

Gadget Giant's Evolution: Make, Then Sell

By TING-I TSAI

TAIPEI—[Hon Hai Precision Industry](#) Co., whose Chinese factories produce many of the world's most popular electronics products, including iPads and iPhones is making a push to sell gadgets in China's own fast-growing consumer market.

Starting later this year, Hon Hai plans to open at least 10 large electronics stores in the Shanghai area by the end of 2011, under a partnership initiated last year with Germany retailer [Metro](#) AG. Louis Woo, the senior Hon Hai executive in charge of the retail push, outlined the plans in an interview.



Imaginechina/ZUMApres

Germany's Metro AG and Hon Hai are jointly opening China retail stores.

Hon Hai also intends to open 45 to 50 branches of Cybermart, a small retail chain it purchased a decade ago but which has seen little growth. Cybermart currently operates 34 stores in 20 Chinese cities.

And Mr. Woo said the company plans to open another 200 electronics booths in hypermarkets in Chinese cities, while also providing funding for Chinese employees who return to their hometowns to start small shops through which Hon Hai can distribute products.

Hon Hai's retail push comes as it is facing challenges in its core manufacturing business after decades of rapid growth. The Taiwan-based company, which also uses the trade name Foxconn, assembles iPhones and iPads for [Apple](#) Inc., mobile phones for [Nokia](#) Corp., and personal computers for [Hewlett-Packard](#) Co., among others.

Its nearly one million employees and revenue of \$61.9 billion last year makes it by far the world's biggest contract manufacturer of electronics, bigger by sales in the first quarter than its 10 biggest competitors combined, according to research firm iSuppli.

But having gained such dominance, Hon Hai must increasingly look far afield for growth. Revenue last year was flat, although analysts expect it to increase again this year. Meanwhile, Hon Hai is having to adjust its main business to rising costs. In June, Hon Hai announced sharp pay increases for its workers in the wake of a spate of employee suicides at its massive Shenzhen operations, where more than half of its nearly 900,000 Chinese staff work.

Hon Hai has said it is stepping up expansion of manufacturing operations in China's less expensive hinterland provinces, and it plans to discuss with clients the possibility of raising product prices to offset planned wage increases, which are part of a broader wave of wage increases affecting many foreign companies.

The flip side of rising wages in China is that workers will have more spending power, meaning Hon Hai's expansion in retail could enable it to benefit from the very trend that is squeezing its costs in the core manufacturing business.

China Real Time

Hon Hai Boosts 'Entertainment' Time

Video: Hon Hai Employees Stage Rallies

reduce the economy's reliance on exports in favor of stronger domestic demand, he notes.

Mr. Woo said Hon Hai plans to distribute products it makes for big brands as well as goods from other factories. Hon Hai hasn't finalized plans with companies like Apple to determine exactly which of their products it will carry.

H-P and Nokia declined to comment. Apple didn't respond to a request for comment.

Mr. Woo says the company could offer start-up capital of about \$25,000 each to the employees who want to return home to start mom-and-pop electronics shops in China's smaller cities and towns.

China's electronics market is already huge, with some \$135 billion in sales expected this year, according to a forecast by Pully Brand Technology Consulting, a Chinese consultancy focused on electronics. China is the world's largest handset market by number of subscriber accounts and the second-largest personal-computer market after the U.S. by unit sales.

The retail market is dominated by big Chinese chains including Gome Electrical Appliances Holdings Ltd., which operates 726 stores in 198 Chinese cities as of the end of last year, and [Suning Appliance Co.](#), which aims to have 1,200 stores nationwide by year's end.



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Outside of the headquarters of Hon Hai Taiwan. Hon Hai is making a push to sell gadgets in China's own fast-growing consumer market.

Some analysts doubt that retail is a good fit for Hon Hai. Most of its clients already have their own retail strategies in China, and building new sales channels takes time and requires different know-how than manufacturing, said Michael Palma, a senior analyst at IDC who covers electronics manufacturers.

"The question is how well they can operate a retail operation and drive new sales. Hon Hai has a poor track record on the retail side of things and the organization's DNA may not help with the effort," he said. Mr. Palma says Hon Hai has the resources to fund the operation, attract the right people, and

sustain operations for a period of time. But if it can't drive sufficient sales, "it may just muddy the water for their clients' existing retail strategies."

Hon Hai doesn't disclose Cybermart's annual revenue, but analysts said it isn't a meaningful contributor to Hon Hai's revenue.

Mr. Woo said Hon Hai believes retail sales of electronics are growing fast enough that Hon Hai will be able to grab market share. He plans to focus on China's smaller cities, which he thinks will benefit from China's urbanization policies.

"We see there is a lot of opportunity to organize small format retailing, especially in the fourth, fifth and sixth-tier cities," he said.

Retail also lets Hon Hai capture more of its clients' spending. "It is almost like we can take care of the whole product sample from design development to manufacturing and to selling it to consumers," said Mr. Woo.

—Juliet Ye contributed to this article.

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