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# Home Depot Learns Chinese Prefer 'Do-It-for-Me'

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By LAURIE BURKITT

BEIJING—[Home Depot](#) Inc., HD +0.93% in deciding to close all seven of its remaining big-box stores in China after years of losses, joins a growing list of retailers who have stumbled in China by failing to grasp the local culture and importing alien business models that are better suited to the U.S. or other countries.



Imaginechina / Associated Press

The retail giant, which entered China in 2006, plans to close its remaining big-box stores in the country. Above, a Beijing store in 2007.

The largest U.S. home-improvement retailer, which entered China in 2006, has struggled to gain traction in a country where cheap labor has stunted the do-it-yourself ethos and apartment-based living leaves scarce demand for products like lumber.

Home Depot conceded that it misread the country's appetite for do-it-yourself products. "The market trend says this is more of a do-it-for-me culture," a Home Depot spokeswoman said of China.

[Mattel](#) Inc. MAT -0.29% shut its China-based Barbie flagship store in March of last year after it learned that Chinese parents would rather have their children read books than take a doll for a spin in her plastic Corvette. [Best Buy](#) Co. BBY -0.65% closed its nine China outlets in February 2011 after discovering that Chinese consumers needed washing machines and air conditioners more than

espresso makers and state-of-the-art surround sound stereo systems.

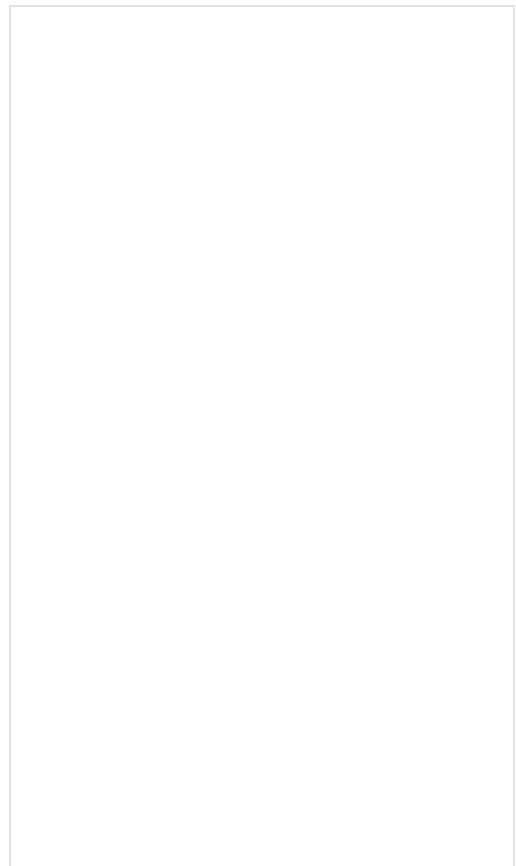
A spokeswoman for Mattel said the toy company is still selling Barbie in China, but Mattel plans to promote more educational toys there.

Poor Returns Doomed Home Depot China Big Boxes: CFO

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Best Buy said it is working with its Chinese subsidiary, Jiangsu Five Star Ltd., to sell appliances. It plans to open mobile-phone specialty stores and is considering online sales.

Industry insiders say many foreign



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companies have been too rigid with their approach to the China market. "You have to be nimble and willing to react quickly to changes," said Peter Lau, chairman of Hong Kong-based apparel retailer [Giordano International Ltd.](#), [0709.HK -0.64%](#) speaking at a retail conference in Shanghai this week. Mr. Lau said that he encourages regional and individual managers at his nearly 1,400 Giordano outlets on the Chinese mainland to create local marketing and sales strategies. The people on the ground know their customers better than employees in corporate head offices, Mr. Lau said.

Home Depot is shaking up its strategy by focusing on specialty stores. Three months ago, it opened one paint-and-flooring store and one home-decorations outlet in the northern port city of Tianjin to cater to specific needs and shopping preferences shown by Chinese consumers, the spokeswoman said. It also plans to launch online operations with a Chinese partner, she said, without naming the company.

Home Depot debuted in China with a 12-store acquisition six years ago and the number has since dwindled as it found that Chinese consumers differ from their global counterparts. As Swedish furniture giant IKEA discovered, Chinese consumers will pay for people to do the work for them. Several years ago, the furniture store added services to help customers assemble their furniture.

Home Depot's closures will cause the company to take a \$160 million after-tax charge in the third quarter, a company statement said. The charge will be equal to about 10 cents per diluted share, and will include the impairment of goodwill and other assets, lease terminations, severance and other charges associated with closing the stores.

The retailer said that excluding the charge associated with the store closings, it still expects its fiscal 2012 diluted earnings-per-share to be up about 19% to \$2.95 for the year, which is in line with prior guidance.

Home Depot's seven closings will affect around 850 associates, who will receive severance packages and job placement assistance, a company statement said.

Home Depot will continue to employ 170 staff who will work in its sourcing offices in Shanghai and Shenzhen and its new specialty stores.

"We've learned a great deal over the last six years in China, and our new approach leverages that experience and reflects our continuing interest in providing value to Chinese customers, as well as our shareholders," said [Frank Blake](#), Home Depot's Chief Executive in a company statement.

Analysts said China's slowest economic growth in three years is also causing companies, including domestic ones, to rethink their strategies. Retail sales in August rose just over 13% year-on-year, slower than the 17% climb in August 2011.

[Wal-Mart Stores Inc.](#) [WMT 0.00%](#) executives said in August that the Bentonville, Ark., retailer would open fewer stores in China next year, halving the square footage that the company originally forecast. "To improve our site selection and store design, optimize customer shopping experiences, we made a decision earlier to moderate our growth," said Scott Price, Wal-Mart's head of Asia in an emailed statement to The Wall Street Journal. The retailer currently operates 376 outlets in China.

British retail giant [Tesco](#) [TSCO.LN +0.07%](#) PLC is closing four stores in China this year to focus on more efficient operations, executives have said.

[Suning Appliance Co.](#), [002024.SZ -6.20%](#) China's largest appliance retailer by outlets, announced this month it will create superstores over the next three years, adding daily necessities and books to 400 existing outlets to offset slow sales that have been caused by a slumping housing market.

Increased competition has also been a big factor for many businesses. The number of companies that have poured into China in only the past few years have diluted the earnings potential for any one corporation, said Torsten Stocker, an analyst for consultancy Monitor Group.

In the food sector alone, thousands of fast-food outlets, both foreign and Chinese, have opened across the country. Xiabu Xiabu Catering Management Co. plans to open 1,000

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of its hot-pot chains in which diners dip raw meat and vegetables into cauldrons of bubbling broth. [Yum Brands](#) Inc. (YUM +1.03%) has been expanding in the past few years, opening nearly 4,000 KFC and Pizza Hut chains.

Industry insiders point to Yum Brands as the ultimate example of a company that does adapt its strategy to China. KFC sells egg tarts, soy milk and other items that aren't offered on menus outside of China.

Chinese consumers will notice the next time they stop into a [McDonald's](#) Corp. (MCD +0.60%) outlet that chicken sandwiches and "bubble tea," tea with tapioca balls in the bottom, are prominently featured on the menu and in advertising. McDonald's has been playing up its localization strategy to compete with stronger rivals.

A spokeswoman for the company said McDonald's always aims to understand its customers.

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*A version of this article appeared September 15, 2012, on page B1 in the U.S. edition of The Wall Street Journal, with the headline: Home Depot: Chinese Prefer 'Do-It-for-Me'.*

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