

# Wal-Mart and Carrefour's Supply Chain Management Strategies in China

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Received: March 31, 2014

Accepted: April 21, 2014

Online Published: June 22, 2014

doi:10.5539/ijbm.v9n7p155

URL: <http://dx.doi.org/10.5539/ijbm.v9n7p155>

## Abstract

Supply chain management is a key of retail enterprises survival and development. For a better understanding, we intended to illustrate this concept with the case of Wal-Mart and Carrefour in China. In this article, we focused on the Wal-Mart and Carrefour's supply chain management strategies in China, introduced the supply chain management from four parts. "Customer is the first consideration!" and "Thinking global and acting local" are also pertinent to application in the management of supply chains. Managers may identify key processes and consider the possible contributions of each to the efficiency of their own chains. Through comparisons of supply chain management between Wal-Mart and Carrefour's strategies in China to give Chinese local retail enterprises enlightenment, and should help those wishing to explore the uniqueness of the Chinese market and the challenges that will be encountered when expanding their businesses in China.

**Keywords:** process efficiency, supply chain management, Wal-Mart, Carrefour, China

## 1. Introduction

Supply chain management (SCM) is one of the key activities that determine the success of a company (Cambra & Polo, 2008; Quayle, 2003). Web-based information technologies have fundamentally changed the way companies work along their supply chain (Sanders, 2007). For the term "supply chain management" there appears to be little consensus on its definition (New, 1997; Lummus, Krumwilde, & Vokurka, 2001; Mentzer et al., 2001; Kauffman, 2002). Kathawala and Abdou (2003) conclude that SCM "has been poorly defined and there is a high degree of variability in people's minds about what is meant". SCM is defined as the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole (Mentzer et al., 2001).

From 1980s, enterprise technology management, information technology and e-business are rapidly development. At that time, they contributed to the fierce competition in the market and the global economic integration process promote the integration of the global economy (Aoyama, 2007). These are putting forward a new challenge to the traditional enterprises operation management. Since the late 1980s, SCM arises at the historic moment. One of the reasons is SCM quick response to the market demand, coordination of cooperatives and satisfy customers personalized requirements. From the global change of economic environment and the wide application of information technology, domestic and international competition environment has changed a lot. Enterprises become more specialized and can voluntarily choose suppliers who can provide lower prices and higher quality products. Constantly enterprises have set up their own core competitiveness and improve their internal management. SCM is increasingly becoming a pivotal role in acquire competitive strength in an information era, so both academia and enterprises paid close attention to it.

Since China entered into the WTO in 2001, economy obtained the unprecedented development. Supermarket chains developed very fast and occupied an important share in the retail industry. But it still has a crisis. The domestic retail market competition is more and more intense. At the same time, foreign supermarkets represented by America's Wal-Mart and France's Carrefour entered into Chinese market one by one, both of

them are the two largest foreign retail companies in China. Compared to the domestic supermarket, these foreign supermarkets have more capital and much richer in management experience. The market that belonged to other domestic retailers originally, acquired by Wal-Mart and Carrefour gradually. Even in the field of electronic commerce, the same is true. For example, Wal-Mart acquired more than 30% shares from Shanghai Yi is a Agel Ecommerce Ltd., and so on (Zhao & Morad, 2013). So, we can see a series of changes of Wal-Mart and Carrefour's rapid development in China, also reflects the Chinese retail enterprises vulnerable in the face of international competition. Wal-Mart and Carrefour's successful experience, especially in the successful of SCM, domestic enterprises should learn with them. How to shorten the gap between the domestic supermarkets and the successful foreign supermarkets? How to make the domestic supermarkets have more competitive? These problems are worth our thinking and exploration.

In this article, we take Wal-Mart and Carrefour in China as examples, which have implemented in the management of supply chain, in order to analyze and contrast the differences in supply chain management between them. At the same time, for the reference to the domestic supermarket, and give lessons to our domestic supply chain management. This article through the expansion strategy of Wal-Mart and Carrefour in Chinese mainland market, explore different development paths and the profit patterns, and then put forward effective measures in local retail enterprise competitiveness.

## **2. Supply Chain Management of Wal-Mart and Carrefour in China**

In China, domestic supermarket chains seem to be no big gap with foreign supermarket chains, but its operation efficiency and profitability has very big disparity. This is because of the low operating efficiency, high cost, few collaboration and lack full information sharing in domestic supermarket chains enterprises.

Since the end of 1990, the first supermarket chain-meijia supermarket borned, supermarket chains have more than twenty years histories in China. Multinational corporations (MNCs) who want to benefit from low operating costs view China as a manufacturing base, and at the same time, have come to view the country as an attractive retail market, as evidenced by the more than 460 Fortune 500 firms currently operating there (Hexter & Woetzel, 2007). Consumer product and retail firms such as Procter & Gamble, Unilever, Metro, Tesco, Wal-Mart, and Carrefour are among those tapping into this vast opportunity. Wal-Mart and Carrefour have adopted somewhat different strategies in attempting to successfully segment the Chinese market. Carrefour, since it typically decentralizes procurement, has little problem adapting to this diversity. Its store managers do their own procurement and naturally are sensitive to local consumer behavior. On the other hand, Wal-Mart's procurement strategy shows low adaptability in terms of understanding its marketing mix (Moreau, 2008).

Wal-Mart has already attained legendary status in the annals of American business. Its rise from a small five-and-dime discount chain founded by Sam Walton in rural Arkansas in 1962 to the largest company in the United States at present, with \$350 billion dollars in sales, nearly 8,500 stores and 2.2 million employees in worldwide, boggles the mind. In 2013, Wal-Mart group was "fortune" magazine named global top 500 enterprises no. 2. Carrefour was born in France in 1959. Carrefour in French means "crossroads", its first store in the history of Carrefour is to open a small town in the south of Paris, five road interchange, hence the name. Carrefour has become Europe's largest and the world's second-largest retailer. Until December 2013, Carrefour had more than 364900 employees and 105996.1 million dollars business incomes.

### *2.1 Wal-Mart in China*

Wal-Mart entered China in 1996, in Shen Zhen opened the first Wal-Mart shopping plaza and Sam's club stores. Wal-Mart in China currently operating a variety of formats, including shopping plaza, Sam's club stores, community shops, etc. As of February 2013, Wal-Mart had been opened more than 390 stores throughout 150 cities in the country. Wal-Mart business always adhere to the local procurement in China, at present, Wal-Mart China established cooperative relations with nearly 20,000 suppliers, sales of products more than 95% of local products. Localization at the same time, Wal-Mart China pays attention to talents, encourage talents, especially the cultivation and development of female employees, created nearly 100,000 jobs in the country. Wal-Mart China more than 99.9% of employees from China mainland, shopping mall, general manager of 100% shall be a local Chinese talent pool, senior management team in female managers accounted for 43%.

"Customer is the first consideration!" seems to be the key for the success for Wal-Mart. Its supply chain management is mainly composed of four sections:

#### A. Meeting the needs of customers

Firstly, Wal-Mart's "one-stop shopping" mode, Striving for full of changes and characteristics on the commodity structure. Product variety complete, meeting the customers' various needs and preferences. In terms of

guaranteed low prices, Wal-Mart was painstakingly. Because first-class product quality often leads to higher prices. Bypassing middlemen and buying directly from the manufacturer is one of the most important methods for Wal-Mart has a low price in their goods. After ordering goods sent to the distribution center, in where goods are upgraded and repacked for according to the requirements of each subbranch. The practice of this kind which similar online retailer "zero inventory" make Wal-Mart save million dollars in warehouse cost for each year. In addition, Wal-Mart compress goods cost with controlling marketing costs and distribution costs. For staff smile, Wal-Mart setted the quantitative criteria is "To the customer, please show your eight teeth.", providing customers with perfect service.

### B. Supplier management

Secondly, suppliers are important members of the enterprise supply chain. It provides goods for the enterprise, and play a key role in management performance. Suppliers for Wal-Mart are more significant than other companies, because of Wal-Mart has not the middlemen. Due to the progress of technology in 1990s, manufacturers reduced costs and cut down the price, Wal-mart had improved the relationship with suppliers. Mainly through the network and electronic data interchange system to share information with suppliers, so as to establish collaborative relationships. In Wal-Mart headquarters, many suppliers have resident institutions, commodities can be directly coordinate production, order and delivery. Wal-mart arranged proper space for some big suppliers to show their products, and sometimes even make their own arrangement. Wal-mart is not just waiting for the suppliers, but directly involved in their production plan, and even help suppliers for new product research and quality control. Therefore, Wal-Mart always get the earliest goods which can meet customer requirements.

### C. Logistics distribution system management

Thirdly, in the early-stage of Wal-Mart, it has realized that commodity distribution effectively is to ensure that the largest sales volume and the lowest inventory costs. Setting up their own logistics distribution system is the only way for the company to obtain the reliable delivery guarantee and the costs efficiency. Wal-Mart has established its classic logistics distribution system. In the USA, with the help of efficient information system and highly automated logistics distribution system, Wal-mart maximum compression operating costs. In China, the network environment is far less than the United States, Wal-mart cannot effective share in global logistics distribution system. Not around a distribution center set up several branches to reduce costs, on the contrary, the logistics cost were increased. So, Wal-mart has established two logistics distribution centers which are built up in Shen zhen and Tian jin. Figure 1 shows Wal-mart's logistics distribution system in China.

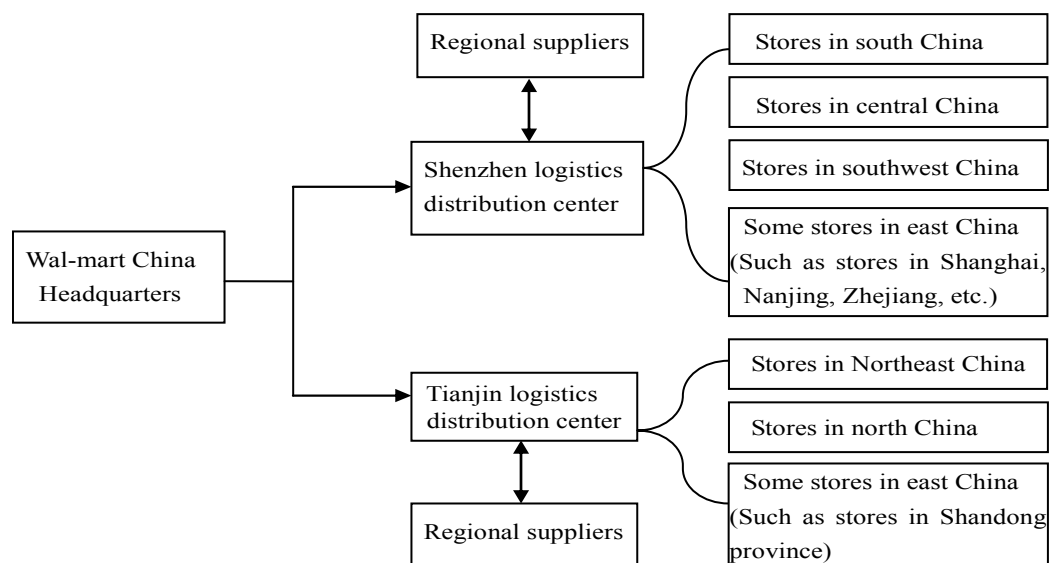


Figure 1. Wal-mart's distribution system in China

#### D. Marketing strategies

Fourthly, from the point target on customers orientation, Wal-Mart aimed at high income consumers. And this is closely related to their location strategy. Wal-Mart set up most of the supermarkets in the suburbs, in order to make high income consumers drive to purchase. Although Wal-Mart aimed at the most purchasing power middle and high income groups, the choice of its location still affect these customers. After all, Chinese consumers "prefer shopping nearby home". Take Beijing for example, the western suburb of Sam's club store, though traffic is convenient for consumers drive to shopping, most consumers rarely go to the store to buy goods. With the contrast of shopping plaza in Kunming, which is located in the center of the city with easy access to public transport., has top sales volume in the first month.

#### 2.2 Carrefour in China

Carrefour company to enter the Chinese market in 1995, the first opened in Beijing and Shanghai at that time, the largest hypermarket, its "happy shopping Carrefour" and "one-stop shopping" and so on advanced management idea favored by the vast number of consumers. For more than a decade, Carrefour has maintained a leading position in the foreign retail enterprises in China, which stimulates the development of China's modern retailing. In 2004, Carrefour was rated as "one of the most influential enterprises in China" by the domestic media. As of January 2013, Carrefour had been opened 219 stores throughout 24 provinces in the country.

"Thinking global and acting local" is a key to the success of Carrefour. Some other key success factors which made Carrefour succeed in China were lower price, flexible procurement, decentralized management system and marketing strategies. Carrefour's supply chain management which uses for reducing its cost and increasing its profits can be divided into four sections:

##### A. Every day lower price

Firstly, lower price of Carrefour is a magic weapon of success. Carrefour has been trying to through various channels to control and reduce the costs. Carrefour owned mass operation strategy, which make itself can obtain a great effect of modern business. Carrefour signed a treaty which is "60 days for payment monthly" with suppliers, using the capital turnover of suppliers, thus greatly saved the costs for company. Carrefour also required a lot of favorable terms and sponsorships from suppliers. The rapid turnover and less liquidity were occupied can greatly reduce the costs of capital. In the meanwhile, Carrefour tends to choose local products, greatly save the cost of transportation and distribution costs. In addition, in order to reduce the circulation to provide lower price, Carrefour also developed their own brands of goods. All of these, ensuring Carrefour can keep prices down.

##### B. Flexible procurement and decentralized management system

Secondly, compared with other retail enterprises simply regard stores as sales centers, Carrefour made stores as profitable centers. Carrefour gave their stores a lot of power. The procurement of Carrefour is mainly grasped by local store managers and department heads, who are responsible for managing stores. By this approach can fully mobilize the enthusiasm of the local store staff and strengthen managerial capacity of the local store, thus become the important way to improve sales performance. Accordingly, local store managers mainly administrate two aspects. One is the management power of commodity, including product selection, pricing, promotions, negotiation, ordering, merchandising, etc. Another is the administrative power of personnel, including staffing and transferring. In general, these powers can make the local store managers to quickly respond to the local market and customer needs, adapting to the local retail market.

##### C. Logistics distribution system management

Thirdly, Carrefour in China set up four regional procurement centers, but did not set up its own large-scale distribution center. Carrefour relied on the logistics system of suppliers to supply and distribute goods in different regions. Although Carrefour had no huge advantage on distribution system and information system, its operating costs were greatly reduced in terms of third-party logistics. Figure 2 shows Carrefour's logistics management mode in China.

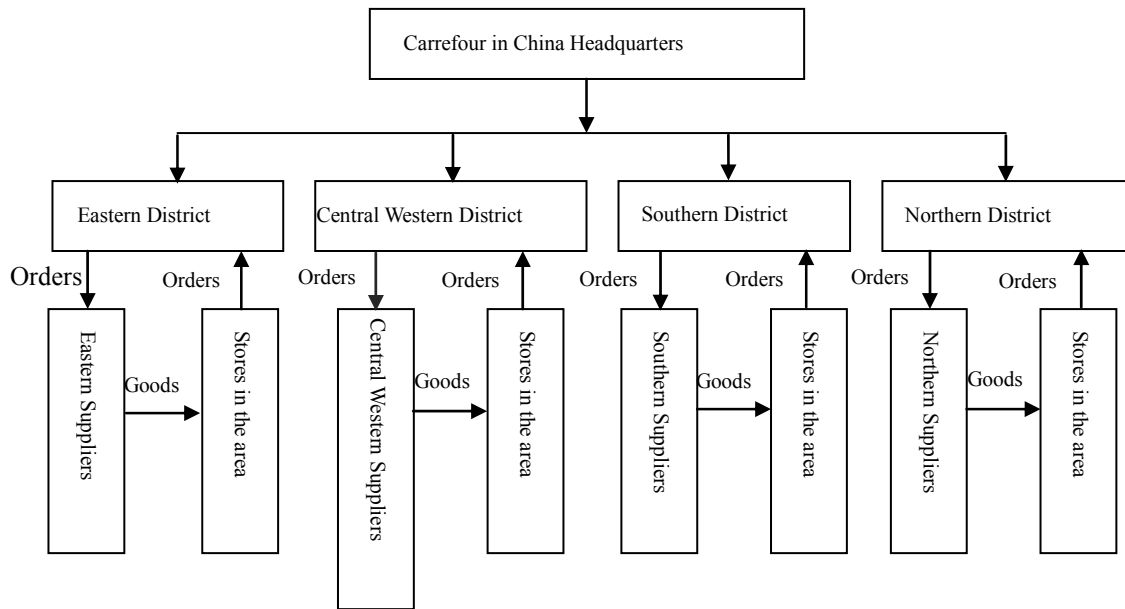


Figure 2. Carrefour’s logistics management mode in China

D. Marketing strategies

Fourthly, from the point target on customers orientation, Carrefour aimed at the average consumers. Carrefour supermarkets built in the area of transportation is convenient and population is dense, being close to ordinary people’s daily life. Carrefour is chose to meet the needs of the mass market requirements, and fully consider the consumption habits of Chinese people. Carrefour puts forward the management idea of "Buy enough in one-time, low price, keep freshing, automatically choose and buy, free parking". It is accurately grasp the Chinese consumers’ spending habits. For example, in order to satisfy Chinese consumers, Carrefour constantly increased the varieties on the shelves. Considering easy portability, Carrefour sells small packaging goods, and so on.

3. Lessons Learned for Supply Chain Management

“Customer is the first consideration!” seems to be the key for the success for Wal-Mart. “Thinking global and acting local” is a key to the success of Carrefour in China. How to improve the competitiveness of the supermarket chain enterprises in supply chain management can be divided into four parts: the first is the research on the needs of customers, which is the beginning and core of supply chain management; the second is the suppliers management, which is the based instruments of supply chain management; the third is the base of supply chain management, that is the logistics distribution system; the fourth is strategic point of supply chain management, that is marketing strategies. Table 1 shows the main differences between supply chain management practices in Wal-Mart and Carrefour illustrating the two different strategies that allowed these international companies to successfully expand its business in China market.

Table 1. The comparisons of supply chain management between Wal-mart and Carrefour’s strategies in China

	Wal-Mart	Carrefour
Meeting the needs of customers	Striving for full of changes and characteristics on the commodity structure. Product variety complete, meeting the customers' various needs and preferences. Under the premise of guarantee quality guarantee low price. "To the customer, please show your eight teeth.", providing customers with perfect service.	Lower price of Carrefour is a magic weapon of success. Carrefour has been trying to through various channels to control and reduce the costs. Carrefour signed a treaty which is "60 days for payment monthly" with suppliers, using the capital turnover of suppliers, thus greatly saved the costs for company.
Suppliers management	Suppliers for Wal-Mart are more significant than other companies. Mainly through the network and electronic data interchange system to share	Carrefour relied on the logistics system of suppliers to supply and distribute goods in different regions.

	information with suppliers, so as to establish collaborative relationships.	
Logistics distribution system	Setting up their own logistics distribution system. Wal-mart has established two logistics distribution centers which are built up in Shen zhen and Tian jin.	Carrefour in China set up four regional procurement centers, but did not set up its own large-scale distribution center. Carrefour relied on the logistics system of suppliers to supply and distribute goods in different regions. Although Carrefour had no huge advantage on distribution system and information system, its operating costs were greatly reduced in terms of third-party logistics.
Marketing strategies	Wal-Mart aimed at high income consumers. Setting up most of the supermarkets in the suburbs, in order to make high income consumers drive to purchase.	Supermarkets built in the area of transportation is convenient and population is dense, being close to ordinary people's daily life. Fully consider the consumption habits of Chinese people.

By comparing the four differences on the Wal-Mart's supply chain management and Carrefour's supply chain management, we can see the two supermarkets have many obvious distinctions. But, both of them are all successful. The success of Wal-Mart and Carrefour give Chinese local retail enterprises enlightenment. Firstly, building up free competition and win-win mechanism to establish a coexistence and co-prosperity of strategic partnership with outstanding suppliers. Secondly, maintaining healthy and stable development of the local retail enterprises are very important in China. Many domestic retail enterprises are committed to expanding the network in stores, they want to do bigger. Firstly, and then do stronger. But once in the high-speed expansion tube stall, unable to control the cost and ensure the profit. Secondly, Enterprises will be stuck in stagnation and even bankruptcy if capital chain is broken. Therefore, domestic retail enterprises should establish a perfect internal management, improve the efficiency, reduce operating costs and insure that the profit space to moderate expansion based on the connotation of development mode. Thirdly, accelerating the application integration technology, which composed of information technology and management. As the domestic retail enterprises expand to different regions, demanding for distance and cross-regional business. As a result, Import modern management methods, effective use the network technology to the mall of purchasing stock, financial accounting, management, logistics distribution, goods management link to remodeling business process, make it more reasonable. Finally, studying the capital market and mastering skills of mergers and acquisitions and anti-takeover. All of above are the Chinese mainland enterprises should learn from the management of supply chain in Wal-Mart and Carrefour. But, Wal-Mart in the Chinese mainland market in the short term is difficult to play to the logistics distribution control advantage all the way, logistics distribution mode of Carrefour is flexible but do not have long-term advantage. So, Chinese local retail enterprises should not replicate the management of supply chain in Wal-Mart or Carrefour, they should learn from them to go themselves way in management of supply chain.

#### 4. Conclusions

To sum up, the successful experience in management of supply chain in Wal-Mart and Carrefour told us that enterprises want to achieve sustained development in the increasingly fierce competition of market today, must pay attention to the management of the supply chain. Enterprises in the process of considering the construction of the supply chain, must make their supply chain system can dynamically adjust with the market development and change constantly. To ensure the upstream and downstream partners who associated with this enterprise can make a rapid response, collaborative enterprise together to complete the sales task. Cases of Wal-Mart and Carrefour give the large retail enterprises in our country with great inspiration. Enterprises want to gain dominant position in the market, not only compete with other competitors in the industry, but also depend on the alliance which is in the same supply chain of wholesales, manufacturers and suppliers to achieve their competitive advantage. First, this article focuses on the Wal-Mart's supply chain management in China. Second, introduces the Carrefour's supply chain management from four parts. Finally, comparisons of supply chain management between Wal-Mart and Carrefour's strategies in China to give Chinese local retail enterprises enlightenment, and should help those wishing to explore the uniqueness of the Chinese market and the challenges that will be encountered when expanding their businesses in China.

## Acknowledgments

The authors thank the editor, associate editor, and two reviewers for their constructive comments, which have improved this article tremendously. This work is partly supported by the National Natural Science Foundation of China (NSFC, Project No. 71172174, 70772073), Ph.D. Programs Foundation of Ministry of Education of China (Project No. 20110075110003), Innovation Program of Shanghai Municipal Education Commission (project no. 12ZS58), Shanghai Pujiang Program (Project No. 12PJC020) and Natural Science Foundation of Ningxia University (Project No. NDZR1249).

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