

# Sam's Club Current Situation Analysis and Recommendation in China

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**Abstract.** With the development of China's economy, retail and warehousing have a very objective market. As Sam's club, which has been deeply engaged in China for many years, this will be a good opportunity. However, competition in China's retail market is still fierce. Today, China's local retail enterprises have fired the first shot in the price war against Sam. This paper uses economic knowledge to analyze the market situation of Sam's club in China, including but not limited to swot, pestle and market positioning analysis. Through the analysis of economics, this paper clarifies the advantages and disadvantages of Sam in the principality market. In addition, it also clearly pointed out the challenges and opportunities faced by Sam's Club in China. In the case that competitors have started to compete in the price war, this paper gives suggestions that are more in line with China's national conditions. This will greatly help Sam's Club to understand China's national conditions and develop new market strategies.

## 1. Introduction

Sam's Club is a large warehouse membership store in the world. It is a member store of Walmart. It has more than 800 stores in the world. The first store opened in Midwest, Oklahoma in April 1983. Sam has a history of nearly 40 years. On August 12, 1996, the first Sam's Club opened in Shenzhen. At present, Sam's has opened several stores in China, which are located in Beijing, Shanghai, Shenzhen, Guangzhou, Fuzhou, Dalian, Hangzhou, Suzhou, Wuhan, Changzhou, Zhuhai, Tianjin, Xiamen, Nanjing, Changsha, Nanchang, Chengdu, Shenyang, Nantong, Ningbo, Kunshan, Chongqing and Huizhou. In recent years, Sam's Club has become the "Internet celebrity place" where many people come to check in. As the "number one player" of China's paid members-only retail, and a supermarket mainly providing high-quality goods, Sam's has a complete set of members-only business model. Zhu Xiaojing, president and CEO of Walmart China, once said in an interview, "Sam's success is not because it is a member store, nor because it charges membership fees. Good at forward-looking insight into consumer needs; Focus on How to serve consumers better and more effectively than others."

## 2. Marketing Analyze

### 2.1 Market Segmentation

Sam's Club is a high-end members-only store owned by Walmart in the United States. The competitive response is not necessarily to lower prices, as segmentation

patterns of brand loyalty and price-sensitive consumers suggest that in some cases existing consumers can raise prices in response to low-cost consumers [1]. Therefore, its target market is the middle class. Through the paid membership system of behavioral standards, Sam selects accurate high net worth customers. With the rise of the middle class in consumption upgrading, more and more urban new middle class pursue a better quality of life, and "high quality" has become the primary consideration for these people when shopping. Therefore, Sam takes advantage of Walmart's global sourcing characteristics, ensuring high quality through selection while lowering prices. At the same time, the warehousing model gives the middle class a clean and pleasant shopping experience [2].

### 2.2 Target Market

Since there are many supermarkets in the middle class, Sam's large-scale purchase method not only reduces the purchase cost, but also transforms Sam's target market into families. The binding of the main and secondary cards also helps the family to shop. In addition, Sam is mostly in the supermarket, so it is necessary to drive to go shopping, which is also the reason why Sam decided to target the couples in the family. Couples can bring children and seniors to experience free tastings, while cheap roast chicken and croissants also increase the stickiness of customers.

### 2.3 Market Positioning

The advantages of Sam's Club over domestic supermarkets are differentiated products, services and

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quality. The number of SKUs in traditional supermarkets is generally about 30,000. In order to meet the needs of middle-class families, Sam controls the number of SKUs at about 4000 all the year round, which strictly controls the quality of goods. The core secret: the single-item strategy. Provide members with a limited number of items that are most popular with them. [3] In addition, if a product has many identical products in the market, it will also be replaced unless Sam can upgrade the quality of the product to be differentiated or provide more competitive products. This means that Sam's advantage lies in the distinctive single products, a large number of packaging, as well as preferential prices and high quality.

### **3. Pestle Analysis**

#### **3.1 Political Environment**

Sam's Club, a high-end members-only store owned by the US company Walmart, was banned from importing goods from Xinjiang on December 24, 2021, after it removed Xinjiang products from its shelves and the US signed the Uyghur Forced Labor Prevention Act, which banned US companies from importing goods from Xinjiang. Especially tomato, cotton, polysilicon and so on. This has led to a great deal of discontent among Chinese consumers, with many customers demanding refunds. According to the 2021 White Paper on American Business in China, China, as the world's largest and fastest growing market, is a strong attraction for American companies, mainly due to the huge size and potential growth of the Chinese market. [4] The US 'heterodoxy and political interference in China's national conditions have triggered tensions in Sino-US relations, which will be the biggest challenge for US companies operating in China. The most fatal thing is that Sam, as an American company, did not understand China's importance to the "One China" principle. In this storm, Sam's Club only gave an explanation: "The goods from Xinjiang are out of stock, and they will be put back on the shelves when they are available." As for members' card return requirements, some offline physical stores even indicate that "once the card is returned, it will not be allowed to handle it in the future" unreasonable warning. In recent years, due to the impact of the epidemic, the competition among middle class supermarkets is very fierce, and Sam's Club is accelerating its expansion. Such treatment will cause Sam's Club to have serious negative public opinion and its reputation will be questioned.

#### **3.2 Economic Environment**

The improvement of economic level directly drives the improvement of residents' consumption power. In 2015, the retail sales of consumer goods in China reached 30,093.1 billion yuan, and in 2019, the total retail sales of consumer goods reached 3,809.87 billion yuan, with an average annual growth rate of about 10%. In 2020, due to the impact of COVID-19 in various industries, the total retail sales of consumer goods fell to 39,198.1

billion yuan. [5] During the continuous COVID-19 pandemic, the global economy has been hit hard, and only China has bucked the trend and is the only major economy to achieve positive growth. This is undoubtedly a good signal for Sam, who is rooted in China. Retail has great market potential, and the middle class, as the main force of consumption, can still play an excellent role during the pandemic. This shows that Sam's target market is very popular, and the economic environment is very strong. According to the Research Report on the Development Status and Consumption Behavior of China's Warehouse Member Supermarkets Industry in 2021-2022, 58.4% of consumers know and have been to warehouse member supermarkets, more than 80% of consumers in first-tier, new first-tier and second-tier cities are willing to apply for membership cards, and nearly 80% of consumers in third-tier cities are willing to apply for membership cards.[6] In 2021, the market size of the warehouse member supermarket industry will reach 30.43 billion yuan, with a year-on-year growth of 12.3%; In 2022, the market size of China's warehouse member supermarket industry is expected to reach 33.50 billion yuan, with a year-on-year growth of 10.1%. It can be said that such an economic situation is the breeding ground for warehouse membership stores. In the warehouse member stores, Sam's reputation and service quality in China are much better than those of other competitors. Since the opening of the first Sam's Club in Shenzhen in 1996, it has been operating in mainland China for 26 years. Currently, Sam's has 27 stores in mainland China. Compared with other warehouse member stores, Sam's Club has been open for the longest time in mainland China, and its membership system is relatively mature and stable. According to the Survey Report on Consumption Driving Force of Sam's Club, in terms of purchasing intention of middle and high-end consumers in China, product quality has become the first choice for consumers to purchase.

#### **3.3 Social Environment**

With China's rapid economic growth relative to other countries and huge consumer population, this has become a huge attraction for foreign department retailers, which have already saturated their domestic demand. The first to occupy the territory, the first to have a fixed consumer group, is to seize the opportunity. Ellickson argues that grocery stores compete by offering more variety, which requires investing in distribution centers and improving quality by raising fixed costs rather than marginal costs. With the post-80s, post-90s and post-00s becoming the main purchasing power, this sentence has been confirmed. With the influx of a large number of Internet marketing information, the excellent quality of Sam's Club stores has been promoted and the popularity of "punching in" Sam shopping, Sam's sales have reached their peak. Sam's member stores have already opened 37 stores in 23 cities in China, with six more to open in the second half of 2023.[7] For Sam's own brand Member's Mark, Sam's roast chicken, hemp potato and durian thousand layers have all become must-buy

products. For example, the jujube clay cake that has been sold in the store for more than ten years, and 25,000 Sam's homemade steamed buns are sold every day. Data shows that 60 percent of Sam's Club sales come from the food section. As the trend of clocking fades, the excellent quality of other products has left huge customers.

### 3.4 Technical Environment

With the increasing emphasis on fresh food and the improvement of the DC system, Walmart has gradually implemented and improved the warehouse distribution system, that is, the order data of the store directly reaches the DC, and the goods of each supplier are also sent to the DC according to the requirements, and the DC completes the distribution. This improves the accuracy of goods arriving in stores and completes Walmart's digital control of fresh goods. [8] Through the connection between the cold chain distribution end and the store data system, the whole process data monitoring of fresh goods is finally realized. From suppliers, to DC, to logistics, and finally to store sales, the whole flow process is recorded in the form of data. That is to say, the warehousing, transportation, sales and loss of a single commodity can be completely analyzed and predicted. The moving selling speed of a single product, the response speed of suppliers, the loss of each link, etc., can finally be turned into digital reports and trend analysis to help the operation department make decisions quickly and further improve human efficiency. At the same time, in recent years, data, VR technology, AI robot, face recognition and other technical means have been improved, which makes the logistics and online sales of goods have been improved iteratively. The Development Report of China's Department Store Retail Industry 2021-2022 shows that the top 85.4% of enterprises have launched online business. Naturally, Sam's Club did not miss out, giving full play to its logistics advantages and bringing excellent experience to users through 2h extremely fast delivery.

### 3.5 Law Environment

In September 2006, the Law Governing the Promotion Behavior of Retailers was promulgated. It stipulates that any retailer selling in China must follow the rules. So far, the state has repeatedly issued supportive policies for new retail and e-commerce. In 2021, the "14th Five-Year Plan" e-commerce development Plan said: by 2025, China's high-quality development of e-commerce has achieved remarkable results. New forms and models of e-commerce have flourished, the core competitiveness of enterprises has been greatly enhanced, and online retail has continued to lead consumption growth. A high-quality digital lifestyle has basically taken shape. By 2035, e-commerce will become an important driving force for the sharp rise of China's economic strength, scientific and technological strength and comprehensive national strength. This means that in these four years,

Sam's development will be supported by policies, which will be a good signal.[9]

## 4.Swot Analyze

In this paper, by comparing Hema Fresh with Sam's Club, which chooses the middle class as its target market in China, the dilemma of Sam's Club and its future development direction are analyzed.

### 4.1 Strengthen

Sam's Club has the largest number of stores, with 27. Among them, Beijing and Suzhou have three stores each, which are the cities with the largest number of stores; Shanghai, Ningbo and Shenzhen have two each. Although the first store opened late, Hema Fresh already has seven stores in China, including four in Shanghai and one each in Suzhou, Nanjing and Beijing. However, in terms of geographical location, Sam's Club has obvious geographical advantages. Sam's Club has formed a pattern with Beijing, Shanghai and Shenzhen as the core, radiating to the three northeastern provinces in the north, radiating to the Guangdong-Hong Kong-Macao Greater Bay Area in the south, and continuously extending inland through major provincial capitals. Although Hema has chosen Shanghai and Suzhou with high income and price, Sam has already seized the market earlier. The membership system increases the loyalty of customers, and the prepaid consumption mode determines the strong loyalty of customers. Even with the attraction of other factors, it is difficult to change the consumption location of fixed customer groups [10].

### 4.2 Weakness

Backed by Alibaba's resources, Hema Fresh can accurately select the most popular categories, brands and single products through big data, so it has a great advantage in consumer demand. Moreover, Hema X's product replacement rate is significantly higher than that of Sam's Club and Costco. In terms of product packaging, specifications and selection, because it is a local enterprise, the products sold by Hema X are more in line with the purchasing habits and demands of Chinese consumers.[11] However, Sam's Club is at a disadvantage in localization, with only one or two products with the highest cost performance in each category, which is not in line with Chinese consumption habits. At the same time, although the unit price for large packaged goods is lower, it can save money for members. However, in China, where shopping malls have a high coverage rate, large packages of goods are very difficult for families with only two or three members. Take Shanghai as an example. According to the data of the seventh population census of Shanghai in 2021, more than 60% of households in Shanghai are 2 or 3 people, and the average number of people in each household is 2.32. Such market positioning largely limits the sales [12].

### 4.3 Opportunities

One of Sam's characteristics is to vigorously develop its own brands, which is also an important source of its profits. By eliminating intermediaries such as distributors and agents, warehouse member stores can take goods directly from manufacturers, so profits are higher. Among the more than 3,000 kinds of SKUs in Sam's Club, more than 700 kinds of SKUs are owned by private brands, accounting for 23% of the number, but accounting for 30% of the sales. This is Sam's advantage point. The private brand of Hema fresh is not only sold in Hema fresh, but also sold in other formats of Hema fresh and Hema MINI, so it is not possible to form the stickiness of consumers to hema fresh through the private brand. This will be the strongest card for Sam to compete in the middle market, while the high profit of its own brand can maintain Sam's popular products to attract customers at a low price. Take Member's Mark imported beef, which has always been highly sought after, as an example. Due to the limitations of cutting technology and transportation, such high-end steaks are very rare in the channels of ordinary supermarkets. Sam not only delivers the steaks to the store with full temperature control through the self-built transnational cold chain system; It can also bring breakthrough price advantages with strong bargaining power. Sam also builds multi-channel shopping methods according to different consumption scenarios. People have continuously upgraded offline stores and created interactive areas such as Sam's Restaurant Bar, Sam's Kitchen, health management center and Sam's Cloud Home to create more inspiration for members' lifestyle, which are very rare among other competitors. At the same time, Sam vigorously develops its e-commerce business, develops its mobile App "Sam's Club Store", and provides delivery services including "one-hour fast delivery", to meet the immediate needs of members when they are unable to reach the store. In addition, Sam App delivery scope covers most parts of the country [13].

### 4.4 Threat

On August 1, 2023, Hema took the lead in pricing Sam's best-selling durian thousand-layer cake at 99 yuan, 30 yuan cheaper than Sam. Sam countered by lowering the price to 98.9 yuan. On August 8, Hema's fresh durian cake was priced at 89 yuan, but Sam still fought. With several price cuts, Hema fresh hit the "moving mountain price" label. As a Chinese local enterprise, it uses the classical story of Chinese tradition. Every Chinese knows the spirit of Yugu moving mountains. Subsequently, a series of fresh with the price of moving mountain discount, hema fresh harvest a party praise.

After this battle, Sam's Club's crisis emerged. The overlap rate between Hema and Sam's users reached 43.1%, which means that nearly half of Sam's users also installed Hema, and the two users overlapped highly. If the brand is not localized enough, it will be at a disadvantage in front of the marketing of Chinese feelings relying on the Internet. [14] At the same time,

the competition for the middle class has become a bidding war. In 2022, more than 680 traditional supermarkets will close their doors, including once-famous retailers like Aeon, Yonghui and Carrefour. But one trend is that the market size of warehouse membership supermarkets in China has grown by 10.1%. In the face of such a huge market and severe competition, Sam's Club faces challenges. [15] At the same time, as Sam chooses more suburbs, if there is not enough passenger flow support, the terrible vacancy rate will be Sam's primary enemy.

## 5. Conclusion

Based on pestle's market analysis, this paper argues that China's cultural and political ideas should be respected and the one-China principle should be adhered to. On November 17, 2018, the Italian luxury brand Dolce & Gabbana released a video involving insults to China, and its designer apologized without regret. Although they believe that the Chinese people will forget the incident, according to the company's financial report of the same year, in 2019 alone, Dolce & Gabbana reported a profit of 156 million euros, 16 million euros lower than the previous year, due to the impact of greater China. Dolce & Gabbana's sales in China continued to decline from 2020, and it almost lost the country's entire luxury market. Therefore, as an American enterprise, how to balance Chinese culture is a very important part. Only by respecting customers can we bring profits. In the Swot analysis, Sam's Club still has some difficulties in the competition with Hema Fresh. Although Hema Fresh has deeply cultivated Chinese culture and introduced many products that meet the needs of Chinese people. However, there is still a great shortage of seasonal fruits and vegetables. If we can open up channels to purchase fresh Chinese food materials such as lotus seeds and water chestnut, it will be more popular. Walmart can take advantage of global procurement to ensure the freshness of food ingredients to the greatest extent. In addition to launching specialty products, in order to compete for middle-class customers, it can also start from a new track. Price is not the only criterion. Sam's Club already has food, flowers and other areas, which can carefully select several kinds of food in the dining bar. Building a multi-functional area can also be Sam's selling point. It is not easy to eat, drink and play in the warehouse supermarket. Sam chose to go to the suburbs more, which is not in line with the shopping habits of Chinese people. People do not want to go there just for shopping. Especially for the intermediary class, membership fees are not what guarantee customer loyalty. Remoteness is a big pain point, which is why there is a high degree of overlap with Hema users. Willing customers to buy, especially with a family, to eat and play will be Sam's focus. More importantly, with the development of the Internet today, Sam's Club should also promote itself more through social media influencers. Loyal users will have a chance to speak up for the brand only if more of them are promoted on social media.

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