Lessons from a global retailer: An interview with the president of Carrefour China

Article at a glance
In this interview, Jean-Luc Chéreau, the head of Carrefour China, discusses the French retailer’s experience since opening its first Chinese store, in 1995.

Before coming to mainland China, Chéreau spent seven years in Taiwan. He credits that experience with teaching him much about Chinese consumers and ways of doing business.

The Carrefour executive also discusses the importance of adapting to local tastes and—particularly as markets spread out from the biggest cities—to local budgets. Networks of Chinese partners and their knowledge of mainland consumers are crucial as well.

Chéreau says that when multinational companies explore the Chinese market, their failures often teach them more than their successes.
Lessons from a global retailer: An interview with the president of Carrefour China

Jean-Luc Chéreau discusses the French company’s experiences as its hypermarkets spread out from China’s biggest cities to the vast hinterland.

Peter N. Child

Carrefour’s hypermarkets in China are the Bosporus of retailing—commercial centers where East and West splash against each other. Tanks of live fish, eels, bullfrogs, and turtles dominate the fresh-food sections, while vacuum-packed strips of bacon and slices of pepperoni lie in refrigerated cases a short distance away. Modern formats mix with local tastes in the French retailer’s stores: shoppers stroll down wide, brightly lit aisles, past displays of dried pork snouts and whole ducks hanging limply by the neck, as “Hotel California” plays on the speakers overhead.

Carrefour, whose name means “crossroads,” wasn’t the first foreign retailer in mainland China to open a hypermarket—a giant outlet that offers “everything under one roof,” from consumer electronics to groceries. But since the company opened its first store, in 1995, it has become the largest. Today it operates 73 hypermarkets in 29 cities,1 from Urumqi (in the western reaches of the Middle Kingdom) to Harbin (near the Russian border) to Kunming (in the south). Carrefour also operates the Champion supermarkets and Dia convenience stores. Its 2005 turnover was about $2 billion (including value-added tax), making China Carrefour’s fifth-largest market. The company expects its sales in China to go on growing by 25 to 30 percent annually over the next five years.

1 As of May 1, 2006.
Jean-Luc Chéreau, who came to the mainland after running the company’s business in Taiwan for seven years, has led Carrefour China since 1999. He recently met with Peter Child, a director in McKinsey’s Paris office, in his 25th-floor office in the Shanghai Stock Exchange building and discussed Carrefour’s hits and misses as it expanded beyond China’s largest cities.

**The Quarterly:** What were your first experiences in China when you took over Carrefour’s mainland operations?

Jean-Luc Chéreau: When I arrived here, in 1999, the market was just beginning to open. We were in the main cities—Shanghai, Beijing, Guangzhou, and Shenzhen—but not much in the others. I had only 17 stores, in 6 cities. Step by step we increased the number of stores, and today we have 73 hypermarkets in 29 cities. We learned about the Chinese consumer by starting with the main cities on the coast and continuing into the rest of China.

In reality, though, we began our experience in China 18 years ago, in Taiwan. For the hypermarkets in the big mainland cities, we have exactly the same hypermarket style as in Taiwan. But as you enter middle and western China, there is a much less mature market. For example, 50 percent of the televisions offered in a store in Shanghai would be flat-screen TVs. When you go into the middle of China, it’s only 20 percent because today flat screens are too advanced and too expensive for those areas. For mp3 players, digital cameras, and so on, it’s the same. The people are not able to buy, at least not enough for us.

**The Quarterly:** How did your experience in Taiwan influence your activities in mainland China?

Jean-Luc Chéreau: We discovered Chinese culture and the way to work with the Chinese in Taiwan when the retail sector in mainland China was
totally closed. International companies that decided to enter Taiwan—not Hong Kong—15 or 20 years ago have a fantastic advantage in China, and that was the case for Carrefour.

For example, you learn how to adapt. When Carrefour arrived in Taiwan, we had a very clear picture of what we wanted to do—open a 10,000-square-meter store on the ground floor, with a big parking lot in front, just as in France. But it was impossible to do that kind of store. Then we tried something different: we opened a 3,500-square-meter store in a basement in Kaohsiung, Taiwan’s second-largest city, with 250 parking spaces for motorcycles. That was the beginning of Carrefour in Taiwan.

Another aspect was Chinese business dealing. When I arrived in Taiwan, my former boss told me I was lucky: I was set for the first year because he had already signed five contracts for five new stores. Then I started talking with one of our Chinese partners who had signed those contracts, and nothing seemed to be happening. Finally, my assistant told me, “Just because he signed a 20-year contract 2 years ago with your former boss—a person who is not you—does not mean he will respect the contract.” That was a big shock to me; the contract was notarized and everything. But we started to renegotiate article by article. Five years later, during the Asian crisis, I invited this same partner to my office and said, “Just because I signed a contract with you does not mean I will respect it. We are in a crisis.” So he said, “Fine,” and we started to renegotiate, to reduce the rent.
It was these very interesting experiences that showed me that we are in another world. If you come to China with preconceived ideas after having been successful in Europe or the United States, you make mistake after mistake.

**The Quarterly**: How has Carrefour had to adapt to Chinese tastes?

**Jean-Luc Chéreau**: Take the example of fish. When I am in San Francisco and I visit a store, the fish is filleted and packed; it’s dead. When I am in France, the fish is dead but it’s whole; it’s on ice. I can see its eyes and see if it’s fresh or not. Each place has its own way of selling fish.

If you are in China, you have two ways of selling fish. The first is to display live fish. When we entered Taiwan, we went to the fresh markets in Taipei and Kaohsiung to see what kind of products they had, how they were displayed, and how customers bought those products. Carrefour decided
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Jean-Luc Chéreau: At Carrefour we say that we try to be a quarter-hour ahead of the customer. Not too far ahead, because if your products are too advanced, you don’t sell anything. But if you’re too late, then the people don’t come.

When I arrived here we tried some tests in Shanghai, which is a more modern market than Beijing. We tried to bring new products in and explain them. Take wine, for example. In China it’s not customary to buy wine to drink at home. So when we arrived here, we tried some wine fairs, where Carrefour explained to customers what kind of wine we have and which wine to drink with which meal. We kept it simple, like which wine to have with fish or with noodles. Then, when the tax on imported wine was lowered, two years ago, we used the opportunity to tell customers they could buy French or Californian or Australian wine much more cheaply than before. Step by step, the people discovered that they like wine very much.

Jean-Luc Chéreau: We learn a lot, and we are constantly following the top five Chinese retailers. They copy quite well, and in some specifically Chinese areas they have a lot of imagination. So I push my merchandise and marketing people to visit new competitors or new cities to check things out. In food products, for example, we were the first ones to say that a bakery
is very important. We started with croissants, baguettes, Taiwanese bread, cheesecake, and so on, and everybody followed the Carrefour way. But we completely forgot Chinese desserts. Domestic retailers didn’t, and they offered items like Chinese fresh-milk cake. So we chose the best suppliers of Chinese baked goods and invited them to set up stands on consignment inside Carrefour stores. Now sales generated by the Chinese desserts are roughly the same as those of the official bakery.

The Quarterly: There is increased excitement among global retailers about China’s potential. How has this affected your strategy?

Jean-Luc Chéreau: Everyone is dreaming about China. It’s the new El Dorado. But it’s a difficult market and will stay a difficult market. Just because it officially entered the World Trade Organization, that will not change everything. When our main competitors arrive they will learn and they will make mistakes. And they will move faster than we did a decade ago, when we entered the market. We take all this into consideration.

To stay competitive, we update our strategy for Carrefour China every three years to respond to new conditions. For example, three or four years ago we wondered whether we should introduce a loyalty card, which would offer discounts and other benefits to frequent customers. At the time, we decided it was too early. Today, we feel we have to do this. Maybe we are already six months late, but loyalty cards are a new phenomenon that others are offering and we have to be there.

Consumer credit is another example of an evolving strategy. It’s a huge potential market, especially for appliances and consumer electronics, and it will open to foreign companies in January 2007. We are dealing today with a Chinese bank to see what’s the best way to approach this. We constantly have to adapt Carrefour China to an environment that’s changing so fast.

The Quarterly: How do you compete for talent?

Jean-Luc Chéreau: This is a strong point for us today in China. Let’s go back to Taiwan. Five years before we entered the mainland Chinese market, we invited 25 good people already trained in the Carrefour way in Taiwan to start developing the business for mainland China. I chose them myself. They speak Chinese, they are Chinese, they eat Chinese food, and so on. It was a good, smart advantage that our main multinational competitors didn’t have.

Maybe because I am a former human-resources manager, from Day One in China I decided to invest a lot in human resources. We created the Carrefour China Institute in 2000 in order to train mainland Chinese staff to take
positions of responsibility. And thanks to that, we have a lot of very good Chinese people today.

How do we retain them? It’s a totally different way compared with Europe or the United States. We take care of their training and their future, but they have to sign a three- or five-year contract: if you go to work with a competitor, that’s OK, but you have to give me back the money we spent training you. That’s a huge amount of money. But it’s a deal in two parts. If people stay for five years, I give them a super bonus—two, three, or five months’ salary. In the end, we have a very low turnover of executive staff. Today 50 of the 73 hypermarkets are managed by Chinese managers, who are very good.

The Quarterly: Carrefour operates three different formats in China: Carrefour hypermarkets, Champion supermarkets, and Dia convenience stores. How do you see this mix evolving?

Jean-Luc Chéreau: In China, we have two formats that are very successful and will be more and more successful in the future: hypermarkets and convenience stores. We are just beginning with convenience stores in China, and we’ve opened 150 Dia stores in Shanghai and 100 in Beijing. We want to learn, but we also can follow: 7-Eleven convenience stores have just started in China and will have a very successful future. On the other hand, I don’t see any future for supermarkets—American- or French-style supermarkets of 1,000 to 2,500 square meters.

We opened eight Champion supermarkets in Beijing because the Beijing government asked us to do something to modernize the small retail business there. But they haven’t been what we expected. When Beijing consumers have three or four hypermarkets close to their homes, they use a hypermarket several times a week as a supermarket. They are very happy to go there and buy. But today they also have a wet market close to their homes and tomorrow a 7-Eleven or a Dia, which will be very successful with customers who just want two or three items. A small supermarket will have a smaller assortment than a hypermarket and less volume, so freshness will always be better in the hypermarket than the supermarket. Or customers will choose the wet market because they like to talk to the lady who sells the fruits and vegetables. I see a very difficult future for supermarkets.

The Quarterly: Now that foreign companies can own their retail outlets in China, will you keep your local partners?

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4 Since this interview, Carrefour has announced that it would hand over the management of four of its eight Champion stores in Beijing to its local partner, Beijing Shoulian Commercial Group.
Jean-Luc Chéreau: Legal considerations are not the primary reason we have local partners. We felt that to enter so difficult and complex a market—a huge market—we would need a local partner to understand the market and to move faster. In Taiwan I had the fantastic opportunity to work with someone at the Uni-President Group. He was a great mentor for me. Whenever I was about to make a mistake, he would say, “No, Jean-Luc, don’t do that.”

China is not a totally centralized country. The rule is to have a Shanghainese partner in Shanghai, a Cantonese partner in Guangzhou, and a Beijing partner in Beijing. I can tell you that if you don’t respect this rule, you can be in trouble. Our partners have networks within the community and know the good producers and good suppliers. Some competitors say, “No, no, no. Two or three big and strong partners are enough.”

With our partners, we try to adapt to local conditions, sometimes with a very successful outcome, sometimes with some difficulties. For example, in Shanghai I have a very good partner, Lianhua Supermarket Company. They

Getting the right format

Retail sales in China are growing by about 640 billion renminbi ($80 billion) annually—the rough equivalent of adding a new Argentina to the global marketplace each year. By 2008 we expect annual sales to reach 6 trillion renminbi. Although these revenues are impressive, competition is intense and margins are thin for most retail formats. But the success of some early movers has revealed the market’s profit potential. Strict cost controls and a robust understanding of the consumer’s needs are especially vital in this merciless environment.

Only 7 of the world’s 20 largest retail chains have opened shop in China; the rest hesitated because of rules that required them to take local partners, as well as uncertainty about their ability to make acceptable returns. The restrictions ended in December 2004, so multinational retailers not yet in the country have shown a renewed interest in entering it. But our experience indicates that in the rush to claim a share of the market, foreign and domestic retailers alike are falling into traps that add unnecessary costs. Here are three common pitfalls.

Too flashy: Given the intense competition in China, some retailers try to differentiate themselves with posh environments. Often consumers just don’t care. One retailer targeting mainstream shoppers tried to create a more enticing store by installing high-end flooring, unusually wide aisles, and finished (instead of open) ceilings. These features not only almost doubled the investment per square meter of selling space but also misled price-sensitive Chinese consumers into believing that the retailer had high prices. The same investment would have had a greater impact if it had been spent, for example, on in-house demonstrations of new products or extra cashiers at the checkout lines.

Too big: As retailers move their stores beyond China’s largest cities, some of them have taken along inflexible ideas about the “right” store format. But the lower population densities and lower incomes of the smaller cities call for smaller, less-expensively outfitted stores. In our experience, the productivity of most big-box retailers in second-tier cities can be 50 percent lower than it is in the largest ones. Yet consumers in smaller cities expect a wide range of products—even in relatively small stores—and could be frustrated if the local choices fall short. Regional warehouses that could restock stores
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helped us a lot with the local government—to introduce us and to explain what Carrefour is. But in Beijing we made a mistake: we did not choose the right partner. The partner went into bankruptcy, was not very active, and the network wasn’t very good. But in the end, I would say that we might have learned much more from our experience in Beijing than from Shanghai.

Today we can do business entirely as Carrefour, with no local partner. But I think that of the 30 partners we had last year, we will keep about 20—the best ones, the active ones.

**The Quarterly:** In 2001 the central government stopped your expansion, saying that you didn’t have the correct approvals from Beijing and, under the rules of the day, had too large a stake in some of your stores. How did that affect your strategy?

**Jean-Luc Chéreau:** Carrefour was successful from Day One in China because some people had great confidence in us. The local governments

quickly might be an answer, but this approach may be too expensive unless companies spread their fixed costs over a large number of stores. They could deal with the distribution challenges by improving their coordination with suppliers and their demand-forecasting capabilities. In-store catalogs coupled with at-home delivery of bulky or other selected items could also increase the product range of a store without increasing its size, though we have yet to see a retailer try this tactic in China.

Too much like downtown: Retailers have also stumbled when they expanded to the suburbs from the centers of cities such as Beijing and Shanghai, where most of them opened their first outlets in China. Overlooking important differences, some retailers have mistakenly tried to transplant to the city’s outskirts the same formats that worked downtown. But fewer kinds of retail formats have opened in the suburbs, so the competitive environment is different. In particular, the distinctive demographics of the suburbs argue against a move away from downtown by the high-end department stores, with their broad assortments of household goods and clothing. China’s suburbanites generally

fall into one of two categories: poorer people who can’t afford to live in the city center and affluent people who moved from it to get more living space but still work downtown and shop there for high-end products. A dearth of suburban department stores suggests that supermarkets and hypermarkets should devote a bigger share of their floor space in the suburbs to nonfood items such as clothing, housewares, and home decorations than they would in the city center. For example, a chain might have a 50/50 split in space devoted to food and nonfood items in the city center but shift to 35/65 in favor of nonfood items in the suburbs. To adjust for the demographic shift, they should put less emphasis on higher-priced items.

Wai-Chan Chan and Richard C. Cheung

**Wai-Chan Chan** and **Richard Cheung** are principals in McKinsey’s Hong Kong office.

1 Chains whose stores are typically 5,000 square meters or more.
pushed us to come and to open stores everywhere. When we opened the 17th store, with the approval of the local government but not the central government, suddenly the central government said, “We have to establish some rules.” So together, the central government and Carrefour solved the problem because if you operated 100 percent by the official rules at that time, you couldn’t do business. It was a difficult period because we stopped Carrefour’s expansion and development operations for 18 months. But it was also a very interesting period to learn, to stabilize the existing stores because we were moving so fast, and to consolidate our base and start again. We learned more from the difficulties than we did from the good things.

The Quarterly: Despite your 18-month hiatus, Carrefour is still the biggest foreign retailer in mainland China, and sales last year were up 25 percent. How do you plan to sustain this?

Jean-Luc Chéreau: We are expecting a 25 to 30 percent increase in sales every year for the next five years or so, depending on the success of our development strategy. Our strategy is very clear: we want to be the leader in the top 5 cities, and we want to be the leader or challenger in the 25 second-tier cities. As for the others—the 600 or so smaller cities—for those, we always choose to go to the capital of the province, but we are not going everywhere. Another part of the strategy is mergers and acquisitions, which are new.¹ Until now, our expansion has been organic, since that is where we have expertise.

Some competitors have a different strategy. They feel that they have to start with the smallest cities, where in general theirs might be the only hypermarket, and take the lead in these cities, and then gradually expand to the bigger cities. It’s another strategy.

The Quarterly: How have you had to adapt as you’ve expanded into the smaller cities?

Jean-Luc Chéreau: First, you cannot invest as much money in the smaller cities, like Harbin, as you invested in Beijing and Shanghai, where you have sophisticated stores with a nice environment. Investment in stores outside the big cities is about 20 to 25 percent lower because of differences in size or amenities, for instance. We give the local managers a budget and let them propose something that will generate a profit in two or three years.

We also adapt the assortment. You cannot imagine the importance of local products. To give you an example, take beer. Everybody knows Tsingtao

¹Since this interview, Chéreau has announced that Carrefour may acquire at least ten Chinese retailers as part of its expansion strategy. See “Carrefour SA: Expansion plan to include buying retail firms in China,” Wall Street Journal Asia, May 16, 2006.
beer, but when you go to Beijing, which is only one hour by plane from Qingdao, where they brew Tsingtao beer, the number-one beer in market share is not Tsingtao; it’s Beijing beer. The same goes for electrical appliances. In Nanjing, Panda is an old and famous brand, and it has 35 percent of the market share for televisions there. If you promote Panda televisions in Nanjing, you will do well.

The Quarterly: Given China’s size, how have you handled distribution with your suppliers?

Jean-Luc Chéreau: There is really no network yet for logistics systems in China. The highways, the railways, and so on are not very well developed. To receive or to send merchandise from Beijing to Urumqi takes seven days by truck, and it takes four days from Shanghai to Kunming, close to Vietnam. You have to work with local distributors, and the power in this case belongs to them.

So we decided from Day One to use local networks. Some competitors have said, “No, we want to be advanced and construct our own platform and systems.” Some of those networks are on sale today. There might not be a direct correlation, but maybe the companies that built them made a mistake and the cost to deliver that kind of platform was too high.

I don’t think a national network is the best way to do business. But we are thinking that maybe tomorrow we’ll want to organize a platform and a network for large cities like Shanghai, with 10 or 15 stores, but only for those stores. Stores that are 100 or 200 kilometers away would not be connected to a central network.

The Quarterly: Have the challenges of doing business in China been worthwhile?

Jean-Luc Chéreau: In the beginning, my wife and I were asked to come to Asia for three years, and we said, “OK, three years and no more.” We have now been here for a dozen years, and I don’t want to go back to Europe. Of all the world, this is the country where we are doing the best things and moving the fastest. It’s a fantastic opportunity to learn a lot of things. If you come here saying you will explain to the Asians what they have to do, you will be making a big mistake. The difference between Chinese culture and European culture is something exceptional.