

Apple soars in China as other US retailers falter

April 14 2011, By John Boudreau

While many Western retail giants have failed to translate their American success in this booming economy, Apple is winning simply by being Apple.

Not far from the massive glass cylinder and spiral staircase that leads to Apple's always-crowded underground store in the heart of Shanghai's gleaming financial center of high rises and high-end stores is a shuttered [Best Buy](#). Home Depot, another retailer that has seen its successful American strategy sputter in this emerging economic giant, has retreated as well, closing a number of outlets and reconsidering its five-year China business plan. Mattel recently abandoned its flagship Barbie store in this metropolis of 19 million people.

[Apple](#) is bucking that trend.

The Cupertino, Calif.-based company, which intends to have 25 retail stores open in China in coming months, has imported its retail philosophy to four stores in China so far - two in Beijing, two in Shanghai - and has created an instant following among consumers who can be as fussy and demanding as any in the world. Its first China store, a split-level space located in a pricey shopping and nightclub area of Beijing called Sanlitun, is itself packed like a hot nightclub most evenings. The new 16,000-square-foot Shanghai outlet - located in the shadow of the iconic Oriental Pearl Tower - has the minimalist aura of an art gallery where customers studiously examine iPhones, iPads and MacBooks with the focus of graduate students prepping for oral exams.

Much like in the United States, Apple in China has attained a certain corporate celebrity status - though on this side of the Pacific the affection comes with a particular Chinese intensity. Shoppers pose for pictures in front of Apple's products and logo. Last fall, the launch of the iPhone 4 created such a frenzy that fighting broke out at the Sanlitun store, which was temporarily shut down before reopening with a squad of security guards posted throughout the outlet.

The popular iPhone 4 is still in short supply while Apple's [iPad](#) 2, which has yet to officially go on sale in China, is selling for at least \$1,000 on the black market, hundreds more than its retail price. One recent evening, a scalper standing outside the Sanlitun store sold a new 16 gigabyte [iPhone 4](#) for \$900, also hundreds of dollars more than Apple's retail price. Apple's China Web site says iPhones are sold out, though consumers can get the devices through its carrier partner China Unicom with a contract.

Some Apple products are more expensive in China than in the United States. For instance, the 13-inch [MacBook](#) Air with 128GB of flash storage sells for about \$1,604 in China, roughly \$180 more than it does in the United States, including tax. But prices of the first version of the iPad, still being sold in Apple's China retail stores, are about \$100 less. Apple only sells its Wi-Fi-enabled iPad in China because it has yet to reach an agreement with a local telecom to roll out its 3G version.

Apple's stores - and the personal attention employees in T-shirts shower on customers at the Genius Bar and during one-to-one tutorials - are now well-known in the United States, but there has never been such a retail experience in China, observed James Roy with the China Market Research Group.

"It's very awe-inspiring," said Shi Yong, 30, who visited Apple's store in Shanghai's Pudong area two consecutive days last week. "Visually, it's

very stimulating."

The experience could not be more different from typical electronics malls in China, where products are hawked by barker-like vendors jammed in cubicle retail spaces along narrow aisles.

"Chinese people like to try things before buying them," said Zi Wang, a 26-year-old post-graduate student in environmental studies who was also visiting the Shanghai outlet. "It's a very sophisticated way to introduce your products."

While Apple currently is capturing only a sliver of China's consumers, the country's 300-million-member middle class includes many upwardly mobile consumers with money to burn on ostentatious products.

"Apple's moment is here," said retail analyst Paul French of Shanghai-based firm Access Asia. "There is now enough of an urban middle class with enough money to afford Apple products. Five years ago - or even two or three years ago - there weren't enough of those people."

Increasingly, Apple is looking to image-conscious Asia for new growth. During the company's most recently completed quarter, "greater China" - which includes mainland China, Hong Kong and Taiwan - garnered Apple \$2.6 billion in revenue during the three-month period, up four times from the year-ago time-frame. While it still represented only a slice of the company's quarterly sales of \$26.74 billion, Apple Chief Operating officer Tim Cook called the growth "phenomenal" during a conference call with analysts.

"We several years ago identified China as our top priority, and we put enormous energy into China," he said. "The results of that have been absolutely staggering."

Piper Jaffray analyst Gene Munster, who regularly visits Asia, believes mainland China alone - excluding Hong Kong and Taiwan - will represent 10 percent of Apple's revenue within five years, up from about 2 percent now.

Munster, though, said Apple will have to devise a more China-specific strategy if it wants to embed its products across the country's economically tiered citizens by rolling out lower-end iPhones, much like it has done with its iPod digital music players to tap into those lacking the buying power of new flashy entrepreneurs and professionals. iPhones 4s that don't come with multi-year carrier contracts and subsidies cost at least \$600 each.

"That is prohibitively high for most people," he said. "Right now, Apple can force people to pay this. But over time, they need to shift their product line. The iPhone is going to be huge in China. That's a given. But if Apple wants it to flow out across China, it has to come up with lower price points."

For now, Apple has shown it can do what other American retailers can't - succeed outside its own turf in China, analysts say.

Best Buy, for instance, tried to compete with two very strong local competitors, Gome and Suning, which offered similar products at lower prices, Roy said, adding, "They could not make money off software or video games like it can in the U.S. because the vast majority of consumers in [China](#) buy pirated versions."

While many Chinese buy cheap knock-offs of Apple products, plenty of others are more than willing to pay top price for originals - and the reliability and status that comes with them.

Apple painstakingly picks prime locations for its stores. At the Pudong

outlet - a spacious store awash in natural light that French calls "the Temple of Apple" - product adoration crossed a number of age groups one recent afternoon, from teens sipping milk tea to professionals getting assistance on Macintosh software. Young couples cuddled over iPads as music, from hip-hop beats to the Beatles, filled the air.

"They've got great products, and they are doing this at a time when Chinese consumers are feeling bullish and have some money," French said.

(c) 2011, San Jose Mercury News (San Jose, Calif.).
Distributed by McClatchy-Tribune Information Services.

Citation: Apple soars in China as other US retailers falter (2011, April 14) retrieved 20 March 2024 from <https://phys.org/news/2011-04-apple-soars-china-retailers-falter.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--