

## **The effect of foreign retailers on Chinese retailers: A survey of Wal-Mart in China**

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**Abstract:** *As China's joining into WTO and the entirely open of China's retail industry, foreign retailing develops into multi- industry scale. In Chinese market, on the hand, their advanced marketing management promotes the management of China's retailing; on the other hand, their obvious price advantage, strong procurement and logistics distribution systems and advanced management level causes great impact on China's retailing. China's retail industry should make use of local advantages, establish complete enterprise supply price chain, enhance the construction and management of distribution center, speeding up the mergers of inter-regional enterprises and the establishment of satisfactory service system to cope with the challenges.*

**Key words:** *Foreign Retailers; Wal-mart ; Development; Impact; Influence*

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### **I. Introduction**

As we know, China is a huge market for foreign retailers. On December 11, 2001, china joined WTO Officially. From December 11, 2004, The Chinese government should follow the WTO agreement to open the retail industry completely. The government open up markets continually, expand the business scope for the foreign.

With China accession to the world trade organization (WTO) and Chinese retail industry fully open. (Yu, 2007)

In 1996, the Wal-Mart entered the Chinese market. In Shenzhen, August 1999 they opened the first Wal-Mart shopping plaza and Sam's club stores. But in the last ten years (1996-2005), Wal-Mart had been losing money; because the China hasn't joined the WTO, and there are many government policy hinders the development of foreign retailers. But they never give up. As of March 1, 2012, has been opened 370 stores in 25 provinces 140 cities , created more than 106500 jobs in the China.

Why Wal-Mart can succeed in China? We've come to the conclusion these points:

The famous brand; Efficient business model; New enjoy service; One-stop "shopping new concept"; Sales promotion and public image. Wal-Mart has many influences to Chinese retailers. Our retailers should learn the good thing from Wal-Mart and make them to our own superiority. (Xie, 2011)

In the previous survey, most Chinese people prefer foreign brands, because they think the quality, service and price from foreign brands is better than local brands. And for local brands, they think local brands don't reach the real chaining. They lack of advanced management level and technical level. Foreign retail industry has made great achievements, the Chinese retailing still in its infancy. Foreign retailers to enter the Chinese market, on the one hand, they brought in international advanced marketing methods, at the same time they promoting the management level of Chinese retail improvement; On the other hand, they rely on its advantages in technology to split the market share of China, also brought the huge challenge for developing retailers in China. (Zhang, 2007)

Foreign retailers have brought international advanced modern marketing methods. For example, own brand management, western fast food store management, various forms of the mode of operation and so on. Wal-Mart's "everyday parity" and "one-stop shopping" concepts and membership of warehouse operation way get government's full affirmation and the vast number of consumers of all ages. It with high quality parity goods and hospitality services, improve the quality of people's shopping. Foreign retailers to bring in advanced management level, at the same time brought more goods distribution enterprises; promote the development of other industries.

After China's retail industry comprehensive opening to the outside world, more and more foreign retailers will compete for the Chinese market, which has yet to mature and grow up for China retail caused strong shock waves, mainly displays in:

1. The foreign capital retail price advantage has hit China's retail industry
  2. Foreign capital retail perfect logistics distribution system impact the retail industry in our country
  3. Foreign capital retail trade impact of China's retail industry advanced management level. (Shi & Xiu, 2011)
- So, what factors influencing local retail from the foreign retailers?

This article is only major foreign retailer Wal-Mart to an example, through the analysis of the advantages of foreign retailers in China to know the influence on Chinese retail from foreign retailers. This

study was conducted to determine whether there is relationship and correlation between brand, price, quality, service, management level, technical level from the Wal-Mart and the influence on Chinese retailers. Here we can see the details and specific objectives of this research:

1. The brand and price influence Chinese retailers from foreign retailers;
2. The Service and quality influence Chinese retailers from foreign retailers;
3. The management influence Chinese retailers from foreign retailers;
4. The technical level influence Chinese retailers from foreign retailers;
5. The public welfare influence Chinese retailers from foreign retailers.

## **II. Literature Review**

### **2.1 The brand and price influence Chinese retailers from foreign retailers**

There is no doubt that for a retailer to attract customers the best and most fundamental way is to reduce the sale price. Due to the huge scale of Chinese foreign retail now, purchase quantity is big, and in line with low-cost procurement, low-priced sales management principle, combined with the commonly used way to buy stock, were both big, and reduce the risk of the supplier, of course, the supplier also willing to transfer their products at a lower price, so that the foreign capital retail cost is lower. The well-known term "meager profit but high turnover" on foreign retailers' (Wal-Mart, Carrefour) been fully reflected. For example: Wal-Mart in recent 19 years only uses one slogan that is "everyday parity". Compared to other retail enterprises frequently change the slogan and the phenomenon of sales strategy, it is almost a record.

Foreign retailers caught the characteristics of its industry, and made the right decision, no matter how the development of retailing, it cannot escape the "cheap", because it is most closely related to people's life. (Zhang, Wang & Zhao 2010)

Brand has a great influence on a retail enterprises, it embodies the value, culture and quality of enterprise. As a customer, if they want to go to a retail store the first thing they think is brand in China. Most Chinese think the famous brand means good quality. (Zhang, & Wang 2007; Li, & Zhao 2010)

*H1: The brand and price has influence Chinese retailers from foreign retailers*

### **2.2 The Service and quality influence Chinese retailers' foreign retailers**

If a retailer want to establish brand image in customers mind, is not enough to only rely on high quality and low price goods, customers also want to enjoy the meticulous and hospitality services when they shopping. Whether the customers can buy all the needed goods in store, can get new product sales information in time, whether can enjoy home delivery, free parking and other additional services, whether can be in any free time in the store shopping... These problems are evaluation of an important symbol of a shop good or bad. Most foreign retailers has considered this mind, from the perspective of customers, with its superb service attracted a large number of customers. Foreign retailers took a superb service as own sovereign duty. They are better than local retailers.

Because the foreign retailers need big market demand, so many suppliers want to establish cooperation relationship with them. So they can choose the best one to be their suppliers and they can get the quality guaranteed. The customer will want to buy their goods. (Liu, Fu, & Zhen 2009; Qiao 2006)

*H2: The Service and quality has influence Chinese retailers from foreign retailers*

### **2.3 The management influence Chinese retailers from foreign retailers**

Foreign retailers provide customers with the enthusiasm, thoughtful and perfect service, China's retail industry has been overshadowed. In China most number of retail enterprises has not formed a complete, standardized operation and management system. Many chains only do the unified stores and identity, and they thought that is standardized. And the quality of the staffs from these stores is low, low degree of automation and digitalization, the service way and the technology behind also restricted the development of retailers. So when the foreign capital retail business with advanced management concept and the drive of the rich and colorful operation forms appeared in front of China's retail industry, the challenge for China's retail industry is very real.

The advanced management mode of high efficient inventory management make the company can quickly grasp sales situation and market demand trends, timely replenish inventories. So can reduce inventory risk, reduce the backlog of funds limit, accelerate capital running speed. (Xie, Shi & Xiu 2011)

*H3: The management has influence Chinese retailers from foreign retailers*

### **2.4 The technical level and logistics influence Chinese retailers from foreign retailers**

Western developed countries' retail multinational group can not only do well in the domestic market, but also use the information technology widely, building a broad marketing network in the whole world, thus it can be freely for the layout, information, talents and operation of the goods around the world. The advantage of the technology is a fatal challenge to China's retail industry. And Logistics cost is important symbol of the

measure for retail enterprise management level, is also the important factors that affect retail enterprises operating results. Quick information feedback and efficient logistics management system, can make goods inventory is greatly reduced, capital turnover speed, the enterprise cost lower nature. The foreign retailers use the advanced technology and logistics level to get more market. The foreign retailers use the advanced computer technology to make the market network all over the world, mainly relies on the support of the technology to commercial electronic data processing system, management information system, decision support system as the core, formed take the network as auxiliary business automation, completely changed the traditional operating mode of the retail industry. Since these dynamic technologies concrete application in purchasing automation, marketing automation, storage automation, etc. And 700 chain companies in China have scale, few efficient distribution centers. Even opened 120 'Shanghai LianHua'(retailer) supermarket chain company also owns more than 4800 square meters of distribution center. Most companies the concentration distribution of just 30%. So foreign retailers in logistics distribution the advantages of a challenge to China's retail industry to form can be deadly.(Xie&Yang 2007; Liu&Fu 2009)

*H4: The technical level and logistics has influence Chinese retailers from foreign retailers;*

### **2.5 The public welfare influence Chinese retailers from foreign retailers**

The foreign retailers use promotion and public welfare to build image. For example, Wal-Mart to provide their customers with more material benefit, and to reduce advertising costs, therefore it attention on promotional ideas, strive for with minimal input to obtain the best effect. Every Wal-Mart promotion commodity can always be fully. Although Wal-Mart has cut its spending, but on the other hand in the non-profit organization and public welfare undertakings (such as schools, libraries, economic development groups, hospitals, medical research and environmental protection plan, etc.) for donations very generous.

The foreign use these to improve their awareness and sell more goods. And the Chinese retailers cannot do these well. Make them lost many customers.

(Bao,&Qiao 2006; Guo, Li,&Jin 2011)

*H5: The public welfare has influence Chinese retailers from foreign retailers;*

## **III. Methodology**

This research used descriptive co-relational research also known as statistical research. This describes data and characteristics about the population or phenomenon. This method is employed because it easily assessed the influence for Wal-Mart in China. The model-based quantitative research of causal relationship between control variable and performance variable developed, analyzed or tested.

The instrument used was the set of questionnaire which was to gather data from the respondents. Questionnaire was composed of three parts that would be disseminated to the respondents. The first part is the information of the respondents and the responses provided: Strongly Agree (1), Agree (2), Neutral (3), Disagree (4), and Strongly Disagree (5). And part2 is the questions, the questions consist of 22 questions, divided into 5 sections include: Brand, price, quality, service, management, technology, logistics and public welfare.

### **3.1 Sampling**

The target population for this study consisted of Chinese people who have known Wal-Mart china well or shopped in Wal-Mart. The unit of analysis was the individual people. The questions are 22 but we want get little more respondent, so this research maybe can get 300 respondents used five times number of variables, and much better if using 10:1 rate between sample and the variables.

### **3.2 Data collection Method**

The researchers formulated a set of questionnaire based on the nature of the study. The letter certified to allow the researchers to disseminate questionnaire to the students needed for data collection. The responses from the respondents based from the research instrument were tallied, analyzed and interpreted essential for the findings and conclusion of the study. The primary data is based on questionnaire of 300 items distribute to the Chinese who we choose in internet. Before researchers choose, researcher will check their data from their ID.

The data is going to be collected from October 18, 2013 until November 08, 2013. The researchers use the e-mail or the chat tools in internet to collect from the Chinese. Researchers will ask them to reply and thanks for them.

### **3.3 Data analysis**

This research is used quantitative data type analysis, researchers collect the data use questionnaires from the random sample in Chinese who we choose in internet. We will use the statistical software -- Statistic Package for Social (SPSS) to process the data.

### 3.4 Validity and Reliability

Validity test is done in purpose to understand how accurate a certain instrument in measuring something (Priyanto, 2010). Validity is the extent to which a test measures what we actually wish to measure (Cooper & Schindler, 2006). The researcher conducted validity test by use Statistic Package for Social (SPSS). And use factor analysis which means a statistical method used to describe variability among observed to determine the validity of data.

Reliability test is done in order to test the consistency or stability of the instrument, whether the result will be consistent when the researchers repeatedly dose the same measurement (Priyanto, 2010). A reliability coefficient is determined by assessing the degree of relationship between scores on the same test administered on two different occasions (Field, 2005). In this research, the researchers used Cronbach's Alpha method. Cronbach's Alpha value less 0.6 considered to be poor, while 0.7 is acceptable and 0.8 or above considered good.

### 3.5 Multiple Regression

Because there are more than one independent variables, so researchers used the Multiple Linear Regression. Here is the model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

Where:

Y is Wal-Mart influence

$\alpha$  is coefficient

$X_1$  is Brand and price

$X_2$  is Service and quality

$X_3$  is Management

$X_4$  is Technical level and Logistics

$X_5$  is Public welfare

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  is the Slope (Beta coefficient) for  $X_1, X_2, X_3, X_4, X_5$

## IV. Data Analysis

### 4.1 SPSS Analysis

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.606
Bartlett's Test of Sphericity	Approx. Chi-Square	821.813
	df	66
	Sig.	.000

This table shows two tests that indicate the suitability of data for structure detection. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy is a statistic that indicates the proportion of variance in variables that might be caused by underlying factors. The number must more than 0.5 and close to 1.0.

Bartlett's test of sphericity tests the hypothesis that your correlation matrix is an identity matrix, which would indicate that your variables are unrelated and therefore unsuitable for structure detection. The Sig. Must be less than 0.05. (IBM 2011)

Communalities

	Initial	Extraction
Q1	1.000	.585
Q3	1.000	.842
Q5	1.000	.804
Q6	1.000	.781
Q7	1.000	.685
Q8	1.000	.775
Q11	1.000	.881
Q13	1.000	.652
Q18	1.000	.746
Q20	1.000	.650
Q21	1.000	.620
Q22	1.000	.734

Extraction Method: Principal Component Analysis.

Extraction communalities are estimates of the variance in each variable accounted for by the factors in the factor solution. The extraction must be more than 0.5.

**Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.007	25.056	25.056	3.007	25.056	25.056	2.353	19.607	19.607
2	1.944	16.197	41.254	1.944	16.197	41.254	2.313	19.273	38.880
3	1.565	13.046	54.300	1.565	13.046	54.300	1.786	14.879	53.759
4	1.192	9.931	64.231	1.192	9.931	64.231	1.197	9.979	63.738
5	1.048	8.735	72.966	1.048	8.735	72.966	1.107	9.228	72.966
6	.748	6.231	79.197						
7	.682	5.685	84.882						
8	.554	4.620	89.502						
9	.516	4.301	93.803						
10	.305	2.541	96.344						
11	.295	2.459	98.804						
12	.144	1.196	100.000						

Extraction Method: Principal Component Analysis.

The initial eigenvalues section of this table shows the variance explained by the initial solution. Together, they account for almost 73% of the variability in the original variables. This suggests that five latent influences are associated with service usage, but there remains room for a lot of unexplained variation. The extraction Sums of Squared loadings section of this table shows the variance explained by the extracted factors before rotation. The cumulative variability explained by these five factors in the extracted solution is about 73%, same with the initial solution. (IBM 2011)

**Rotated Component Matrix<sup>a</sup>**

	Component				
	1	2	3	4	5
Q5	.877				
Q8	.855				
Q22	.832				
Q3		.889			
Q6		.873			
Q20		.723			
Q7			.800		
Q21			.775		
Q1			.710		
Q18				.781	
Q13				.709	
Q11					.938

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.  
 a. Rotation converged in 6 iterations.

The factor transformation matrix describes the specific rotation applied to your factor solution. This matrix is used to compute the rotated factor matrix from the original (un-rotated) factor matrix. Here we can see the data from the SPSS analysis.

**4.2 Data information**

From the data of the research, the researcher can get the conclusion:

For the brand, there are around 47% respondents strongly agree and around 39% agree the Walmart is very famous brand and respondents go because the brand.

For the price, there are around 43% strongly agree and 46% agree that Walmart is the cheapest and they can accept the price. And around 53% strongly agree and 36% agree if the price is lower than Walmart, they will choose others.

For the service, there are around 52% strongly agree and 33% agree with the service of Walmart is better than others.

For the quality, there are around 60% strongly agree and 34% agree know Walmart has happened the quality problem. But there are around 37% strongly agree and 41% agree the customers will still go to Walmart because of the good quality.

For the management, there are around 33% strongly agree and 34% agree the management in Walmart is better than local retailers.

For the logistics, there are around 37% strongly agree and 42% agree the logistics in Walmart is better than local retailers.

For the public welfare, there are around 54% agree they have heard the public welfare of Walmart, around 79% approval Walmart and 53% of them have join the activity.

**4.3 Hypothesize**

1. The brand and price influence Chinese retailers from foreign retailers;
2. The Service and quality influence Chinese retailers from foreign retailers;

3. The management influence Chinese retailers from foreign retailers;
4. The technical level influence Chinese retailers from foreign retailers;
5. The public welfare influence Chinese retailers from foreign retailers.

### V. Conclusion

So the researchers can get that the brand is very important for foreign retailers, the will be influence choose of customers. And the price is also the important factor of retailers. And we should know the management of famous foreign retail is better than local retailers in china. Walmart is one of the earliest pioneer of retailer. So Walmart is known by people. And they have many experience, they open the store around the world. So Walmart has the best logistics. And Walmart is uniform in the world, they use the advanced management to manage the employees. Make the service well. Walmart also prefer to do some public welfare, it can make more people know them and the increase the Company's profile and get more Social reputation. All these thing will influence the local retailers, local retailers should learn the good things from Walmart (foreign retailers) and Accelerate the uniform to contend with foreign retailers.

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### Appendix

Appendix 1: Questionnaire

Appendix 2: Correction Paper

#### Questionnaire:

#### The effect of foreign retailers on Chinese retailers: A survey of the Wal-Mart in China

#### Part I

In this section you are asked to write down information about yourself and your work.

	Title	/	Occupation.....			
	Section	/	Division/Major.....			
Age:	15-23( )	24-32( )	32-40( )	40-48( )	>48( )	
Sex (circle as appropriate):	1. Male 2. Woman					
Income/month	<2500 ( )	2500-3500( )	3500-4500( )			
	4500-5500 ( )			>5500( )		

Last completed education.....

**Have you shopped in Wal-Mart.....**

In this section you are asked to give an opinion on how much the following statement in accordance with the state of the company.

Instructions for filing:

Circle **SD** if you think the statement is written “**Strongly Disagree**” with the state of the company.

Circle **D** if you think the statement is written “**Disagree**” with the state of the company.

Circle **N** if you **Neutral** the statement said.

Circle **A** if you think the statement that says “**Agree**” to the circumstances in this company.

Circle **SA** if you think the statement is written “**Strongly Agree**” to the circumstances in this company.

Example: Students in President University feel free to **SD - D- N- A – SA**ask and give advice to superiors

**Part II**

Wal-Mart in China	1	2	3	4	5
<b>BRAND and PRICE (X1)</b>	SA	A	N	D	SD
In China, most of people know this brand					
You shopping Wal-Mart, because of the brand					
It is the lowest price for same goods in china					
It is easy to accept the price here					
<b>SERVICE and QUALITY (X2)</b>					
The Hardware facilities are perfect					
Employees give proper services to customers					
You shopping here because of the service					
You never heard the quality problem					
If has quality problem, you can get a satisfying result					
You shopping here because of the quality is better than others					
<b>MANAGEMENT (X3)</b>					
The customer think the management is very good					
Employees are orderly and enthusiastic					
The store neat and clean					
The goods shelf looks rational					
<b>TECHNICAL LEVEL AND LOGISTICS (X4)</b>					
Strong logistics system					
Advanced network layout					
Never happen sell out- Supply in time					
Cashier desk is rational					
<b>PUBLIC WELFARE (X5)</b>					
Often hear to do public welfare activities					
Accept the public welfare they do					
Has joined some public welfare they did					
You like the public welfare from retailers- Increased awareness					

**Thank you very much for your support and cooperation!**