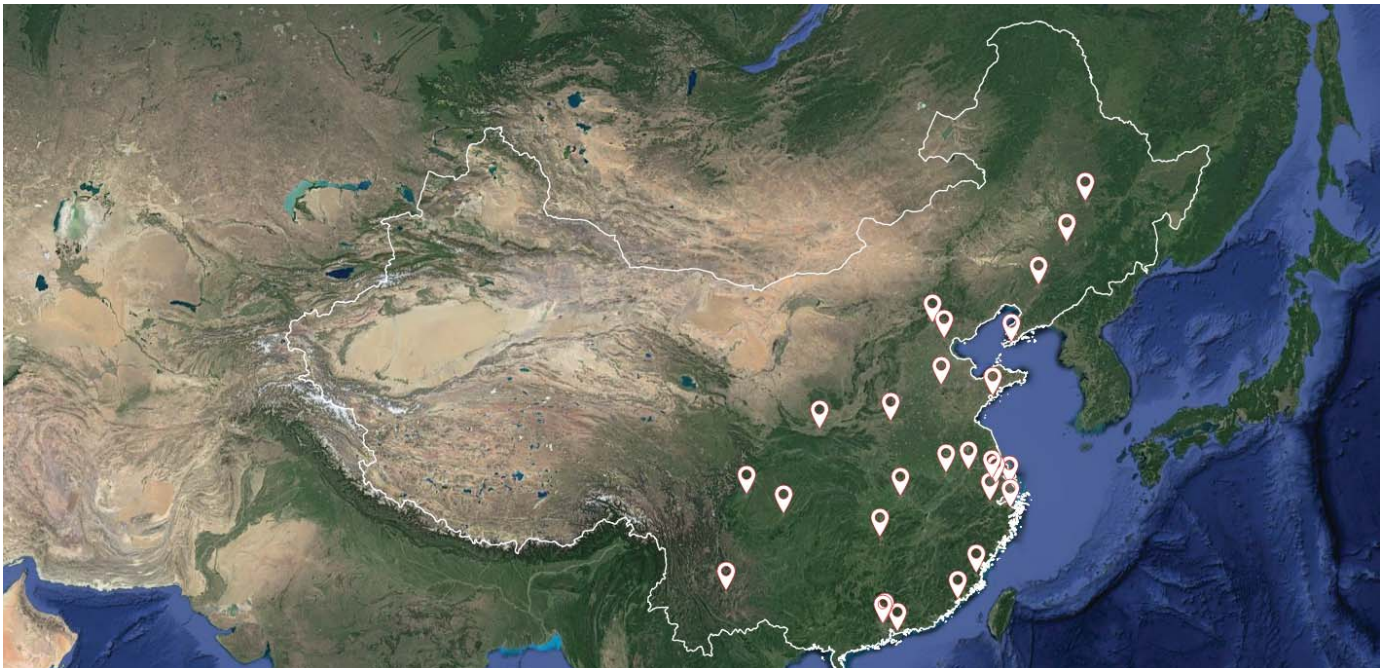


How quickly are foreign retailers expanding in China's Top 100 cities?

Leading foreign retailers are in nearly all China's Top 100 cities.

SRA PERSPECTIVES

Ben Simpfendorfer



Foreign retail and food service brands are finding opportunities beyond China's Top 50 cities. But city selection is key to commercial success.

You hear a lot about commercial opportunities in China's mid-sized cities. But how many really matter? We've run our commercial data analytics across a range of cities to look at how retail & food service chains are growing their offline branch networks. There's little doubt that most brand owners have moved beyond China's 'Top 50' and are expanding into the next 100.

But what about the rest of China's 250 cities with populations greater than 500,000? Do residents of smaller cities have the purchasing power for companies to justify opening a branch? How will e-commerce and other digital developments impact a 'brick and mortar' business? It's a tricky challenge for retail & food service operators as most don't have the capability to operate across 250 cities. That makes selecting the right cities critical.

Five key points:

1. Leading foreign operators have branches in nearly all the country's Top 100 cities, based on our commercial analytics. But less than 30 cities, often provincial capitals, still account for the large share of stores. Smaller cities, by contrast, often just have one or two branches. Moreover, there's not a lot of consistency in how foreign operators are choosing those cities.

2. Chinese operators are on average in twice the number of cities as foreign companies. That's no surprise given that China is their home market and most enjoy competitive advantages, such as strong relationships with government officials or local landlords. The 'big city' bias is also less obvious for local companies.

3. There's also a compelling reason to stay in larger cities, as many are rapidly expanding their subway

China's Top 100 Cities that Matter

Leading foreign retailers are in nearly all the country's Top 100 cities. Local retailers are already in twice that many.



networks. **That's important because subway stations create trade zones and opportunities for new store locations.** Our analytics indicates that 25 cities will see significant new subway station openings in the next few years.

4. The challenge for operators is trying to select which of the 'Next 50' or 'Next 100' offer compelling opportunities. There is also reason to rebalance the existing portfolio to take into account changing risks and opportunities; just think of how Shenzhen's tech sector has boomed even as Qingdao's heavy industry has struggled.

5. Operators will of course use their branches to provide good local intelligence. **But internal data must be compared to public and third-party figures to triangulate bigger strategic trends.** China's commercial landscape moves so quickly that it no longer makes sense to rely on a single company's store data to make a strategic decision.

Faced with such a large but complex opportunity, the ability to gather reliable intelligence across industries and geographies will be critical to a firm's success in China.



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