

Get in line: one Apple store per 216 million Chinese

Melanie Lee, Reuters

Apple Inc ([AAPL.O](#) [1]) has more retail stores in Pennsylvania than in all of [China](#) [2] - where it earns a fifth of its revenue - and a slow pace of expansion may cost the firm more than just sales.

Apple's six stores in Greater China are routinely packed, and customers often wait in long lines for iPhone repairs. Scalpers are known to camp out to be first in line for new products, which they then re-sell for a tidy profit.

The California company is notoriously fastidious when it comes to its flagship stores, and has said it is taking its time in China to ensure it secures the right locations. But its retail expansion has fallen well short of its own goals.

In 2010, Ron Johnson, then-Apple's retail head, forecast the company would have 25 stores in China by this year.

"There's certainly more demand than Apple can serve with their store footprint currently," said Torsten Stocker, a partner at business strategist Monitor Group.

The clamour for Apple products has spawned a bustling grey market where smuggled goods are peddled by unauthorized re-sellers. Copycat Apple stores have popped up in smaller cities that don't have the real thing.

The Apple frenzy will only intensify now that the company has agreed to pay Proview Technology (Shenzhen) \$60 million to settle a lawsuit over the [iPad](#) [3] trademark, freeing it up to sell its latest tablet computer.

Apple has two retail stores in Beijing, three in Shanghai, and one in Hong Kong. Chinese government officials said last month the company is looking to open two more in the major cities of Chengdu and Shenzhen.

In Pennsylvania, a state with a population of 12.7 million, Apple has eight stores, including three in the city of Pittsburgh alone. The population of China is 1.3 billion.

Apple declined to comment for this story.

HANDS-ON EXPERIENCE

The shortage of retail stores and authorized re-sellers leaves ample room for unlicensed re-sellers to move in. Bad consumer experiences at these unauthorized shops are common and they run the risk of eventually eroding confidence in Apple's products, said David Wolf, chief executive of Beijing-based consultancy Wolf Group

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If Apple doesn't expand its network of stores and authorized re-sellers, it "loses not only near-term sales, it also endangers the sustainability of its success in China," he said.

Apple products can also be bought online in China, but many consumers prefer to buy at the store after testing the product.

Its flagship stores in China are packed with people tinkering with the company's latest gadgets, even on weekdays. Last October, Apple's Chief Financial Officer Peter Oppenheimer said the China branches were the highest trafficked and among the highest revenue stores for the company.

Demand for new Apple products is so high that earlier this year scalpers queued overnight outside a Beijing store for the latest version of the iPhone 4, only to pelt it with eggs after Apple decided against selling the phone at the store because of security concerns.

Apple competes with Samsung Electronics ([005930.KS](#) [4]) as well as homegrown Chinese technology firms Huawei 002502.SZ and ZTE Corp 000063.SZ in China's fast-growing smartphone sector.

The pace of retail expansion may not be dictated entirely by Apple. Red tape often hampers foreign firms' expansion plans in China, and that may be holding back growth.

"There are complications around opening stores in China that you don't get in Western countries," said Andrew Milroy, vice president of ICT Research for Asia-Pacific at Frost & Sullivan in Singapore.

(Additional reporting by Lee Chyen Yee in Hong Kong; Editing by Kazunori Takada, [Emily Kaiser](#) [5] and [Ian Geoghegan](#) [6])

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