

**Learning to pay more attention to urban consumers :  
What home improvement companies could learn in China**

**By: Yeshang Zhang**

*Editors note: The following article was written by Yeshang Zhang a guest researcher at CERC during the fall of 2003. CERC appreciates his contributions to our work and is happy to present this analysis of the challenges facing home improvement stores as they move into the Chinese market and the potential for applying the lessons the stores learn back into the underserved urban markets in the U.S. This article was based in part on the article "Doing up the Middle Kingdom", in the October 9<sup>th</sup> 2003 issue of The Economist.*

B&Q, part of Britain's Kingfisher Retailing Group, opened a new store in Shenzhen, China recently. With this opening, home improvement arrived in China's Retail Sector and many foreign home improvement companies plan to open new stores in China. Home Depot, already with two sourcing offices in Shanghai and Shenzhen, hopes to open new stores soon. Several of Home Depot's proprietary brands, such as Ryobi, Hampton Bay and Glacier Bay are already made in China. A new market for home improvement and decoration will develop from the private housing boom developing in China, and large one-store home improvement retail centers are hoping to change the way the Chinese shop. Now, foreign home improvement chains are trying to move quickly to be ready when new World Trade Organization (WTO) rules that will allow them to open shops anywhere in China take effect in December 2004 according to agreements that China become one of WTO's number. Chinese people have the money, intention and desire to improve their homes.

The key advantage foreign chains currently have in the Chinese market is trust. Chinese shoppers are used to being sold shoddy goods backed by dodgy guarantees so foreign

chains promise “no fakes” and money-back guarantees will have the potential to make rapid in-roads into the Chinese market. But foreign home improvement chains face some challenges in China in addition to their competition with each other.

- First, foreign chains would require big changes in how the Chinese expect retailing to work. The style of retailing in China is different from the style of retailing in the West. Retailing in China tends to be specialized with different types of stores for different goods, but the new foreign chains are one-stop-shopping.
- Most customers in China are not comfortable with the do-it-yourself (DIY) expectations or requirements of the new home improvement stores. They are comfortable with being a part of the buy-it-yourself (BIY) consumers, but then expect or need the DIY part to be done for them. Foreign chains will need to turn the BIYers into the DIYers by giving customers lessons about how to do-it-yourself and instilling a hobby like feel into things.
- Foreign chains must also create their own supply chains. This is in part because of China’s huge land area and enormous regional variations. International chain retailers will need to work hard to establish a national infrastructure of suppliers and a nationally known brand. To do so foreign chains plan to open regional warehouses and buy directly from manufacturers. They hope to turn their suppliers into partners who will share in the responsibilities for insuring quality, marketing the goods, and then profiting from the sales.

Foreign chains will have other problems in China:

- Foreign retailers are often treated inequitably by local governments;
- Shoppers will not readily trust their promises. In Shenzhen and Shanghai, China's most western cities, customers in B&Q still try to haggle over prices.

In China, most customers of home improvement chains will be urban residents and the stores will be located in urban centers. Locating in urban centers (a necessity in China) will require new strategies for these stores which in Britain and the U.S. tend to locate in the suburbs. These foreign-owned chains will need to meet the unique demands of these customers and a multitude of challenges related to dealing with large urban markets. It will be good if companies such as Home Depot learn from their experiences in China's urban markets. In Connecticut, as well as in many other parts of the U.S., large retailers tend to overlook or avoid the large urban market due to what they perceive as potential problems. Perhaps companies that have learned strategies in China will be able to bring back some of lessons and be more willing to invest in the potentially lucrative inner city markets. The expansion of these chains into the urban markets could significantly contribute to economic development through the increase in wealth, income, and employment opportunities for inner-city residents, as well as may encourage other retailers to move downtown.