

"Full Steam Ahead" for Foxconn in Retail?

Written by Bob Snyder
23 February 2011

What's a manufacturer doing in retail? Most vendors fail in retail, fail terribly in fact...but the fruit of success of one brand in particular inspires many to try.

In this case, it's Apple's own OEM in Asia that wants to follow Apple's retail branch success.



Contract maker Foxconn, subsidiary of Hon Hai, has its own plan for retail success--a plan so clever, so unusual that you can't help but stand up and salute it's audacity.

Foxconn started the retail operation Wan Ma Ben Teng (that means "Full Steam Ahead" in Mandarin) by training, financing and subsidizing its own employees to go out & open their own electronics stores.

The WMBT strategy is to organize small format retailing, especially in the fourth, fifth and sixth-tier cities.

As employees migrate to cities to make money, this type of offer lets them go back to their provinces as a Foxconn spearhead for a master plan that targets China's smaller cities who will gradually benefit from China's urbanization policies.

Recently the trade press is full of WMBT's call for 400 more employees to step forward to

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expand the more than 100 stores to 500 by the end of the year. That could take WMBT from 7 provinces into 12.

Hon Hai Founder and Chairman Terry Gou says WMBT provides an incentive to workers on its manufacturing line and help clients sell products in China's smaller cities. (Yes, Terry did publicly accuse these same workers of committing suicide to claim company money for their families...but now he has a way to save them and help the company.)

But the retail strategy goes deeper than that...and most of the press misses the bigger picture.

Western analysts cite the typical flattening of sales in a market-dominating business as motivation for Hon Hai to chase the retail dream. In one business quarter, Hon Hai bills more than the next 10 competitors combined.

So if sales are flat in Hon Hai's superior market position and its hard to find a decent competitor to steal markets here from-- how else do you bump up sales big time? (Think of Steve Ballmer's dilemma where he moans about having to regularly find or grow a billion dollar business unit just to maintain Microsoft's rate of growth.)

But the analysts are mostly wrong...wrong because they are looking at China through their Western eyes... That would be a good reason for a Western company to open a new business model.

Yet the fact is that mixed business models is typical of developing economies. You import a major brand, open a distributorship, have your own retail stores, represent other major retailers (maybe even your own competitor) and even build your own lower-cost alternative product to the very brand you are selling.

You see this everywhere in developing markets and if we are truthful, it even happened early on in the Western Europe business.

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Retail, in Hon Hai's opinion, would help the OEM capture more of its clients' spending as they can take care of product from design development to manufacturing and to selling it to consumers. (Yes, of course...if you do that much, you might as well put your name on it and claim a brand. But that comes later...)

In Hon Hai's mind, it already made such perfect sense long before Apple's retail copycats started up. More than a decade ago, they acquired a small retail chain called Cybermart (now with 34 stores in 20 cities but insignificant as part of Hon Hai's total turnover).

China's electronics market is already about \$135 billion in sales. China is the world's largest handset market and the second-largest personal-computer market after America.

Today's CE retail market is dominated by Chinese chains including Gome with 726 stores in 198 Chinese cities and Suning expected to have 1200 stores by year's end.

Yet Hon Hai believes retail sales of electronics will still grow fast enough that Hon Hai will be able to grab market share. They plan to distribute the products it makes for big brands as well as goods from other factories.

Much of the press failed to mention that Hon Hai will also open at least 10 large electronics stores in Shanghai by the end of this year, under a partnership with Metro AG. Of course, that probably targets the competitive high end of the consumer market...but what a learning experience! It's almost a classic Chinese business cliché: learn from the best and then apply it to your own business. (Just ask Cisco about Huawei.)

And did we mention the online shopping website yet? Goes hand-in-hand with a retail strategy, doesn't it?

The multi-pronged retail strategy sails full circle when you realize these CE retail organizations seem to report to the same chairman, head of NC-IH, the business unit dedicated to retail.

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You see, "Full Steam Ahead" in this case does not just apply to Foxconn floating its own retail ship... In Hon Hai's case, we're speaking about an Armada steaming ahead into China's retail future.