. For example, in order to introduce new products into the retail space, suppliers are required to pay new product listing fees, barcode fees, etc.

The government is well aware of the problem and is striving to promote a fairer competition environment. In 2008, the MOFCOM released the *Regulation of Fair Transaction between Retails and Suppliers* in December 2011, with the releasing of the *Work Plan on Clearing and Rectifying the Illegal Charges from Large-scale Retail Enterprises the Suppliers*, the MOFCOM and four other ministries kicked off the campaign national wide. In June 2012, the MOFCOM also announced a notice to further regulate the large-scale retail enterprises. Industry experts anticipate that more stringent measures will come into place to restrain large-scale retailer from imposing unequal terms on small suppliers.

4.3. Product safety prombles

There are growing issues of food safety and product quality in China, especially after a series of food scandals as well as some renowned foreign hypermarkets were found selling sub-standard food products. While Chinese consumers and the government now place increasing emphasis on product safety, the policy makers to pay more attention to product quality issues.

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