Media Markt China Ltd. at a Crossroads

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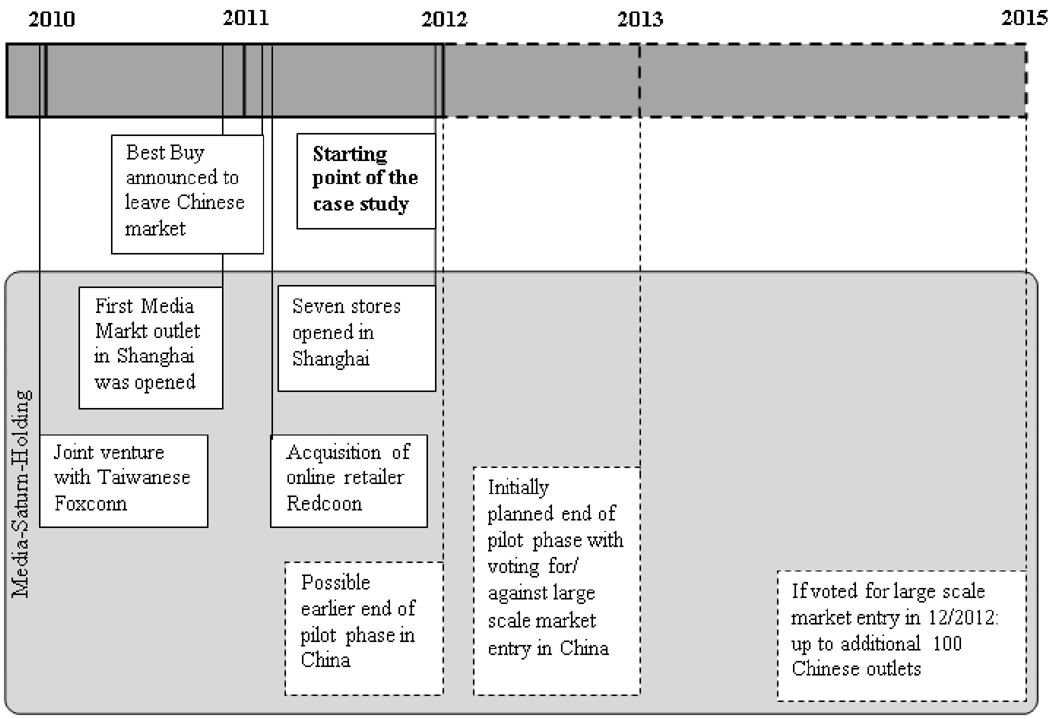
In December 2011, the leadership of Media-Saturn-Holding, Germany's largest electronic retailer, felt it needed to take major strategic decisions on the Chinese operations of Media Markt China Ltd. (henceforth referred to as Media Markt), its subsidiary. Media Markt had opened its first outlet in Shanghai in November 2010. The gigantic store, occupying 9,500 square meters on Huai Road, one of the best known and exquisite shopping streets in Shanghai, was to serve as a test of Media Markt's business model in China. This was part of a pilot entry program, with a two year time period in which a limited number of store openings had been planned. If the pilot phase was successful, there would be a full-fledged entry into the Chinese market, with up to an additional 100 outlets in place by 2015, at an investment of several hundred million euros.

However, in just the first year of its operation, the store had produced unexpectedly high sales. Therefore, it was felt that it would be appropriate to shorten the trial period and immediately go for the full expansion into the market. The board of Media-Saturn-Holding intended to reach a decision about the future strategy concerning the expansion of Media Markt, and asked Tom Wortel, its CEO, for his evaluation of Media Markt's prospects in the Chinese market. See Figure 1 for a timeline of Media-Saturn-Holding's entry into the Chinese market and the two alternative expansion strategies.

Tom Wortel's assignment was not going to be easy. Tom thought about the many considerations he had to take into account in preparing his evaluation and recommendations. There were convincing arguments for accelerating the expansion as well as for the original plan of waiting another year to assess performance. While the first year's performance had been good, there were nagging concerns about Media Markt's future in China. A few months ago, one of Media Markt's competitors, the U.S. based Best Buy, had announced its intention to leave the Chinese market as soon as possible. In light of this development, Tom Wortel also had to consider whether the Chinese market would remain attractive for Media Markt.

This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are neither necessarily those of the companies mentioned in the case nor of their employees. The case was prepared as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of a managerial situation.

Figure 1. Timeline



Media-Saturn Holding GmbH

History

Media Markt and Saturn, the two brands under Media-Saturn Holding GmbH[1] (Media-Saturn), were the leading consumer electronics retailers in Europe. In 1979, Erich Kellerhals, Helga Kellerhals, Walter Gunz, and Leopold Stiefel opened the first Media Markt store in Munich, Germany, offering a comprehensive range of electrical goods under one roof. In the 1980s, Kaufhof (now known as Metro AG) acquired a majority share of Media Markt Holding. Immediately after this change in ownership, the company took its first step towards becoming an international company by expanding into France. In 1990, the Media Markt Holding company acquired Saturn-Hansa Handels GmbH, laying the foundation for the consolidated company's two brand strategy. In the following years, all Media Markt and Saturn consumer electronics stores were organized under the umbrella of Media-Saturn without merging the brands. Metro AG continues to hold a majority share of Media Markt Holding.

[1] The term Gesellschaft mit beschränkter Haftung (GmbH) is the German legal term for private limited company. An Aktiengesellschaft (AG) is comparable to a stock corporation.

Key facts and market strategy

Media Markt offered a wide product range in home electronics, new media, entertainment, telecommunications, office communications, software, car hi-fi, large and small household appliances, cameras, and video equipment. On average, 45,000 different items in these categories were available at each store. It was Media Markt's aim to provide its customers with the latest technology products at consistently low prices. Media Markt also offered a range of services to its customers, including delivery, assembly, installation, repair, and financing. Thus, Media Markt's success was based on three pillars: its huge selection of brand name products, low prices, and a wide range of services.

Saturn, the other retail brand of Media-Saturn, followed a similar concept. Its stores focused more on a diverse selection of entertainment media, but also offered products in such categories as household appliances, computers, and digital photography. Because of its close relationships with major brand manufacturers, Saturn aimed to always present the latest technology. Like Media Markt, Saturn also pursued an elaborate service philosophy as well as a low price guarantee to its customers wherein if they found the same item at another store for a lower price within two weeks following purchase, they could return the item or receive a refund for the price difference.

In 2010, Media-Saturn had initiated a private label brand strategy with well-known brand manufacturers. Four brands – *KOENIC* (domestic appliances, high price segment), *ok* (low price segment), *PEAQ* (electronics), and *ISY* (accessories) – covering a wide range of product categories and price points, had been offered in Europe starting in November 2010.

Media Markt and Saturn were both known for their aggressive marketing. In 1995, Media Markt had introduced the advertising slogan "Hey, I'm no fool!" which was still in use. Seven years after that, Saturn had started its advertising campaign "Stinginess is cool!" These Media Markt and Saturn campaigns often worked with stars such as Tokio Hotel (a German pop rock band), Mario Barth (a German comedian), and Alice Cooper (an American musician), aiming to be informative, memorable, and polarizing.

The internal organization of Media-Saturn followed a competitive philosophy, with both retail brands having their own management and being operated independently. In addition, each individual store of both the retail brands was set up as an independent company. The local managing partners of the stores could hold a stake of up to 10% in the store. The dictum "all business is local" was followed, and the management of each store could decide local on advertising, product mix, pricing, and staffing. Table 1 contrasts Media Markt's and Saturn's market strategy.

Table 1. Media Markt's and Saturn's market strategy

	Media Markt	**Saturn**
Market strategy	- Wide product and service range - Brand name products - Low prices	- Extremely diverse selection of entertainment media - Service philosophy - Low price guarantee
Goal	Provide latest technological developments and trends at constantly and consistently low prices	Always present the latest technology

Expansion

Media Markt and Saturn had expanded internationally, with a strong European presence (Table 2). In 2010, more than half of Media-Saturn's revenue was generated outside Germany. More than 600 Media Markt stores in 16 different countries and more than 250 Saturn stores in 14 different countries generated net sales of € 20.8 billion (for a breakdown of regional sales, see Appendix 1).

Table 2. Media-Saturn global facts and figures

	Market entry Media Markt	Market entry Saturn	No. of stores	Net sales (Euro million)	No. of employees
Austria	1990	1994	42	1,078	2,289
Belgium	2002	2007	20	613	1,381
China	2010	-	1	9	160
France	1989	1999	34	597	2,023
Germany	1979	1961	382	9,087	24,121
Greece	2005	2008	13	240	1,012
Hungary	1997	2004	21	192	1,396
Italy	1999	2001	104	2,524	6,263
Luxemburg	-	2008	2	40	93
Netherlands	1999	2006	36	1,206	2,218
Poland	1998	2004	59	917	5,001
Portugal	2004	-	9	150	762
Russia	2006	2010	31	695	2,798
Spain	1999	2005	64	1,793	5,367
Sweden	2006	-	19	523	1,517
Switzerland	1994	2009	23	757	1,278
Turkey	2007	2009	17	371	1,218
Total			877	20,794	58,897

Source: Media-Saturn Holding (2011a), p. 40.

Media-Saturn's expansion was guided by mainly one credo: respond flexibly to the needs of local customers, suppliers, and employees to become both the local and the national market leader. A decentralized organizational structure was considered important, with most of the new employees and managing partners being local; their knowledge of the local, regional, and national conditions was believed to be a key contributor to Media-Saturn's success.

Before entering a new market, Media-Saturn first conducted an in-depth analysis of its potential. Each potential market needed to demonstrate a potential for long-term growth. Criteria considered important in such analyses included: customer purchasing power, consumer needs, and a favorable competitive environment. In addition to the potential opportunities, Media-Saturn also considered potential risks. After having entered a market, the company set for itself the goals of national expansion and market leadership at the local and national levels.

Online presence

For the kinds of products sold by Media-Saturn, the Internet had become an increasingly important distribution channel. Many customers compared prices and bought from online retailers to receive the lowest available price. Unlike Media-Saturn, online sellers did not need to have expensive brick and mortar stores and used a central warehouse for stocking and shipping their products. The image of Media-Saturn as always being the cheapest vendor had been strongly tarnished by low priced online offers and a high level of price transparency.

However, before completely letting the online business model pass it by, Media-Saturn made an entry into online sales. Media-Saturn acquired 90% of the shares of Redcoon, an online retailer, in the first quarter of 2011. With Redcoon's support, Media-Saturn launched a Saturn online shop in October 2011. An online Media Markt was also planned, with availability to German customers by early 2012.

With the dual channels of physical stores and on-line retailing, price setting became a challenge. Customers expected the same prices in both channels. While the local store managers of Media Markt and Saturn could still set their own local prices, which could differ from the online prices, Media-Saturn also designated a core product range for which local prices were not allowed to deviate from the online prices. Additionally, a strong relationship between online and retail shops was envisioned, where customers would be able to buy items online and return them at retail stores if necessary.

Performance in 2011

At the beginning of 2011, Media Markt's and Saturn's sales were going well. Revenue increased by 0.8% to nearly € 5 billion in the first quarter because of rising demand for energy-saving products and tablets such as the iPad. Commercials aired in honor of the 50th anniversary of Saturn, in addition to the ongoing commercials, were also thought to have contributed to the sales growth.

However, the first quarter's earnings before interest and taxes (EBIT) dropped from € 78 million in 2010 to € 65 million in 2011. This translated into a decline in EBIT margin from 1.58% to 1.31%. A few months later, Metro's CEO Eckhard Cordes, described Media-Saturn's situation as unacceptable due to a negative EBIT of € 44 million in the second quarter of 2011. Consequently, the EBIT before extraordinary items in the first half of the year dropped from € 123 million in 2010 to € 22 million in 2011. This was caused by a downturn in sales, price reductions, and higher costs due to the online shop and the expansion into China. Because of several cost-saving measures and the abandonment of certain French markets, Media-Saturn's third quarter was more successful. The EBIT reached € 128 million, which was 3% more than in Q3 2010 (for the sales development of Media-Saturn, refer to Appendix 1). On the whole, over the first nine months, the EBIT remained 35% lower than in 2010, a situation that was also viewed unfavorably by the capital market.

The Market situation in China

China's economic situation

With a gross domestic product (GDP) of about US$ 6 trillion and a population of 1.3 billion in 2010, China was then the world's second largest economy, after the United States. China's economy had expanded enormously over the past three decades, with an average annual GDP growth rate of 8%, and was expected to grow further. Simultaneously, Chinese consumer spending was growing quickly, especially in comparison to the almost stagnant figures of the United States and Europe (Table 3).

Table 3. Growth in consumer spending and real GDP

	Consumer Spending Growth			Real GDP Growth		
	China	United States	Europe	China	United States	Europe
2009	7.0%	-1.7%	-1.3%	8.0%	-2.0%	-2.2%
2010	7.6%	0.5%	0.0%	8.3%	0.6%	0.0%
2011	8.6%	1.3%	1.5%	8.4%	1.5%	1.3%
2012	8.5%	1.4%	1.7%	8.5%	1.9%	1.9%
2013	9.7%	1.6%	1.9%	8.7%	2.1%	2.0%

Source: Gome (2010), p. 7.

Chinese cities were commonly grouped in tiers, according to criteria such as their population, economic output, infrastructure, and cultural significance. Although there was no official classification, the tiers could be described as follows:

- First tier: Key cities such as Shanghai, Beijing, Guangzhou, and Chengdu.
- Second tier: Secondary provincial capitals.
- Third tier: Prefecture- and county-level capitals.

While Media Markt had been concentrating on the first tier cities, the second tier cities became economically more important. In 2009, the U.S. Commercial Service published figures according to which 15 of China's second tier cities accounted for 8% of the population but 54% of total imports from the U.S.

Consumer electronics in China

China's consumer electronics sales had grown impressively in 2010, the result of higher economic growth and improved disposable incomes, and enhanced consumer confidence in spending. Assuming an annual growth rate of 8%, Media-Saturn expected China's market of consumer electronics to be €180 billion within the next 10 years. Shanghai alone accounted for a yearly market potential of € 5 billion, enough for about 40 Media Markt stores.

The demand for electronics products showed different patterns in different tier cities, as did the factors influencing purchase decisions (Appendices 2 and 3). In China, there were also differences in the sales performance of different categories of electronics. Consumer purchasing behavior was also influenced by Chinese subsidy programs. The government wanted to encourage customer spending by providing financial incentives. In December 2007, the "Go Rural" household appliance subsidy program—giving a subsidy of 13% for household appliances such as refrigerators – had been first launched in three rural provinces and was thereafter introduced nationwide. Another program was the "Exchange Old for New" home appliance subsidy program. Started in June 2009, it was finally expanded to cover the entire country in April 2011. With a total sales volume of 81.3 million units of televisions, air conditioners, computers, refrigerators, and washing machines, by November 2011 the program had stimulated US$ 47.68 billion in sales.

Although Internet retailing had been gaining share in 2010, specialist retailers still led overall retail volume sales. This was partly due to the yet unavailable or inadequate Internet access in lower tier cities and remote inland areas.

It was doubtful whether China's enormous growth would continue as strongly in the future. The subsidy programs would end at some point, and the durability of consumer electronics, with long repurchase cycles, would lead to low replacement sales.

The Competitive Environment in China

Best Buy

Best Buy Inc. was the leading retailer of consumer electronics in the United States. It was founded in 1966 in Minnesota as an audio specialty store by Richard M. Schulze under the name Sound of Music. It was renamed Best Buy in 1983. The company had grown quickly, and had announced revenues of US$ 1 billion in 1992-93. A crucial component of the company's success was that its management anticipated future trends and business opportunities in the United States. It had been the first company to offer laser disc equipment in the United States in 1979 and the first national retailer to sell DVD hardware in 1997. In 2000, it entered the online retailing market at a time when most retailers had not even recognized the threat and opportunities of the Internet. In comparison, Media Markt would enter the online market almost 12 years later.

Best Buy started to expand internationally in 2001, and entered the Chinese market in 2006. To obtain a good position in the Chinese market right from the start, it bought a majority interest in China's fourth largest consumer electronics chain, Jiangsu Five Star Appliance Co., Ltd. A year later, in addition to the Jiangsu Five Star operations, Best Buy began to establish stores under its own brand in and around Shanghai. Best Buy's brand image was tarnished by the very unfortunate Chinese translation of its name, which could be understood as "Think a hundred times before you buy".

Best Buy applied the same business model in China that had been successful in the United States for decades. It offered costly and complex customer services and every store had a large trained sales staff to explain the products. Best Buy's cost structure was thus significantly higher than that of the local competitors. This business model failed, however, because price was still the biggest selling appeal in China, and the Chinese were reluctant to pay higher prices for advisory services. Therefore, Best Buy was losing ground to local competitors, as well as to its own majority-shareholding Jiangsu Five Star Appliance. The situation was further exacerbated by the fact that competitors always reacted quickly to Best Buy's new stores and established their own stores in close proximity. Therefore, in February 2011, Best Buy announced it was closing its Chinese Best Buy stores, but would maintain its stake in Jiangsu Five Star Appliance.

Gome

Gome was the leading home appliance and consumer electronics retail chain in China. Gome's market share was around 10% at the end of 2011. Gome's business model seemed to fit perfectly for Chinese customers. Gome's average store size was 3,600 square meters, as compared to Media Markt's first store in Shanghai at over 9,500 square meters. Gome had been able to tailor its store formats to the local markets to cater to their different needs. For example, it differentiated between flagship stores for tier 1 markets and standard stores for tier 2 markets. Gome's sales floors were generally arranged by brands instead of product groups, which was more common in China. Another important aspect of its business model was that Gome leased some of its floor space directly to well-known consumer electronics brands. This was beneficial for Gome because the electronics manufacturers employed their own sales staff and were obliged to pay a commission for every product bought by a customer. Gome could thus partly transfer the merchandising risk and operating costs to the brand manufacturers.

Gome had been effective at taking advantage of several governmental subsidies and development programs, such as Exchange Old for New and Go Rural. For instance, it introduced specialized low-cost household appliances to capture the growth in rural areas. This was possible thanks to an enormous range of suppliers and incomparable procurement and bargaining power, such that Gome could purchase its products cheaper than the major competitors. Therefore, Gome was able to position itself as an excellent value for money brand.

The competition in the tier 1 markets, especially in the region of Shanghai where Media Markt was operating, was the fiercest in the whole country. Recognizing this, Gome had started penetrating the tier 2 markets very early, and was the first prominent retail chain to take advantage of the high potential of the tier 2 market cities while defending and enhancing its leading position in the tier 1 regions. This dual approach proved to be successful. In the tier 2 cities, competition was still in its infancy, and accelerated urbanization and relatively fast replacement cycles fostered growth. In 2011, nearly a third of Gome's revenues were from tier 2 regions. Gome had been perfectly able to adjust to the local conditions of the tier 2 markets. For instance, Gome had successfully forecast a high demand for refrigerators and air conditioners and thus very successfully penetrated the tier 2 markets with these products (for a comparison in demand between tier 1 and tier 2 markets see Appendix 3 and Appendix 4).

After the third quarter of 2011, Gome had more than 1,041 stores in China (625 in tier 1 regions and 416 in tier 2 regions, for average sales per store refer to Appendix 5), covering 233 cities, and had opened 241 new stores in that year. Gome had more than 40 million loyal customers and was voted as the most valuable brand in the Chinese retail market five years in a row. Additionally, it successfully rolled out its e-commerce store in 2011 to capture the increasing online sales.

Media Markt in China

Metro's experience in China

Based on China's enormous market potential and rapidly increasing retail sales, the Metro Group expected Media Markt China to be a fundamental part of their economic future. Metro's CEO Cordes said, "In the long term, Asia and in particular China will play an increasingly important role in our expansion program". When Media Markt had entered China, its holding company Metro AG had already had experience in the Chinese market (Table 4). Cash & Carry, another Metro subsidiary, had opened its first Chinese wholesale store, named Metro Jinjiang Cash & Carry Co., in Shanghai in 1996. Over the years, Metro Jinjiang Cash & Carry Co., Ltd., had experienced many ups and downs. Board member Frans Muller, responsible for Asian business, said, "We underestimated the dimension of the country, the different consumer claims in the several regions as well as the logistical challenges". In any case, the company learned from its mistakes. For instance, at the end of 2011 Cash & Carry focused on three growing core regions and established a delivery service, which was the norm in China. By 2010, it had 48 stores open in China, with 8,212 employees. Cash & Carry China had been profitable since 2008.

After the Media Markt founding families Kellerhals und Stiefel had been persuaded into the expansion strategy, there was nothing left to impede the opening of MediaMarkt's first China store in Shanghai in November 2010. With about 45,000 products in a sales area of more than 9,500 square meters on five floors, this store was the second largest Media Markt store in the world. On the first day of sales, 274 employees assisted about 10,000 customers in this flagship store. In China the chain was called *wan de cheng*, which could be translated as "place where you can get anything."

From the introduction phase until 2012, Media Markt had planned to invest US$ 200 million to open 10 to 12 stores in Shanghai. In the years following the incremental expansion, store openings were then planned at a higher frequency. The original goals were to set up around 100 Media Markt stores in China until 2015 to reach a market share of 10%. Metro CEO Cordes expected the Chinese Media Markt to be profitable within the next years, which was affirmed by other corporate circles expecting the Chinese stores to be in the black within one year. The investment would have to be made once and, from the second year on, stores could make a positive contribution to earnings.

Table 4. Summary of Metro's experience in China

1996	Metro Cash & Carry entered the Chinese market.
2008	Having solved fundamental problems, Metro Cash & Carry China was in the black.
2010	- Metro Cash & Carry had already opened 48 stores and employed 8,212 people in China. - In November, the first Media Markt store was opened in Shanghai.
2012	Media Markt planned to invest US$ 200 million to open 10 to 12 new stores in Shanghai
2015	Media Markt planned to have opened around 100 additional stores and to have reached a market share of 10% by 2015.

Alliance with Foxconn

To increase its chances of a successful market entry into China, Media Markt had decided to work with a Chinese partner. The Taiwanese manufacturing giant Foxconn held a 25% share in Media Markt China, while the remaining shares were held by Metro and the founding families of Media-Saturn. Tom Wortel worked together with Alan S. Yeung, the chief strategy officer of Media Markt China and former CEO of the Channel Business Group, a business unit of Foxconn.

Media Markt and Foxconn seemed to be a perfect match. One partner had experience in Europe and the other one in Asia; one as a retailer, the other one as a manufacturer. Media Markt maintained that Foxconn was just a financial partner but, as an add-on, Foxconn knew all the peculiarities of the Chinese market and therefore handled, for example, the real estate. Foxconn appeared to be the perfect door opener because it had good contacts among Chinese politicians and businesses. Moreover, the joint venture planned to benefit from Foxconn's good connections to large U.S. and Japanese information technology enterprises. The question was whether the joint venture would remain at this level, without any manufacturing involvement. It was obvious that Foxconn could also produce Media Markt's private labels.

Foxconn had not agreed to the joint venture out of altruism. Terry Gou, chairman and president of Foxconn, aspired to become a specialty retailer for consumer electronics and saw this joint venture as just one step along the way. He hoped to gain retailing expertise, even though he would obtain no insight into Media Markt's management as long as he had only a minority status. In 1999, Gou had founded the multiple store Cybermart, which operated in about 20 Chinese cities, but had not been able to compete with the big retailers so far. However, new branches were being planned. Additionally, Gou had founded the Internet retailer Efeihu.com in 2009. Gou had already invested €1.2 billion in the development of a region-wide store and service network. Hence, Foxconn's long-term intentions with respect to the partnership were open to question.

Foxconn's public image had suffered recently, with 17 employees having committed suicide by jumping from the roofs of its manufacturing in the last five years. Nine of the suicides occurred between March and May of 2010. A research report described Foxconn as a labor camp with an inhuman management style. Workers were allegedly forced to work more than the legal limit of overtime and were required to finish 20,000 products every day, resulting in a ban on talking, smiling, or sitting down. Supervisors or security guards had verbally abused 28% of the workers and 16% had been physically punished. Foxconn reacted by increasing wages, reducing overtime, developing modern factories, and implementing a hotline for workers seeking psychological help. Cordes' answer to a question concerning Foxconn's image problem was, "I don't think that the world's best brands cooperate with primeval factories". Cordes had stated that Metro would not send any inspectors to the Foxconn plants.

Media Markt's present situation in China

Media Markt had opened seven stores in China by the end of 2011. They were located in six different districts of Shanghai and pursued the same basic business strategy as the stores in Europe. Media Markt used the European structure of the sales floor, which meant that products were arranged by product groups and not by brand. Additionally, Media Markt focused on a wide product range and a high service level. Nonetheless, the Chinese stores had been adapted with local conditions in mind. Apart from well-known international brands, the product range included certain Asian brands as well. Furthermore, the Chinese stores had a slightly different merchandise mix than those in Europe. For instance, the Shanghai stores offered more wellness equipment than non-Asian stores because of a higher demand in this category.

The services that Media Markt advertised included the following: customer advice, computer support, home delivery, repairs, product return and exchange, installation, and extended warranties. In addition, the stores offered customers a TV department and a relaxation area with massage armchairs. Media Markt used the size of its sales floor to display and demonstrate the electronics it sold. Media Markt wanted its customers to experience the products before they bought them.

Nonetheless, it was not certain whether Media Markt's performance was good enough to survive in the Chinese market in the long run. Media Markt would have to invest heavily to achieve the objective of a 10% market share. Even the strongest competitor, Gome, barely had the desired market share of 10% (for a comparison see Table 5). Gome had sales of almost € 4.1 billion in the first nine months of 2011 while Media Markt had a revenue of € 61 million over the same period. Therefore, Tom Wortel had to question whether and how Media Markt could ever stand up against the established Chinese competitors.

Table 5. Summary: Media Markt China vs. Gome China

	Media Markt in China	**Gome in China**
Market entry	November 2010	incumbent
Strategy	- Basic business strategy as in Europe: Wide product rage and service level - Majority of products from well-known international brands, Asian brands included, product range adjusted to special demands	- Tailor markets to local needs and demands - Positioned as value for money brand - Diversified strategy: trying to exploit huge potential of second tier cities
Number of stores	7	1,041
Store Types in China	- Store concepts identical without differentiation (European concept) - Sales floor arranged according to product groups - Store size of first outlet in Shanghai: 9,500 square meters	- Differentiation between flag ship store and standard stores for different tiers - Sales floor arranged according to brands - Average store size: 3,600 square meters - Leasing of floor space to well-known consumer electronic brands
Sales in China (01/2011-09/2011)	$61 million	$4.1 billion
Market share	< 0.005 %	~10 %
Additional information	- Joint venture with Foxconn	- Successful e-commerce - Voted as the most valuable Chinese retail brand

Outlook

A number of detailed questions arose while Tom Wortel weighed the alternatives: Was an expansion speed-up reasonable under the circumstances? Was Foxconn still the reliable partner it was presumed to be? Were there any alternatives for Media Markt other than cooperating with Foxconn? What would be a reasonable expansion strategy regarding the different tier markets and the number of new stores? Would MediaMarkt's strategy need to be adjusted in markets in lower tiers? In the Chinese market the competition between Gome and Media Markt equaled the fight of David against Goliath.

The Chinese electronics market promised to be a market of huge potential. The questions Tom Wortel had to answer were: could this potential be exploited by Media Markt? How?

Appendix 1. Media Saturn’s breakdown of regional sales

	Sales € million		Change [% €]		Currency effects [%]		Change [% local currency]		lfl* [% local currency]	
	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011
Total	14,197	14,042	7.7%	(1.1%)	1.3%	0.4%	6.4%	(1.5%)	0.8%	(4.8%)
Germany	6,218	6,275	2.1%	0.9%	0%	0.0%	2.1%	0.9%	0.8%	(1.0%)
Western Europe (excl. Germany)	6,348	6,006	11.3%	(5.4%)	1.2%	1.4%	10.1%	(6.8%)	3.3%	(8.8%)
Eastern Europe	1,630	1,700	17.7%	4.3%	8.4%	(2.5%)	9.3%	6.8%	(8.9%)	(4.6%)
Asia	0	61	-	-	-	-	-	-	-	-

* lfl = like for like

	Sales € million		Change [% €]		Currency effects [%]		Change [% local currency]		lfl* [% local currency]	
	Q3 2010	Q3 2011	Q3 2010	Q3 2011	Q3 2010	Q3 2011	Q3 2010	Q3 2011	Q3 2010	Q3 2011
Total	4,848	4,736	7.9%	(2.3%)	1.4%	(0.1%)	6.5%	(2.2%)	1.0%	(5.1%)
Germany	2,068	2,143	2.6%	3.6%	0.0%	0.0%	2.6%	3.6%	1.6%	0.2%
Western Europe (excl. Germany)	2,182	1,971	8.7%	(9.7%)	1.7%	1.2%	7.0%	(10.9%)	0.5%	(10.4%)
Eastern Europe	598	601	27.0%	0.5%	6.5%	(5.5%)	20.5%	6.0%	0.9%	(5.7%)
Asia	0	22	-	-	-	-	-	-	-	-

* lfl = like for like

Source: Metro Group (2011a), p. 15.

Appendix 2. Influences on purchase decisions (total and by tier)

	Price	Brand	Previous experience	Recommended by friends/relatives	Promotion	Package	Recommended by salesman
Total	88.3%	71.6%	48.1%	28.3%	21.7%	9.1%	6.2%
Tier 1	85.7%	72.3%	51.9%	21.5%	23.9%	8.7%	4.7%
Tier 2	89.2%	69.5%	49.5%	33.4%	23.4%	7.5%	6.0%
Tier 3	90.1%	72.3%	42.8%	29.7%	18.0%	11.2%	7.9%

Source: Ogilvy Mindshare (2007), p. 31.

Appendix 3. Planned purchases of consumer durables within 12 months by tier

	Tier 1	Tier 2	Tier 3
TV	2.8%	2.5%	1.3%
Washing machine	3.1%	3.2%	3.0%
Refrigerator	3.5%	4.4%	6.7%
Digital camera	16.5%	17.7%	18.4%
Air conditioner	6.4%	10.3%	7.9%
DVD player	3.9%	5.7%	4.2%
Computer	12.3%	12.3%	14.8%
Mobile phone	6.2%	8.8%	9.1%

Source: Ogilvy Mindshare (2007), p. 42.

Appendix 4. Comparison of Tier 1 and Tier 2 markets: Home appliance units in possession

	Units in possession/100 households			
	Air Conditioner	Refrigerator	Washing Machine	Television
Tier 1 markets	100	94	95	133
Tier 2 markest	10	30	49	99

Source: Gome (2010), p. 11.

Appendix 5. Gome’s number of stores and average sales per store

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Number of stores	728	740	787	826	856	938	1.041
Average sales per store (in 10,000 RMB)	1,627	1,780	1,675	1,852	1,638	1,877	1,598

Source: Gome (2011), p. 12.

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