

## **ISO, International Shopfitting Organisation's successful study tour to CRC Expo, Shanghai.**

**25<sup>th</sup> June – 2<sup>nd</sup> July 2005.**

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### **The visiting group**

The official tour name was "ISO – China Interior Contractors' Fact Finding Tour". An 8 day visit to the Shanghai region, shop fixture factories, the CRC Expo and Retail Show, traditional markets, modern shopping malls, some of the world's tallest buildings and the fastest train on earth.

The group of more than 20 international shopfitters from 11 different countries included the ISO president Morten Gron-Hansen from Norway, UK members from SDEA and NAS as well as a Dubliner associated with the Danish Shopfitting Organisation (DDI), whose president Hans Jorgen Dalum joined the party in Shanghai. His company, ChinaConsult, was responsible for the whole program, and their 3 competent, Chinese female assistants taking care of everything. They also assist European companies, interested in doing business in China, in all other matters, from their offices in Denmark and Hefei, China.

### **The travel and language**

Flying to China is a matter of about 9-10 hours flight from Copenhagen, comfortable and safe. Airport formalities, luggage handling and bus transfer to the comfortable, top class Central Hotel in the city centre was smooth and efficient. The airport and hotel present no real problem to English speaking visitors, but make sure to have translation assistance as soon as you enter into the street, take a cab or visit the shops and restaurants, not to speak of the manufacturing plants and talking shop! Even at the Shanghai new International Expo Centre, where the show took place, a lot of the exhibitors had only Chinese speaking staff. A curious example proved to be the JAPAN SHOP 2006 booth, where they only understood Japanese or Chinese language, they did not even have anything in print, why we could not understand such a simple matter as the dates of the exhibition they promoted!

Thanks to our own Chinese interpreter, you are hereby informed, that JAPAN SHOP is March 7-10, 2006 and the place is "Tokyo Big Sight". Japan is obviously a good market for Chinese store fixtures. Japan only buy high quality, so if you are looking for new sources, look for suppliers to Japan, and you get reliable, high quality products for Europe as well, if not always the cheapest!

### **Factories: Competition or sourcing options?**

During the week, 7 factories in and around Shanghai were visited. In short, *one* seemed to be top quality, management, sales organisation (English speaking), staff, computer systems, products and plant facilities, as well as actual growth to date and potential. Stainless steel, shiny chrome or powder coating, modern design and fixtures (200 employees), mannequins (100 employees at a separate factory), everything seemed perfect, and fully up to European/Japanese standards. They had already exhibited in Europe, both at the EUROSHOP in Düsseldorf and the IN-STORE in London, as well as (of course) we met them again at the CRC Expo. Very impressive, and subject to the right price and need for volume also very recommendable. But a fully loaded 40' container per dispatch is probably necessary to avoid unreasonable delivery delay or transport cost.

A European, stockholding agent solves that problem, but adds to the cost. It shall be interesting over the next few years to see what happens.

Two other factories were also rather impressive, reasonably large and modern with approx. 150 and 250 employees respectively, but manufacturing low-cost mass manufactured, basic supermarket/hypermarket metal storefixtures. The problem of this type of Chinese factory is obviously a lack of experience with the developments of modern shopfitting. The stores need shelves, or sales-baskets or -stands or any other "fixture", they look at it, and make it! Probably cheap and durable, but in my opinion, not very nice, and not very clever! I am sure it serves its purpose in China or even (at a sufficiently, dramatically low price) in discount supermarkets anywhere else in the world. But as a European you miss the understanding of the product being *not* just a shelf or fixture. It is much more, it is a part of your company's image, more important of your customer's image, but most important of all, it is your customer, the retailer's "tool" for making profit! It is not only basic shelving that is needed, a little more sophistication makes a lot of difference.

The large and unexpectedly modern factories use sheet metal cutting direct from coils, pressing and punching, welding (even with a few robots), powder coating and packing, mostly like we do, pretty up to date, nice and efficient. (Except for the safety to be honest, we use double hand operation to punches, exhaust systems to remove the welding gasses etc. They do not). And they work hard, encouraged by an extra bonus on top of an already high salary, even for East Chinese standards. The cost per man/hour estimated at approximately 1½-3 € which it is apparently necessary to pay workers in the Shanghai area to prevent them from wandering off to better jobs. The growth rate is immense – 10% for all China, double or considerably more for the Shanghai Industry and the individual, successful company!

### **Need for "sophistication" in design and function**

After more than 30 years in international shopfitting however, I do not only look at the technical quality and raw price of a certain fixture. And neither did the other ISO members and tour participants. We always consider the possibility of improvements, such as multipurpose functions, design, surface finishing, re-engineering to make manufacturing simpler "leaner", make it easier to ship, install and use, make production cheaper (not necessarily because of the price alone, but to improve the value and profit, don't we all need that?), in short: We want more sophisticated equipment to help and improve our return on investment!

At the better of the Chinese factories, all technical elements for a good product are present, but the sense of using it right, the understanding and know-how of modern shopfitting is still missing a lot. As an example, I anticipate that the two factories mentioned above, are where you obtain the best "raw" price for the product. It may therefore be worth while an extra effort from you, to try and improve their products, giving them the final touch, to meet the more sophisticated demands of shopfitting from the European, and Global retail trade.

The retailers want more value for money, and the European shopfitter knows how to improve the value, without necessarily *spending* more money. The Chinese manufacturers' advantage is offering same value, or less, for less money! In direct competition the European shopfitter still maintains a leading position because of know-how instead of cheap labor. But for how long? And finding the answer to that is one of the important reasons for our China Tour!

So the almost too obvious, simple answer is, that direct competition is not the biggest threat, yet! A combination of the sophisticated, highly developed "European" product, manufactured (sourced) from the modern, low cost, volume factories of China is probably the winning concept?

Conclusion: Do you want cheap fixture sourcing, find a trustworthy supplier, tell exactly what you need, and how you want it to be made.

Make unmistakably clear standards of quality assessment! And check before shipment!

This of course means: Use local, professional assistance if you do not need *very* large volumes.

Please note, that I have not referred our Fact Finding Tour from the "outsourcing" point of view (or "offshoring" to introduce the latest buzzword). Establishing your own production abroad is a completely different story, which takes much more research, manpower and investment in time and money than subcontracting. That is why this first ISO Study Tour has concentrated on sourcing, meaning looking at feasible sub-supplies from existing manufacturers.

Some of the participants may consider to invest in China to be in control of the manufacturing process, but I hope, and believe, that this tour has given them the same impression, that I had myself after my first visit to China: Do not enter into a Chinese partnership. It's a long story why, many did (some years ago it was the only option) but few, very few with success, a lot with regret. The conclusion, the good advice sounds, small-scale: Buy the goods, large-scale: Establish your own manufacturing plant, use sub-suppliers, but do not enter into partnerships where you are not in full control!

Any questions, anything you want clarified, please call, and I shall be pleased to tell you more at any other time!

### **The majority of typical Chinese "factories"**

The four remaining factories, we visited were from acceptable (Chinese standard) to awful, meaning we would not even have used the poorest of them in Europe 50 years ago! The best was manually manufacturing shopping carts, that looked OK, when we watched 8 (eight!) workers loading about 500 units into a 40' container. And it took a lot more workers to make the trolleys with primitive plant and a lot of hand work, cutting, bending, grinding (sitting on the floor), welding (no exhaust system) etc. The finished product seemed of an acceptable quality, and the price estimates attractive, but in my opinion the company must invest their earnings in upgrading of their manufacturing facilities, or they will be overrun by competition shortly. Everything moves incredibly fast in East China, and with salaries going up and lack of available *skilled* workers, they have to keep up with investments from Western companies, such as Wanzl, Caddie and others, establishing themselves, as we noticed at the CRC Expo.

The other "factories" were more like primitive workshops, where they made whatever the clients want with simple tools and machines, and a lot of manpower, taking their time. But this is also China, and ChinaConsult had used some of them for temporary purposes, supplying "handmade" parts for new product lines, while waiting for new process tools and machinery (at high investments and long lead times) to be ready and effective at home, in Denmark in this case, or at their new plant in Hefei, ca. 450 KM due West of Shanghai.

But do not forget, they speak Chinese in China, why even this, relative simple use of China as source of parts at competitive prices may be more complicated, than you anticipate, if you do not rely on local advisors or sourcing agents.!

### **CRC Expo, Shanghai "The new "Euroshop" of China!**

The "China Retail Conference and Exhibition" has after all what I hear undergone a development as fast as Shanghai itself. Our good friends and colleagues of NASFM, USA visited last year, and found it disappointing. Two years ago, I am told it was really poor. This time, it was very good. Without knowing the exhibition data exactly, I estimate the forecasted figures a little careful, maybe there was approx. 10-12000 sq.m. exhibition area with 150-200 exhibitors. Judging from the first day 15.000 visitors does not seem all wrong either. And there was apparently relatively more shopfitting and –fixtures, than at the Western exhibitions, such as Euroshop, GlobalShop and IN-STORE, that I have all visited previously in 2005. Of course computers, scanners etc. were heavily represented, as at the other shows, but not only were actual shopfitting equipment a good fourth/ third of the show, but it was of unexpected high quality. Defined as very high Chinese, but more like average European standard. While shopfitting in the West (and surely to the huge Global retailers in the East) is getting more and more a question of a professional *shopfitter*, a project manager that takes care of the complete store, and a trustworthy person/company you rely on, in China, it is mainly the manufacturing process that is competitive, and the quality you can feel and touch, that is important, which shows in the way the exhibition works.

Please see my résumé of particularly Euroshop at this home page, if you want to read more about this trend.

I noted minimum 15 *good* shopfitting- and fixture exhibitors, maybe a total of 35-45 out of 140 exhibitors, plus an interesting number of signs-, display-, and equipment suppliers.

Without describing each exhibitor, I warmly recommend European shopfitting companies that considers to begin sourcing from or outsourcing to China, to begin with a visit at the CRC Expo. And many did. It was a real surprise, at the show in Shanghai, to meet so many old friends from our industry. From Customer's (watch out!) and colleagues from the UK, from Australia, good old Danish friends, Germans, Americans, and many more. Not to mention a business lunch at the exhibition centre, hosted by Dr. Bernd Hallier of EHI (Euro Handels Institute, Germany, president of EUROSHOP, EHI being publisher of STORES+ SHOPS) and his local organisation as well as representatives from Shop Design Russia (Moscow, Sept. 20.-23. – 2005).

The CRC Expo is beginning to look like a quality event that has come to stay. Just as the Euroshop seems to have found it's role as *the retail equipment trade exhibition of the World* every three years (and surely very much because of that), and GlobalShop as the World's largest annual, and *American* show, the show in Shanghai looks like *the event* for the shopfitting industry of the Far East. The quality and professionalism guaranteed by the participation as co-organizers from Euroshop/Messe Düsseldorf and VNU (organizers of a.o. the GlobalShop in USA).

### **Chinese markets, shopping and food**

When you first arrive to Shanghai, you must pinch your arm to make sure you are awake, for it is not at all, I am sure, what you expect of China. It is more like Hong Kong (where I have not been) or Houston, Dallas, downtown Los Angeles (where I have been), and yet it is China. Enormous parts of this old town has been bulldozed away and new towering office buildings, condominiums and shopping malls have been erected instead. The skyline is breathtaking, and the modern town, from the bar where we enjoyed a drink at the 87<sup>th</sup> floor, to the train that brought us back to the airport at a speed of 431 KM per hour, is unbelievable. But that is China too.

The fun of bargaining at the old markets is great. Many of the group had measures taken for suits when we arrived, and picked up tailor made, quality suits made to order after 3 days at a cost around 50 €each!!! Not to mention the price of copy brand socks (5 for 2 €), ties, shirts, ROLEX copy watches (2 for 15), CD's, DVD's etc. Strictly forbidden, of course but maybe just because of that, a lot of fun. We all wondered how long that is allowed to continue, but it is no doubt a great tourist attraction. Personally, I bought some shirts and jeans at the main pedestrian mall NanJing Road just in front of our hotel, and maybe they were a little more expensive (but 50% of a minimal price is still not much), but it was ten times quicker! A separate story is the "Pearl City" store, facing the Central Hotel. A 5-storey market of 50 or more little, separate shop with pearls only – and at incredibly value prices. Don't miss it, in the excitement over all the shopfixtures and other markets.

On the same NanJing Road I counted minimum 10 McDonalds and KFC restaurants, all crowded. But the sweet ladies, our competent guides of ChinaConsult made a point out of serving us the best Chinese food at the best Chinese restaurants available, twice a day. Each meal was a ceremony. Numerous delicate looking dishes were placed on a turntable, and we were maybe 10 at each table. Using round tables has the extra benefit of nobody sitting at the table-head, meaning nobody "loose face" because of wrong sitting, which is very important in China. And the laughs and jokes about eating with "shopsticks" were of course never ending. But the food is tasty and healthy, you almost never see a fat Chinese. And not because of their lack of money. In the city of Shanghai 13 million people are officially registered. The population in great Shanghai is about 20 million, and a lot of them apparently has a standard of living, and spending, comparable to an average West European.

### **Old and new, Shanghai and the future?**

Sightseeing, apart from the attractive restaurants, the markets and shopping malls, was limited to a visit to a Buddhist Temple. Very beautiful, very interesting, an absolute must for the visitor. The feeling of peace and quiet, the calm, yet with many Chinese worshipers and visitors, tourists like ourselves, was an experience, and a reminder of ancient China, which has changed so much, but not lost its own, very special culture.

The shopping centres are modern malls, fully air-conditioned, which was much appreciated, as the temperatures every day exceeded 35 degrees Celsius, and the humidity was awful. Not to speak of the sudden, torrential rains and thunderstorms, we ran into (I invested 1 €in an umbrella, not bad eh?). June/July is the rain season, but we had luck with rainfall far below average according to the Shanghai Daily, a good newspaper, we found under the door every morning. Together with 30 TV programs and absolutely no problems with the mobile phone networks it kept us well in contact with the rest of the world's news.

You find all the big brands of the world and their Chinese flagship stores in the malls of Shanghai. It is amazing, because we could not believe, how they can exist. Huge, big sales areas, one mall, the "Gateway" alone with 2-3 department stores and (my guess) 800 other stores in 6 floors! Crowded with people, but still, without the immense inflow of investment capital from particularly USA, Japan, but also Taiwan, Europe, it would not be possible. The background needs more research, than I am capable of doing after 2 visits, and with my focus on shopfitting and retailing, but the question remains: How long can this evolution continue? Interest rate, free trade, oil/energy supplies and a billion people taken into consideration? 2 billion if you think of "Chindia"!

The first warnings could be the energy restrictions, we noticed during our brief stay. Factories closed in periods of the day/week due to lack of electric power. The neon-lights of Shanghai, spectacular how they are, were only all lit on the Friday night (when most factories are closed)?

Let me give you my best answer to that question, easy to understand in its simplicity:  
Energy prices will continue increasing – and increasing - world wide, sorry, but that's it!  
But the shop-show will go on!

Preben Bailey, 18<sup>th</sup> July 2005

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