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How can an incumbent in a traditional business such as shopping-center development drive value creation in a new retail paradigm?

Chinese conglomerate Wanda Group, headquartered in Beijing, is the country's largest commercial property developer and the world's largest movie theater operator. One of its core businesses is Wanda Plazas – large complexes encompassing shopping malls, cinemas, hotels and offices. To enhance this business, Wanda has expanded into adjacent areas such as cinema chains, film production, theme parks, internet technology, sports and finance. Its competitive advantages include a strong culture of execution and a proprietary technology backbone to support and streamline decision-making processes based on data.

The retail landscape in China, as in the rest of the world, is changing rapidly. With the growth of e-commerce giants such as Alibaba and JD.com, traditional retail is coming under threat. For example, Alibaba, China's largest e-commerce company, has over half a billion active users in China alone. Wanda, with its core businesses rooted in physical retail, saw the online-to-offline space as an opportunity. But how could it best leverage its existing physical assets and incorporate digital opportunities?

At a glance

- » The onslaught of e-commerce requires traditional retailers to adapt their business models.
- » Wanda, China's largest commercial property developer specializing in large shopping mall complexes, has a track record of superior execution, powered by a technology engine that enables it to implement at scale.
- » To stay competitive, it is seeking to reinvent the shopping experience in its malls and to leverage digital to provide unique services to its tenants.
- » Wanda's two-pronged approach provides insights for companies operating in a world where offline and online retail boundaries are blurring.

THE BROADER ISSUE

China's modern retail transition began with the opening up of the economy in the 1980s. In the space of a few decades, small local shops were displaced by large quasi-Soviet style department stores, which were in turn eclipsed by shopping centers in the early 2000s. With physical retail still evolving, e-commerce exploded on the scene, taking advantage of the lack of infrastructure in physical retail to address pent-up demand and bottlenecks. Today, China boasts over 770 million internet users, and almost 70% of internet users also shop online.¹

In the early 2000s, Wanda began building up its shopping center empire. When retail space in tier 1 and 2 cities became overcrowded, the company found opportunities in tier 3 and 4 cities and expanded. But it had to keep an eye out for the looming competition from e-commerce. Not only were China's e-commerce giants dominating the online space but they were also foraying into the physical space. The line between online and offline retail was becoming blurred, and now it was a race to see who could successfully navigate the online vs. offline world.

In this environment, to keep its plazas relevant Wanda adopted a two-pronged approach: (1) making its offline offerings more experience based, and (2) leveraging the power of technology.



REINVENTING THE SHOPPING EXPERIENCE

Early on, Wanda understood that “shopping” was only one pillar of a customer’s shopping center experience. Wang Jianlin, company chairman and founder, repeatedly emphasizes that Wanda Plazas are not built on “shopping” but on “eating.” Wanda often experiments with different formats and was one of the first in China to include restaurants in its shopping malls. In 2006 it began building movie theaters in malls to attract foot traffic. By 2017, following a series of acquisitions in the United States and Australia, Wanda was the world’s largest cinema chain operator.

To appeal to families, Wanda launched Wanda Kidsplace Park, spacious indoor playgrounds within the plazas where children can play on traditional slides, swings, ball pits and educational arcade equipment. They can also participate in classes, sometimes with their parents. “We discovered that once you have ‘captured’ the child, you have ‘captured’ the whole family,” explained a Wanda representative.

In less developed tier 3 and tier 4 cities, Wanda Plazas have often become the city’s commercial center and are destination shopping spots. Given the generally low average spend in these areas, Wanda Plazas have become expert at increasing turnover – hosting new events such as concerts, fashion shows, car shows and product promotions to continuously captivate customers and increase visitor numbers.

LEVERAGING TECHNOLOGY TO ENABLE EXECUTION AND FIND NEW OPPORTUNITIES

Building and operating a successful shopping center requires extensive know-how and expertise. Before construction can even begin, developers need to set a budget and schedule, secure funding and select the right location. Then they must ensure that the project is completed on time – and within budget. They also have to develop the right tenant mix, which means they have to be tuned in to local taste and

demand. Once the mall opens, management must draw a consistent flow of customers and make sure everything runs safely and flawlessly 24/7.

Given the complexities and specialist knowledge involved, shopping mall developments tend to be limited in scale. For example, Simon Property Group, the largest shopping mall developer and operator in the US, opened three new shopping centers in 2016; CapitaLand, one of Asia's largest property developers, opened only eight in 2017. By contrast, Wanda completed 50 and 49 shopping malls in 2016 and 2017 respectively, to reach a total of 236 Wanda Plazas in operation by the end of 2017.

What is the secret of Wanda's rapid expansion? While its focus on execution plays an important role, just as critical – if not even more so – is Wanda's IT backbone that has enabled the company to carry out informed decision making, streamline operations, codify its knowledge and operate at scale.

Wanda began developing its core information systems over a decade ago. The initial IT engine was painstakingly crafted over a three-year period, with hands-on involvement of top management to ensure that IT met the needs of the business. Some core systems include:

- **A project management information system** that deconstructs an entire cycle of mall development

into 400 milestones, from construction to opening. Overall progress can be monitored at a glance through a traffic light system of green (completed), yellow (delayed) and red lights (critical delay). All anomalies and delays have to be dealt with within a set time frame.

- **A proprietary automated tenant selection system** that draws upon public geographic data and proprietary information gathered from existing Wanda Plazas to ensure ideal positioning and optimal tenant mixes in new malls.
- **An intelligent building management system** developed by the company and installed in individual Wanda Plazas to monitor and control ambient temperature, water supply and drainage, power distribution, fire and burglar alarms, video surveillance, access control, and parking management from a single control center. Each plaza can monitor live customer traffic with granularity down to the individual store level. This foot traffic data provides Wanda with advance information on the profitability of the various stores and whether they can pay the rent on time.

This ubiquitous interconnection of Wanda's information system and business processes has given rise to a famous saying within Wanda: "If you get stuck, look at your computer for help."

With the encroachment of e-commerce, the company felt it was necessary to bring technology to the fore to directly benefit the boutiques in the Wanda Plazas and the ultimate end users. In 2016 Wanda established the Internet Technology Group as a separate division with the mandate to provide online-to-offline synergies along four business lines – digital solutions for Wanda Plazas and commercial centers, "smart-life" solutions for consumers, financial technology, and cloud computing.

DID IT WORK?

Wanda's execution-focused culture, backed by a strong IT engine, has enabled the company to build Wanda Plazas at a pace unrivaled by its peers. In an effort to make its shopping centers even more relevant to customers, Wanda looked at experience-



Previously, we relied on experts to build the Wanda Plazas. Now we don't need to anymore. We can just rely on professional managers. We have reduced the demand on talent standards. Now you can build a Plaza, I can do it, anyone can do it.

Wanda manager, on the power of Wanda's project management information system

based offerings. The Kidsplace franchise has proved particularly successful. Store openings, specially created Wanda cartoons and characters, and sales of derivative products led the division to grow its revenue by 176% in 2017 and achieve profitability a year earlier than expected. The company plans to increase the number of locations from 100 in 2016 to 800 by 2020.

As a service for its Wanda Plaza tenants, Wanda has been experimenting with membership management and marketing support apps. The membership management app, which draws on both proprietary and public demographic data, provides tenants with a data snapshot of existing and potential customers in a single view. The marketing support app allows retailers to create coupons, advertisements or event promotions in a few clicks and to monitor the effect of such advertising campaigns. In mid-2018, however, Wanda decided not to pursue digital solutions on its own and paired up with Tencent. By leveraging the technological expertise of a Chinese internet giant, the newly created joint venture is better placed to explore cutting-edge opportunities to integrate offline and online consumption models.

¹ "Statistical Report on Internet Development in China." CNNIC, January 2018.
<https://cnnic.com.cn/IDR/ReportDownloads/201807/P020180711391069195909.pdf>

TAKEAWAYS

The retail environment is changing rapidly; in the past decade, the rise of technology has provided both opportunities (operational advantages, better customer experience) and threats (new competition from e-commerce players). Wanda is a company rooted in physical retail that has embraced technology. The following are some insights from its journey:

- Business and IT do not always speak the same language. It is important to have people who understand both sides and can marry business needs and technological feasibility.
- Experienced specialists take time to train. In the knowledge economy, technology and workflow automation, coupled with a professional manager, can replicate specialists' functional know-how to facilitate scaling up.
- The line between online and offline retail is blurring. Online companies are trying to get closer to physical customers, while offline companies are seeking to leverage the power of digital and data. Retail business strategies need to skillfully incorporate both online and offline.



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