Home Depot's big box plans for China lost in translation

Author: Martha C. White – NBC News
Date: 18th September 2012

Lost in translation? Home Depot, the world's largest home improvement chain, will close all seven of its big box stores and cut 850 jobs in China as the retailer changes its focus in the Chinese market. Shown here at better times: Former U.S. Treasury Deputy Secretary Robert Kimmitt looks at products with Home Depot (China) President Yves Chen during a visit to a Home Depot Store in Beijing in this file photo

When Home Depot announced last week a near-complete departure from China, analysts said a failure to superimpose an American-style retail model without taking the tastes of Chinese consumers into account was as much to blame as the slowdown in that country's real estate market.

"I'm sure it didn't help them, but I think this was a concept they really struggled with from the get-go," said Matt McGinley, an analyst at International Strategy & Investment.

In a statement, Home Depot said it is shuttering its seven remaining big box stores in China and would be taking a $160 million charge. It plans to keep two newer, specialty stores in Tianjin and expand its Web footprint.

The Atlanta-based retailer's biggest cross-cultural misfire was overestimating Chinese shoppers' enthusiasm for American-style do-it-yourself projects. "There were some strategic challenges they had in terms of exporting their business model," said Steven Kirn, executive director of the David F. Miller

Retailing Education and Research Center at the University of Florida. “There isn’t much of a DIY market there.”

The comparatively low cost of labor prompts middle-class Chinese consumers to pay handymen or independent contractors to do the kinds of projects American homeowners tackle on their own. “Their model was crashing up against a very different kind of cultural sense of how you get things done,” Kirn said.

McGinley said Home Depot’s 90,000-square-foot big box store format didn’t appeal to Chinese shoppers, and subdividing space the company was locked into with multi-year leases proved to be a challenge.

"Since HD's entrance into China in 2006, the company has tried a handful of strategies to make its big box model work. This move is an acknowledgement that the big box approach may not be the best way to serve that market," Credit Suisse analyst Gary Balter wrote in a research note Friday.

Kingfisher PLC, the U.K.-based company that owns the B&Q brand of home-improvement stores in China, has also struggled to square Chinese consumer preferences and a Western big box strategy, McGinley said.

“They did something very similar, primarily an acquisition-based strategy with a format that’s really big,” McGinley said. In its most recent annual report, Kingfisher cited “a more challenging housing market than anticipated” and said it reduced its store count from 63 to 40. The company said it is developing a “new, smaller format” and has reduced the size of 16 of its remaining stores.

The home improvement sector isn't the only segment that has run into some translation difficulties in China. Best Buy also ran aground when it tried to export a sales model that was foreign to Chinese shoppers. It shut its branded stores there last year to focus on Five Star, an established Chinese electronics retailer it bought out and plans to expand.

Kirn also said China’s residential building boom may have looked like a terrific opportunity to Home Depot, but the reality was that real estate market activity was driven by speculators snapping up homes and trying to flip them. In other words, buyers didn’t plan to live there, so they weren’t buying cabinets, appliances, flooring and all the other kinds of products Home Depot sells.

Misjudging or underestimating cultural differences can also happen closer to home, as rival home-improvement retailer Lowe’s found out. On Monday, the company announced it is withdrawing its unsolicited bid to buy Canadian home-improvement chain Rona.

"Lowe's has repeatedly attempted to engage the Board of Directors... It is unfortunate that the RONA Board of Directors did not recognize the important economic and commercial benefits of this proposal for its stakeholders and for Canada," the company said in a statement.

Lowe’s proposed purchase, announced in July, provoked controversy in Rona’s home province of Quebec, as politicians and others worried that an American takeover would be a raw deal for Canada.

Provincial premier Pauline Marois spoke out against the Lowe’s offer when she was campaigning for the office last month, according to the Montreal Gazette. “The day [Rona] is bought by a U.S. company, they’ll buy their materials in China and India. Once the headquarters are no longer in Quebec, everything changes.”

The provincial pension fund manager and self-described “significant Rona shareholder” Caisse de dépôt et placement du Québec issued a statement in support of "the importance of the economic benefits of Rona’s head office in Québec... [and] continuing development of their supplier network in Québec and across Canada."

The message for American retailers trying to expand abroad is the same whether they set their sights on China or on Canada, Kirn said. Getting in tune with local cultural cues is the only path to success, he said. "You can’t just parachute in."

Link: http://bottomline.nbcnews.com/_news/2012/09/18/13917655-home-depots-big-box-plans-for-china-lost-in-translation