

3-2013

# Culture Determines Business Models: Analyzing Home Depot's Failure Case in China for International Retailers from a Communication Perspective

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## Recommended Citation

Gao, May Hongmei. "Culture Determines Business Models: Analyzing Home Depot's Failure Case in China for International Retailers from a Communication Perspective." *Thunderbird International Business Review* 55.2 (2013): 173-91. Print.

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# Culture Determines Business Models: Analyzing Home Depot's Failure Case in China for International Retailers from a Communication Perspective

By

**May Hongmei Gao**

*This article is a result of a longitudinal case study regarding Home Depot's operation in China. From 2006 to 2011, the author conducted 37 in-depth interviews with Home Depot executives, managers, lawyers, employees, suppliers, and consumers, as well as its Western and Chinese competitors. These interviews generated 500+ pages of transcripts and field notes. Home Depot entered China in 2006 by acquiring 12 stores from a Chinese company, Home Way. However, by September 2012 all Home Depot stores in China had been closed.*

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*This interview-based single-case-study research has these notable contributions. First, this research stresses the importance of host culture in creating a business model when an international retailer expands to a foreign country. Second, the research develops a new Host Culture Analysis Framework: CELM (host Culture, business Environment, target consumer Lifestyle, and target consumer Mentality). Third, by applying the CELM framework to the Chinese market, this research suggests that Home Depot could have replaced its ineffective DIY (Do-It-Yourself) model with the new DIFM (Do-It-for-Me) business model for China. Fourth, this article proposes a new urban boutique store (UBS) retail format for international retailers entering emerging markets. Finally, this research shows that in-depth interview is a solid research method to be applied to case studies, for the discovery of deeper reasons of international expansion failures. © 2013 Wiley Periodicals, Inc.*

## Introduction

In 2010, China surpassed Japan and became the second-largest economy in the world (Hamlin & Li, 2010). China is projected to surpass the US economy and become the largest economy by 2030 (Torres, 2011). In 2011, American companies such as General Motors and Kentucky Fried Chicken announced that, for the first time, they made more sales in China than in the United States.

However, the emerging Chinese market, with its distinct Chinese cultural elements, poses great challenges for international retailers (Letovsky, Murphy, & Kenny, 1997). On September 15, 2012, the *Wall Street Journal* reported that Home Depot Inc. decided to close all seven of its remaining big-box stores in China and to pull out of China after six years of losses (Burkitt, 2012). Home Depot joins a growing list of American retailers who have stumbled in China. Mattel Inc. shut its China-based Barbie flagship store in March 2011 after it learned that conservative Chinese parents would rather have their children read books than spin a sexy doll in a plastic Corvette. In February 2011, five years after entering China in 2006, Best Buy shut down all nine of its branded stores, after discovering that Chinese consumers needed washing machines and air conditioners more than espresso makers and surround-sound stereo systems (Burkitt, 2012; MacLeod, 2011; Schmitz, 2011). The retreat by Home Depot, Mattel and Best Buy highlight the difficulties that international retailers encounter while doing business in China, with over 1.3 billion consumers.

The popular mentality of international expansion for American businesses has been the strategy that “If it’s good enough for us, it will be good enough for them.” However, this perspective of moving a business model from the United States and using it exactly the same way in a foreign country has shown cases of failure in China.

This article uses the Home Depot’s operation in China as a case study to stress that “culture” determines business models for international retailers. This article strives to generate a framework of host culture analysis for international retailers to find a proper business model in a foreign market.

Industry insiders say many foreign companies have been too rigid with their approach of business models 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. Mr. Lau said he encourages regional and individual managers at his nearly 1,400 Giordano outlets in China to create local marketing and sales models. The people on the ground know their customers better than employees in corporate head offices, Mr. Lau said (Burkitt, 2012).

Borrowing from its strategy in the United States, Home Depot operated with a Do-It-Yourself (DIY) business

*Industry insiders say many foreign companies have been too rigid with their approach of business models to the China market.*

model in a Big-Box retailing format in China. In 2009, Frank Blake, chairman and CEO of Home Depot, said at a Bank of America–Merrill Lynch consumer conference: “We’re still not confident we’ve got the right business model.” In 2011 Blake said the company’s business in China remained “problematic” and that the company was working to build a profitable business model by focusing on “select” Chinese cities (Yung, 2011). However, the recent retreat from China indicates Home Depot never found a proper business model for the Chinese market. This article intends to suggest a new business model of DIFM for international retailers such as Home Depot to operate in China successfully.

While the attention given to emerging markets in the retailing literature has been minimal, retailing internationalization has been widely discussed in the current marketing literature (Arnold & Quelch, 1998; Eckhardt, 2005; Hoskisson, Eden, Lau, & Wright, 2000; Khanna & Palepu, 2006; Kim, Kandemir, & Cavusgil, 2004; Walters & Samiee, 2003; Yiu, Bruton, & Lu, 2005; Zhang, Zhang, & Liu, 2007). Gandolfi and Strach (2009) studied the case of Walmart’s retreat from South Korea. Walmart, the world’s largest retailer, failed to capture the hearts of South Korean consumers, ultimately withdrawing in 2006 after eight years in the market. Walmart is only one among several retailers that have underestimated the role of *cultural due diligence* prior to entry into a foreign country. K-Mart and Carrefour in the Czech Republic, Ahold in China, Lane Crawford in Singapore, Tesco and Toys “R” Us in France, C&A in the United Kingdom, and Home Depot stores in Chile (Burt, Dawson, & Sparks, 2003) are prime failure examples of international retailers in foreign markets.

Research has provided evidence that retailers may falter when establishing international operations. An international retailer who fails to create a business model compatible with local cultures usually results in a complete shutdown or sale of its operation to a local chain or to an international retailer already established in the local market. The primary managerial implication is that the local culture determines the business model for an international retailer. The secondary managerial implication is that international retailers usually retreat from a foreign market after seven years of losses (Burt et al., 2003). Bianchi (2008) stresses that the failure of international retailers may be due to their insufficient adaptation to local cultures.

Built upon this body of work, this research focuses on the impact of culture on business models for international retailers in emerging markets, such as China. The purpose of this article is fivefold:

1. To demonstrate the cultural challenges of an international retailer doing business in China.
2. To propose CELM (Culture, business Environment, consumer Lifestyle, consumer Mentality), a new “host culture analysis framework” for international retailers entering foreign markets.
3. To develop DIFM (Do-It-for-Me), a “new business model” for an international retailer, such as Home Depot, after applying the CELM analysis framework.
4. To suggest UBS (urban boutique store), a “next generation store format concept” for international retailers.
5. To showcase the effectiveness of using qualitative in-depth interviews and systematic observation as a research method to enrich case studies.

China expects its urbanization rate to rise from 47.5% in 2010 to 51.5% by the end of 2015, according to the 12th Five-Year Plan (Xinhua News Agency, 2011). Clearly, the Chinese economy is booming and China is quickly urbanizing. Investment analyst Meyers (2011) stated that a home improvement company such as Home Depot is very sensitive to positive economic growth, especially the growth in housing and urbanization areas. A booming housing market such as the one in China should boost the business of Home Depot. Why did Home Depot fail in China?

This article is a result of a longitudinal case study with in-depth interviews and systematic observation regarding Home Depot’s operation in China. From 2006 to 2010, the author conducted 37 in-depth interviews in China and the United States with Home Depot executives, store managers, employees, and consumers, as well as its international and Chinese competitors. By analyzing the key customer segment in the target market for Home Depot—“urban

*A booming housing market such as the one in China should boost the business of Home Depot. Why did Home Depot fail in China?*

Middle Class in China”—the research reveals that Home Depot did not overcome significant challenges in China, especially in its cultural understanding of the Chinese market. Its “Do-It-Yourself” (DIY) business model, borrowed from the US market, did not work in China.

## Home Depot and Its Market in China

The Chinese government’s reform and deregulation of the housing system led to a sharp increase in private home ownership, which grew from almost nonexistent in the 1990s to 90% today, far exceeding the global average of about 60%, according to the *China Household Finance Survey Report* jointly issued by Southwestern University of Finance and Economics and the People’s Bank of China (China’s reserve bank) on March 13, 2012. However, these data may be inflated due to the fact that the survey was not done by independent sources. China’s urban households owned over 1.2 homes on average in 2011, a substantial increase from over 0.7 homes in 2010, according to statistics from China International Capital Corporation. Li Daokui, a professor at Tsinghua University, said that the survey results do not contradict the strong demand for homes: “Many young people have left their hometowns for other cities, which causes strong housing demand,” Li explained (Fan, 2012).

The rise in people’s income level and purchasing power, along with mortgage incentives and property investment potentials, fueled private home ownership in China. In March 2007, the National People’s Congress strengthened this trend by enacting China’s first law to protect private property (Flanagan, 2011). As a result, China has been the world’s largest building material market, both in production and in sales in recent years. It is estimated that the production of China’s building material industry would surpass 1,000 billion yuan<sup>1</sup> annually. The Chinese market has attracted home improvement retailers such as B&Q, IKEA, and Home Depot. The B&Q chain, owned by UK-based Kingfisher PLC, the largest big-box retailer in Europe, has been growing rapidly in China since 1999. It has 58 stores in 25 Chinese cities, from Shenzhen in the south to Harbin in the north.

Rising home ownership fuels the growth of the home improvement market. In addition, most new Chinese homeowners *must* do home renovation because the homes they purchase are usually concrete shells. Since the 1990s, the rapidly changing tastes of style in home décor by Chinese homeowners led to a collective decision on the part of home builders that they would leave homes in urban China as empty shells so that home owners can satisfy their own preferences. Homeowners of a typical

new three-bedroom, two-bath condominium in urban China need to fix the basics, such as flooring, painting, plumbing, light fixtures, and home appliances. This phenomenon creates a daunting task for homeowners and generates a huge market for products and services for home improvement retailers in China.

Founded in 1978, Home Depot, Inc. is the world’s largest home improvement specialty retailer, and the fourth-largest retailer in the United States. The company’s fiscal 2010 retail sales were \$68.0 billion, and earnings from continuing operations were \$3.3 billion. Currently, the company has more than 2,200 retail stores in the United States, Canada, Mexico, Puerto Rico, the US Virgin Islands, and China. The company was ranked No. 30 on the Fortune 500 list in 2010 (CNN, 2011; Home Depot, 2011).

Home Depot entered China in 2006 by acquiring 12 stores from the Chinese home improvement company Home Way, China’s first big-box home improvement retailer (*China Daily*, 2011). In 2006, Home Depot employed 3,000 associates and operated 12 stores across six cities in China—Tianjin (5), Beijing (2), Xi’an (2), Qingdao (1), Shenyang (1), and Zhengzhou (1). Tianjin was the anchor city because it was the headquarters of Home Way. Home Depot China’s store format was big-box operation, with an average of 90,000 square feet per store, based on a DIY model developed in the United States. The stores offer such services as delivery, installation, design, and remodeling (Home Depot, 2010). The Chinese translation for Home Depot is “Jia De Bao (家得宝),” which literally means “getting treasures for your home”.

Home Depot has closed all 12 stores that it purchased from Home Way in 2006. In May 2009 Home Depot suddenly closed its storefront in Qingdao, Shandong Province, a coastal city in East China. The official excuse for the closure was “renovation by the landlord.” The employees of the store were disappointed with the sudden closure and actually took control of the store for a short period of time (*China Business Focus*, 2009). On the surface, the quickly expanding home improvement market seems to create an “ideal” opening for Home Depot. Why did Home Depot fail in China? How can an international retailer succeed in China? This article searches for answers to these research questions:

1. To what extent can the local culture influence the business model in a foreign market for an international retailer?
2. How should an international retailer analyze the host culture of a foreign market?



3. In what specific ways should an international retailer such as Home Depot adapt its business model to the Chinese market?

## Research Method

The research method for this article is a longitudinal study of a single case, with in-depth interviews and systematic observation. The failure of Home Depot in China serves as a good case for the analysis of international retailers' choice of business model in a foreign market. The research method was qualitative, and the inquiry was guided by the search for "why" rather than "what" (Lindlof & Taylor, 2002) in regards to the effectiveness of a business model's fitness with the target consumers in a host culture.

Given the relatively unexplored nature of the research topic of host culture analysis for a business model in China for international retailers, this study adopted an exploratory qualitative research strategy. Case study methodology was used to assess the challenges and opportunities of a home improvement retailer in China. Yin (2003) suggests that case studies are epistemologically justifiable when research questions focus on reasons behind observed phenomena, when behavioral events are not controlled, and when the emphasis is on contemporary events. Case studies in organizational research are suited to illustrate and examine research frameworks, particularly in differentiated or unique instances (Eisenhardt, 1989, 1991). The case study methodology employed in this research has long been established as a valid tool of mainstream academic inquiry, with particular support for its utilization in international business research (Ghauri, 2004). Circumstances indicate that a case research approach is appropriate when the complexity of situations necessitates researchers to examine a case in its entirety (Flyvbjerg, 2004). A single case such as Home Depot in China is appropriate for the discovery of new theoretical relationships for international retailers entering a foreign market.

Reid and Walsh (2003) state: "In seeking to understand international business, it is essential to understand the countries involved and the particular local market conditions prevailing. This is best achieved by conducting personal, in-depth interviews with leading executives engaged with international businesses" (p. 294). From in-depth interviews, abundant information can be gained for this type of exploratory and inductive studies (Palmer & Quinn, 2005). Case-based research requires a sampling approach focusing on theoretically useful cases (Eisenhardt, 1989; Teagarden et al., 1995). The struggle Home Depot faced in China is common for many international

retailers entering emerging markets. Thus, a study of the Home Depot China case can provide a useful lesson for other international retailers planning to enter China or other foreign markets. The single-case-study approach has been applied in retail internationalization literature, and it has enabled various researchers to provide important new insights into the field (Palmer & Quinn, 2007; Sparks, 2008). Additionally, exploratory methods such as case studies have been recognized as being particularly useful for examining strategies in emerging markets (Hoskisson et al., 2000).

From 2006 to 2011, a total of 37 interviews were conducted with Home Depot's executives, lawyers, store managers, employees, consumers, suppliers, and competitors. The author visited Home Depot stores in China multiple times, and witnessed its ups and downs from 2008 to 2011. A grounded-theory influenced approach was used (Glaser & Strauss, 1967), which meant the research was not limited by a priori hypotheses. Please see the list of key persons interviewed for this research in Table 1. The interviews were guided by, but not confined to, a list of topics and themes derived from Reid and Walsh's (2003) model of strategic management:

- Company information
- Corporate positioning (product, service, strategic partnership, advertisement)
- Product management strategy
- Market trends
- Competition
- Review of relative competencies
- Cultural trend of Chinese consumers
- External factors impacting the progress
- Advice for others

*The struggle Home Depot faced in China is common for many international retailers entering emerging markets.*

TABLE 1 List of Key Interviewees for This Research

Interview Totals: 37	Position	Time of Interview	Location of Interview
3	Attorney, Home Depot (China)	July 2009 July 2010 July 2011	Beijing/Shanghai
1	Vice President, Home Depot USA	November 2006	Atlanta
2	Store Manager, Home Depot China	August 2010	Beijing
2	Store Manager, Home Depot China	August 2010	Xi'an
5	Home Depot China employee	July 2009 August 2010	Beijing Xi'an
2	B&Q Manager	July 2009 August 2010	Beijing
2	IKEA China Manager	July 2009 August 2010	Beijing
2	Chinese Red Star Chain Manager	July 2009 August 2010	Beijing
2	Store owners at Traditional Chinese Flower & Bird Market	July 2009 August 2010	Beijing, Hefei, Yangzhou, Shanghai
2	Construction Material suppliers	July 2009 August 2010	Beijing, Hefei, Shanghai
5	Chinese customers who frequently visit Home Depot	July 2008 July 2009 July 2010 July 2011	Beijing, Xi'an
5	Chinese customers who frequently visit Home Depot competitors such as B&Q, Red Star, etc.	July 2008 July 2009 July 2010 July 2011	Beijing, Shanghai, Hefei
4	Chinese contractors/construction company managers	August 2009 August 2010	Beijing, Hefei, Shanghai

Research findings are generated from analyzing the patterns of 500+ pages of interview transcripts and field notes. The interpretation of the data was triangulated with secondary data and institutional analysis.

## An International Retailer's Target Market in China

Market segmentation is usually defined as the process of dividing potential customers into distinct groups for the purpose of targeting and designing segment-specific marketing strategies. A market strategy for China or any other foreign market must begin with an understanding of the cultures of the target market (Park & Sternquist, 2007).

The first priority of an international retailer in a foreign country is to identify segments for which an effective marketing program can be developed (Xu & Greenwood,

2011). This section uses Home Depot as an example to illustrate international retailers' target market in China.

Research shows that the Chinese population can be categorized into four areas: (1) urban population in first- and second-tier cities, (2) suburban population in first- and second-tier cities, (3) population in third-tier cities, and (4) population in rural areas. These four categories take into consideration people's income, education, profession, and lifestyle (Torres, 2011). The interview data shows that Home Depot's target market should have been the urban middle class in first- and second-tier cities.

### Why Should International Retailers Ignore Suburban and Rural Customers for the Moment?

The research data shows that Home Depot can ignore the rural and suburban population in China as its customers, and needs to open stores in downtown areas for its target customers—the urban population in first- and second-tier

cities. Contrary to the United States, where the well-to-do live in the suburbs, most of the Chinese well-to-do live downtown. Despite the fact that home ownership in the rural areas is 95% based on a 2012 survey (Fan, 2012), international retailers such as Home Depot will not focus on rural China in the current economic situation.

First, there is a greater urban population than rural population in China. In 2011, China's urban population surpassed that of rural areas for the first time. There are now over 690.79 million people living in urban areas, compared with 656.56 million in the countryside, the National Bureau of Statistics said in Beijing. The Chinese urban population now doubles the total US population (Rong & Zheng, 2012).

Second, urban dwellers have more disposable income, as compared to suburban dwellers and the rural population. On the one hand, contrary to American markets, the Chinese suburban dwellers are not the well-to-do. In 2006 the income gap ratio in China between urban and suburban residents reached about 3.3:1 (Chen & Wu, 2007). On the other hand, income for China's city dwellers more than triples that of rural residents. Based on National Bureau of Statistics of China data, in 2011, per capita disposable annual income was 21,810 yuan for urban households, and only 6,977 yuan for rural households (Rong & Zheng, 2012). "I am afraid the (urban-rural) income gap will continue to expand as the country focuses its efforts on urban sprawl, rather than rural development," said Song Hongyuan, director of the Research Center for the Rural Economy in the Ministry of Agriculture (Fu, 2010). International retailers such as Home Depot should focus on the urban population as its target market, which is twice as large as the US population.

*International retailers such as Home Depot should focus on the urban population as its target market, which is twice as large as the US population.*

### Why Should International Retailers Target the Middle Class in Top-Tier Cities?

Who are the target customers for Home Depot? The interview data reveal that target customers for international retailers such as Home Depot are the new-generation urban dwellers in first- and second-tier cities—the "Zhong Chan (中产)" class or "middle class." China's middle class is larger than the entire population of the United States and is expected to reach 800 million by 2025 (Chao, 2010; Wang, 2011). There is evident wealth in the growing Chinese middle class. Interview data indicates that Home Depot's target market segment is "Chinese customers aged from 20 to 45 in urban China." These consumers are price conscious, but demand high-quality products and services.

The Chinese middle class consumers are fond of Western name brands and luxury products. The "Luxury Goods Worldwide Market Study" by Bain & Company (2011) shows that global luxury sales grew 8% in 2011 to 185 billion euros, with China overtaking Japan as the world's second-largest consumer market of luxury goods, only after the United States. The Boston Consulting Group's 2009 study reports that China is expected to become the world's largest luxury goods market in 2015, accounting for 32.0% of the global market.

Some American companies try to connect their products with the luxury concept. In 2009, Levi Strauss & Co. launched a new brand in China tailoring to Chinese tastes. Models were wearing high-heels instead of cowboy boots. The newest Levis jeans, which sell for more than US\$100, are available in the upscale malls along Shanghai's Nanjing Road shopping strip (Debnam & Svinos, 2011). Interview data suggests that Home Depot should have redesigned its image and packaged its products and services that carry the cache of "luxury from America."

The new generation of Chinese consumers desire status, and they are unabashed about flaunting their new wealth as the "nouveau riche." With a traditional focus on "face" (reputation and status) in Chinese culture, coupled with a growing amount of disposable income, the new generation of Chinese middle class aspires to conspicuous consumption. The Chinese middle class in first and second tier cities is the target customer group for international retailers in China.

### Why Should International Retailers Target Contractors?

Other than targeting middle-class consumers in top tier Chinese cities, Home Depot should have tried to sell to contractors, because many Chinese consumers hire



contractors to complete their home improvement jobs. As a result of the 28th Meeting of the 8th National Congress, Clause 24, s. 2, Ch. 3 of the Construction Law of China encourages the procurement of construction projects through design-and-build as a packaged deal (工程总承包). In a typical design-and-build project, prequalified design-and-build contractors submit their tender documents (including preliminary designs and cost estimates) against the client's requirements. Based on the evaluation of the various bidders' plan, one contractor is selected (Xu & Greenwood, 2011). This contractor is charged with purchasing construction materials, and such contractors are an important segment of Home Depot's market in China.

Home Depot should have identified contractors as a key segment of market in China. Li, a retired military officer, was a regular customer at Home Depot. In 2010, Li paid 6,000 yuan (\$909) to the Home Depot Beijing store for a bathtub and cupboard for her condo in Beijing. She said she did not like Home Depot's big-box superstore culture. "I think most Chinese prefer hiring a decoration company rather than going the do-it-yourself way ... and shopping assistants here are not enthusiastic about giving advice as I need help to understand the differences among various brands. Most shop assistants only promote the brands that they are paid to represent." An interview with a Home Depot store manager indicates that there were two types of salespeople wearing the orange Home Depot aprons in the stores in China: the first group (with orange straps) were Home Depot employees; and the second group (with black straps) were salespeople hired by certain brands. The second group, who are the "shopping assistants" mentioned by customer Li, were actually paid sales reps for certain brands; of course, they were not helpful in explaining other brands to the customers. Home Depot China could have paid more attention to contractors as representatives for the middle-class homeowners.

## CELM—A Four-Dimension Host Country Culture Analysis Model for International Retailers

Torres (2011) suggested a Chinese cultural and philosophical framework for developing marketing strategies and research that includes eight elements: (1) culture definitions, (2) cultural dimensions, (3) cultural dynamics, (4) emotional intelligence, (5) cultural intelligence, (6) country-specific culture and philosophy, (7) Chinese communication, and (8) Chinese culture and philosophy.

However, Torres's eight elements are repetitive in nature and not well defined.

This research was approached with a theoretical foundation incorporating various communication theories applied to the international business context, including Hofstede's five cultural dimensions, Hall's context analysis, Ting-Toomey's Face Negotiation argument, Schulster's task-relationship dichotomy, and Fons Trompenaars and Charles Hampden-Turner's cultural orientation. Gao and Prime's (2010) American-Chinese Communication Facilitators and Obstacles framework was referenced. Unfortunately, very few case studies have been conducted to introduce a host culture analysis framework. This interviews-based case study approach adds new insights not currently available in the current literature. From this research, a new framework of CELM (Culture-Environment-Lifestyle-Mentality) for analyzing host-country consumer culture was developed.

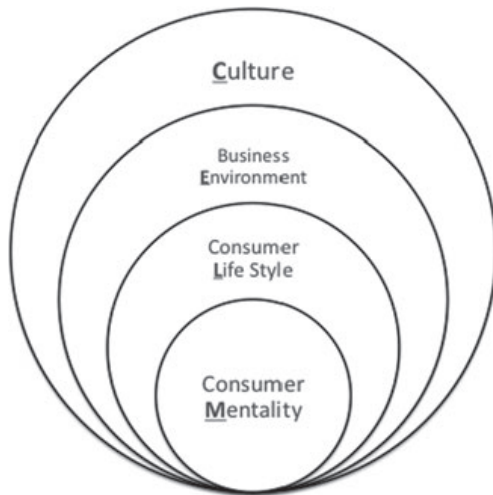
The 2012 Ernst & Young study identifies a key area that will determine the success of companies in implementing "innovations with minimum resources"—adapting to local consumer specifics. Companies will have to adapt to the culture and mind-set of consumers they wish to target, catering to their specific needs. The 2012 Ernst & Young study concludes: "The key to success will be with those companies that know how to combine local relevance with global presence, making sure that their products and services are relevant for the local consumer, while also enabling the company to benefit from its global resources." Gandolfi and Strach (2009) studied the Walmart failure case in South Korea, and stated: "The most important aspect for firms going global is an in-depth understanding of what the local customers really want, desire and need" (p. 195).

This article will analyze Home Depot's challenge in China from four dimensions: *Culture*, *Business Environment*, *Lifestyle*, and *Mentality*. This article proposes that CELM (culture, environment, lifestyle, mentality) should be a cultural analysis framework for all international retailers entering foreign markets. The four-dimensional cultural analysis framework is illustrated by Figure 1.

### Culture Determines Business Models

Osland (1990) states that the single greatest barrier to business success is the one erected by culture. Interview data shows that *culture* is a key determinant that influences business models in a foreign market for an international retailer. Lee (2000) states that culture is the way of life of a people, and he stresses that theories of management

FIGURE 1 Host Culture CELM Analysis Model



and marketing are culture bound (Hofstede, 1993). The fundamental marketing concept refers to the philosophical conviction that customer satisfaction is the key to achieving organizational goals. When customers in a foreign culture have different needs, marketers have to come up with different product and service offerings. Interview data shows that Home Depot miscalculated its target market, and misunderstood its customers in China.

The research findings suggest that *host-country culture* is a determinant in the choice of business models for international retailers in China. A culture is a group's "shared software of the mind" (values, traditions, social and political relationships, history, language, etc.) based on a collection of symbols used to interpret the meaning of nature, human life, and the environment (Gao, 2005;

*When customers in a foreign culture have different needs, marketers have to come up with different product and service offerings.*

Hofstede et al., 2010). In order to prosper in China, international retailers such as Home Depot need to adjust their business models to the culture of the Chinese consumers. Home Depot's DIY model, which requires consumers to labor on the projects themselves, is compatible with American culture. However, the interview data and field notes show that the DIY model is not compatible with the Chinese culture. Most Chinese homes are condominiums with no garages and limited space to store tools; labor is inexpensive in China; and for thousands of years, manual labor has been looked down upon in the Confucian tradition.

To succeed in China, international retailers need to reposition themselves and redesign their business models. National cultures determine business models, and regional subcultures further refine business models. "While America is a big country, 95% of what the standard home-improvement store in Texas and in Alaska offer is similar. That's not true in China. Tsingtao (Northeastern China) and Shenzhen (Southern China) might as well be in different countries," said Mr. Sliwinski, CEO of B&Q, a top British home improvement retailer. Mr. Sliwinski told the researcher that B&Q in Northern China sell lots of carpeting and wooden flooring while homeowners in Southern China prefer tile or marble due to the heat and humidity. Ovens are for sale in Beijing (Northern China) but not in Kunming (Southern China). China's vast income disparities and regional differences indicate that a one-size-fits-all approach to home improvement does not work. B&Q also adjusted its prices for the same product and service in different cities. In Shanghai it charges up to 100,000 yuan for a fully designed apartment, including all the materials. In second-tier cities such as Chongqing, a city with 35 million people, B&Q offers a similar deal for less than 50,000 yuan. Customers receive a money-back guarantee that the products are authentic and the work is done right, no matter what price they have paid. Local culture determines business models for an international retailer.

### Business Environment

In a crowded bustling marketplace with competition from domestic and foreign companies, Chinese consumers live in an environment where countless choices of products and services are available within close reach. The research data shows that the unique Chinese business environment features changing rules and regulations, under-the-table kickbacks, and different methods of business operation. Being successful in the US market does not guarantee that an American retailer will be successful in China.

First, homes purchased in Chinese cities are primarily unfinished condos, and need to be completed by professionals, as a comprehensive project. Managers at B&Q in China rarely talk about the DIY model, because much of what customers do in China is to pay contractors for the fix-up work (Desvaux & Ramsay, 2006). Most customers do not do it themselves in terms of shopping for building materials and fixing up the condos.

Second, the Chinese home-improvement market is heavily fragmented. Home Depot specializes in building materials, home improvement supplies, and lawn and garden products. However, the playing field in the home improvement market is not level. The market system is chaotic at the moment, to say the least. Chen, a store manager of Home Depot China, says that this market is currently a “blind spot” for any foreign retailer and that nobody knows the rules of the game. B&Q, the No. 1 foreign retailer, is no exception. The top three home improvement companies combined occupy only 3% of the total Chinese home improvement market, making the rest up for grabs (Moody, 2009). Numerous small-scale Chinese manufacturers and retailers, who rent buildings from developers in edge-of-city retail developments, dominate the Chinese home improvement market. These retail developments tend to have one floor for lighting, one for flooring, one for furniture, one for paint, and another for drapery. “Many of these used to ship all their stuff off to the West to the likes of Home Depot but now they just open up relatively inexpensive shops in Nanjing, Shanghai or Hangzhou. They put three guys in there on minimum salary and they get all the margin, both wholesale and retail,” said Tong at Roland Berger Strategy Consultants (Moody, 2009).

Third, there are many “gray areas” of doing business in China. As a US company bound by US laws, Home Depot cannot utilize the “gray channels” that Chinese firms use to secure government or business favors by paying them with fat gifts and commissions. In addition, in Chinese home improvement stores, the price of virtually everything is up for negotiation between the seller and buyer on the spot, similar to a flea market. Various makes of tiles and bathtubs, after negotiation and payment, will be delivered for free to customers’ homes (Schmitz, 2011). Most Chinese homeowners hire designers to shop for building materials. When designers buy tiles from a Chinese home improvement store, they receive cash bonuses on the spot. This is the system that Home Depot is up against in China, where business depends on “guanxi” (long-term reciprocal connections, 关系) and under-the-table commissions.

Fourth, middle-class Chinese customers usually live in downtown areas in metropolitan Chinese cities. Different from the United States, in China, proximity of one’s home to downtown adds to home value. However, based on Home Depot’s DIY model borrowed from the United States, Home Depot stores were located mostly in the suburbs, not in downtown. In Beijing, a city with 17 million people, B&Q has six stores, and Home Depot had only one functional store in 2010 (this store was closed in January 2011). The store was on the fourth ring road, far away from the downtown, hidden behind trees. To drive from one end of the city to the other usually takes two to three hours in Beijing. Who would like to take a taxi for two to three hours to this one Home Depot store to buy a lightbulb?

With such a limited number of stores (12 stores in four cities in 2006 and then 7 stores in three cities in 2011, and now all closed), the percentage of market share for Home Depot in China was negligible. As a result, suppliers were unwilling to strike deals, and thus Home Depot prices were not competitive for price-conscious Chinese customers. Many Chinese suppliers were aware of the fact that Home Depot was a Fortune 500 company, but when they compared Home Depot to its foreign and Chinese competitors in China regarding sales volume, they chose not to favor Home Depot. Suppliers in China jokingly compared Home Depot China to a thin chicken wing: “to eat it, it is tasteless; to abandon it, it is pitiful.”

Finally, labor is cheap in China. In a nation with a sizable pool of unskilled labor and countless small-time construction companies, it is simply more convenient and cheaper to outsource such manual labor jobs as home improvement. As a result, most Chinese consumers do not Do-It-Themselves on home improvement. They choose to hire contractors.

### Target Consumer Lifestyle

A 2012 Ernst & Young study indicates that companies will have to adapt their development strategies to answer to the new demands of the middle-class rapidly growing at a global level, especially in emerging markets. Changes will have to include the development of brand new products and services, if these companies are willing to commit to achieving true innovation and to obtain growth. This study by Ernst & Young includes a survey with 547 executives all over the world, as well as in-depth interviews with influential global entrepreneurs. The study emphasizes the fact that most companies in developed economies are now focusing their efforts and actions on the high-end segment of the market. Even in the case of companies in emerging markets, high-end segment sales

*Changes will have to include the development of brand new products and services, if these companies are willing to commit to achieving true innovation and to obtain growth.*

share amounts to 40% (Ernst & Young, 2012). Similarly, the interview data revealed that the target customers of international retailers such as Home Depot in China are middle-class homeowners in top-tier cities. The lifestyle of this group of urban dwellers needs to be analyzed. A person's lifestyle is indicated by how he/she spends time and resources and what he/she considers important. The analysis of target consumer lifestyle helps to distribute products and services (*Strategic Business Insights*, 2011).

In 1975, China adopted the "One Child Policy" as a national regulation for population control, with urban dwellers allowed only one child per couple. These only children, the "little emperors and empresses" of China, are now in their 20s, 30s, and approaching their 40s. They are the vital components of international retailers' target consumers in China. Most of these only children become homeowners when they get married, usually with financial contributions from their parents. These only children have been somewhat spoiled by their two parents and four grandparents, and have normally not done much manual labor work growing up in urban China. The research data shows that Home Depot's DIY model does not seem to be suitable to this group of key customers.

In 2010, China Ever-bright Bank and the Beijing-headquartered real-estate corporation Homelink jointly published an analytical report, indicating that the average age of people in Beijing who buy their first homes on a housing loan is 27, which is much lower than that in most developed countries (42 in Japan and Germany, 30 in the United States). Ninety percent of the young people in China buy their homes with a mortgage loan and most

of them get the down payments from their parents. Most Chinese parents are willing to spend their lifelong savings securing a home for their only son or daughter, because the one-child policy has put the only child at the center of the Chinese family structure. "It is almost impossible for me to buy a home without the support from family," Mr. Zhu, a young groom-to-be, told the researcher.

For the Chinese people, the word "home" represents not only "a place to live in," but also a precondition of marriage, a badge of social status, and a sense of security. A 2010 survey indicates that 60% of the young homeowners buy their homes in order to get married. A total of 64% of the respondents agree that there is a direct relationship between owning a home and a happy life. In China, pressure to buy a home also comes from parents and other family members. For example, 70% of the parents would mind if their daughters' future husbands do not own a home; while 50% of the parents with a son express a positive attitude in helping their sons to buy a home before marriage. Some young couples even delay their marriages due to an inability to buy a house (Jin, 2010). Renting an apartment is possible, but it is not a sign of success for a couple to settle down in China.

"Naked marriage (裸婚)" is a new concept created by the post-1980s generation in China. Naked marriage means a couple marrying without a house, a car, a wedding, and even a honeymoon. However, males and females hold distinctive attitudes toward "naked marriage" in China. An online survey indicates that 80% of the male respondents are in favor of "naked marriage," while 70% of their female counterparts regard "naked marriage" as "absolutely infeasible" (Jin, 2010). Apparently, the concept of "naked marriage" is not popular in China with women, and therefore home ownership is still critical for young couples, especially among the middle class.

Yu, a 40-year-old construction contractor, said: "All my customers are designers. I never talk to homeowners. Homeowners in China hire designers for all their home improvement projects, helping the decision of even where to put a vase." In other words, many middle class homeowners in China will not come to Home Depot personally to shop for building materials, a fact that reinforces that the DIY business model is not compatible with the lifestyle of the target customer in China.

In summary, the lifestyle of the Only Child generation of the middle class does not support a DIY business model for Home Depot. These only children are usually not hands on, and they have the disposable cash to hire others to complete the home improvements, including building, designing, and even purchasing.



## Consumer Mentality

Mentalities provide all-embracing explanations of purpose in collective human activities. The mentality of the Chinese middle class is the deciding factor for decoding the behavior of target consumers for international retailers such as Home Depot. This research shows that the mentality of Chinese middle-class consumers does not support Home Depot's DIY business model.

First, there is a "social status issue" concerning the DIY model. Since antiquity, manual labor has been looked down upon in China. Only lower-class citizens have to deal with manual labor. Mencius,<sup>2</sup> a major disciple of Confucius, once said: "*Those who work with their brain rule, and those who work with their muscles are the ruled.*" To be able to avoid manual labor was a class symbol in ancient times, and it continues to serve as a symbol of success for today's middle class in China. Tianjin, a 13-million-people port city near Beijing, was a major hub for Home Depot at one time, with four stores. One Home Depot store had a huge paint counter near the entrance; stacks of lumber near the exit; and aisles of screws, fixtures, and tools in between. It looked exactly like a Home Depot in the United States, and according to Zheng, a typical middle-class customer, that was the problem: "Products are too cheap and simple at Home Depot. Poor people are the only group in China who would bother taking on a DIY project, because they cannot afford to hire others." However, poor people in China live in rural areas and the suburbs, and they would buy building materials from Chinese stores and second hand markets, where products are much cheaper than Home Depot. Further, many suburban and rural dwellers do not own homes, or do not spend much money in renovating their homes. In addition, many rural homeowners are *migration workers*<sup>3</sup> in urban construction fields. Some of these migrant workers receive building materials torn down from old buildings as partial reward for their labor. They do not need to purchase from expensive international retailers such as Home Depot.

Second, the Chinese middle class is brand conscious. A brand brings a wealth of quality, value, and high-performance cues. Sparks (2008) and Kim (2009) found that the Chinese people are very brand conscious, and view Western brands as the embodiment of quality and authenticity. Research conducted by *Accenture* (2011) indicates that the purchasing behavior of Chinese consumers is influenced by the brand's national origin. American brands, such as Starbucks, Pizza Hut, and Häagen-Dazs, are associated with the luxury lifestyle portrayed in Hollywood movies. In addition, consumers in China tend to trust Western brands more because there are so many counterfeits in China.

However, Home Depot as a brand was basically unknown in China. Visiting China in August 2010, the author had great difficulty finding the Home Depot store in Beijing, and most taxi drivers had never heard of Home Depot.

Third, the middle class is price savvy. A typical Chinese consumer practices comparative shopping, rather than impulsive buying. A popular Chinese saying goes: "Never make a purchase until you have compared three shops (货比三家不吃亏)" (Letovsky et. al, 1997). Inaugurating its first Chinese store in Shanghai in 1999, B&Q soon realized that a cookie-cutter version of its British stores did not work in China. Chinese shoppers, who like to handle the merchandise before buying, were frustrated that products were stacked high on shelves. Many never ventured far into the store at all because they were intimidated by the prices of the most expensive goods at the head of each aisle. B&Q then changed the display of goods; now everything is within easy reach, and the bargains are front and center (*Bloomberg Business Week*, 2006). Zhan, a homeowner who had lived and worked in the United States and who had been to Home Depots in both countries, told the researcher that compared to its Chinese competitors, the Home Depot in China price point was a serious problem. Ms. Wu recently fixed up a new condo home for her parents, who moved to the capital in June 2010. She said she had never heard of Home Depot, even though there was one a mere five-minute drive from her home. She chose to turn to a local contractor to remodel the apartment after comparing B&Q with Chinese companies. "I tried shopping there [B&Q] once, but I felt there were more choices at eHome [a Chinese competitor] and that it was cheaper ... I could bargain there," she said.

In summary, Chinese consumers now have access to well-known brands and are willing to spend more for better-quality products. International retailers need to take advantage of this trend and to promote their store brands, as well as to keep their merchandise price competitive. To understand the four dimensions of host culture in the Chinese market is critical for the success of market development strategy for international retailers, including the understanding of the Chinese culture, Chinese business environment, and Chinese target consumers' lifestyle and mentality.

## DIFM—The New Business Model for Home Depot and Other International Retailers

Gandolfi and Strach (2009) analyzed Walmart's failure case in South Korea, and concluded that Walmart's business model of "Every Day Low Prices" did not work in



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the South Korea market. Walmart failed in South Korea primarily due to its inability to understand the shopping preferences of local consumers. Similar to Walmart's failure in South Korea, interview data shows that Home Depot's DIY business model did not work in China. The findings from this research are consistent with the cultural adaptation perspective on global market expansion for international retailers. Reid and Walsh (2003) indicate that business models that have achieved success elsewhere almost invariably must be repositioned for the China market.

Previous research has stressed the importance of the learning process for retail internationalization (Palmer & Quinn, 2005). A study by Davies and Sanghavi (1995) illustrated how market innovation helped the retailer Toys "R" Us overcome barriers and become successful in Japan. Retailing research suggests that it is important not only to understand environmental differences, but also to adapt properly to new cultural conditions (Dupuis & Prime, 1996).

Home Depot underperformed in China and has closed all of its 12 stores. Interviews with Home Depot's store managers and former attorneys revealed obvious problems with Home Depot's operations in China: (1) poor margins on high-volume items affecting profit;

(2) competition from Chinese companies, foreign companies, and "Chinese traditional flower and bird markets"<sup>4</sup> eroding Home Depot's market; and (3) the inability of Home Depot to adapt to its Chinese consumers; (4) the brand name of Home Depot was little known by Chinese consumers.

The research data shows that Home Depot's DIY Model does not work for China. Does this mean international retailers such as Home Depot should give up the Chinese market? An old Chinese saying translates: "Failure is the mother of success." If international retailers learn from their failures and create new business models, then the Chinese market can be profitable. Since the Chinese consumer market is new and still emerging, companies have an opportunity to rebrand their products and services with new business models. The research data suggests that Home Depot should have replaced its DIY model with a DIFM (Do-It-for-Me) Model.

### **To Adopt the DIFM Business Model**

From 2006 to 2012, Home Depot applied its American DIY business model almost without modification to China: its stores were operated on a big-box format located mostly at the outskirts of Chinese cities; its display of store merchandise required customers with substantial knowledge for self-work; and its advertising format was mailing printed flyers to customers. The interview data indicates that Home Depot misread its consumers when applying its DIY model to China. Some managers in Home Depot hold the illusion that Chinese consumers "will catch up" with the idea of Do-It-Yourself, even after they discovered DIY did not work for China. Based on the four-dimensional CELM analysis of the Chinese culture, this research suggests that Home Depot should replace the DIY Model in China with the DIFM business model.

The interview data shows that Chinese middle-class consumers simply do not want to "do it themselves." They want to hire others to complete their home improvement projects. The more practical Chinese business model for Home Depot is DIFM. DIFM is a customer-centered business model that combines products with services. In the DIFM model, Home Depot would provide "design and build service" in a package to customers, and the company would establish long-term relationships with consumers, contractors, and suppliers. The only major task the Chinese customer would need to do is to discuss with the Home Depot team what they want as the end product package.

Home ownership was almost nonexistent about 15 years ago in China. It was then very common for a family, sometimes three generations, to share a 300-square-foot

room. Today, Chinese homeowners are eager to learn from the West about home improvement. This is one reason why IKEA is popular in China. Their Western-style showrooms provide model bedrooms, dining rooms, and family rooms. IKEA's stylish and functional modern furniture is particularly appealing to young couples (Wang, 2011). CELM analysis of the Chinese consumer culture demands that international retail stores such as Home Depot demonstrate strong design capability. A design center can function as an educational base for home improvement to the new generation of Chinese homeowners. In China, design services have boomed, accounting for one third of sales, and could provide a crucial advantage to Home Depot (CNN, 2010). In Shanghai, B&Q has developed a full-blown in-house design center. Homeowners can sit down with an interior decorator using a computer displaying three-dimensional images of their apartment. The decorator then hires contractors to install electrical outlets, bathroom plumbing, kitchen appliances, flooring, and almost everything else. The only requirement is that 80% of goods must be purchased through B&Q. In 2006 the company outfitted 30,000 apartments in China. To figure out the ever-evolving taste of Chinese consumers, B&Q relies on its 12,000 Chinese employees for insight. Informal chats in the stores, as well as staff meetings, help drive the latest intelligence up to the head office. The centers also offer free bus rides to B&Q stores in nearby cities so that customers can see fully built models of kitchens and bathrooms. "This is the first apartment they have owned," Gliwinski says. "They need advice, and they need imagination. You need to let them see what a home looks like" (Warner, 2007). In a B&Q store in Shanghai, customers take photographs of the kitchen and bathroom mock-ups, jot down notes, and make shopping lists.

*Today, Chinese homeowners are eager to learn from the West about home improvement. This is one reason why IKEA is popular in China.*

Home Depot was once experienced in design centers. In 1991, Home Depot established its first Expo Design Center in San Diego. The Expo Design Centers carried higher-end products and sold complete solutions to household needs, such as modular kitchens, assembled bathrooms, etc. In the mid-1990s, Home Depot collaborated with the Discovery Channel and Lynette Jennings on a home improvement program, called HouseSmart, which was televised daily (ICMR, 2004). Companies that invest in educating the market can expect to reap handsome rewards. An international retailer such as Home Depot can consider collaborating with a Chinese television station and creating an educational home improvement TV show to educate Chinese consumers. In addition, such TV shows will simultaneously promote the Home Depot brand.

### From Big-Box Retailing to "Urban Boutique Store" Format

Big-box retail stores have been icons of urban sprawl in the United States. Because of their large footprints big-box retailers usually choose to locate in suburbs. Research data shows that a suburban location choice moves the economic activities away from the urban core of middle-class consumers in China. Chinese consumers are keen on exploring foreign brands if the products are readily accessible. In addition, Chinese customers do not like to buy all their home-improvement products in a one-stop shop. To ensure that the products are within close proximity to consumers, the research data indicates that Home Depot should adopt the next generation store concept—urban boutique stores (UBS).

First, in terms of location, UBS stores can be placed in malls, street corners, or other pedestrian-heavy areas in downtown Chinese cities. "Mall culture" has arrived in China, and shopping is increasingly being adopted as a leisure activity (Debnam & Svinos, 2011). Smaller boutique stores in downtown areas are more visible than big-box stores in the suburbs of China. UBS stores will also be accessible to Chinese shoppers via public transportation, such as via subway, bus, taxi, and bike. In 2011, ZARA HOME from Spain opened two stores in downtown Beijing, targeting trendy customers and home-decorating enthusiasts. The stores are located in fashionable shopping areas and department stores. Harbor House, an interior-decorating brand; MUJI, a retailer of household goods; and HOLA Home Furnishing Store are close neighbors. Their retail merchandise includes things often seen in a Home Depot store: furniture, home accessories, carpet, tableware, glassware, and linen (Yao, 2011).

Second, in terms of store appeal, a UBS store should be fashionable, urban, technologically advanced, female friendly, and service oriented. Home Depot would need only to place samples of the building materials in its cozy and chic UBS stores. In UBS, international retailers need to create user-friendly software so that customers could design their own condos on a laptop, iPad, or iPhone. In other words, in addition to creating product differentiation through pricing, international retailers should focus on long-term technical and emotional benefits in China. Further, based on the CELM analysis for Chinese consumers' lifestyle and mind-set, it seems to be a good idea for international retailers to appeal to China's nouveau riche. International retailers such as Home Depot may want to connect its brand name to a luxury lifestyle so that to buy from Home Depot becomes a status symbol in China. The connection between "American products" and "luxury lifestyle" has been a recipe for success for many international retailers in China.

Third, in UBS stores, female consumers shall be emphasized. According to a 2008 survey by Pew Research Center, women are key household decision makers in North America and Asia. In 74% of homes, the woman is fully engaged in deciding what and where to shop (Mazurkiewicz, 2008). "The future is female," HSBC said in a 2010 survey on luxury goods, highlighting the importance of female consumers to the investment decision making of many global companies (Ni, 2012). Departing from a traditional thrifty lifestyle, middle-class women in China are more prone to enlarge their expenditures and lower their saving levels. The *Women of China Magazine* research shows more than 60% of average household income went into consumption in 2011. Businesses have

started to learn some interesting household consumption patterns and the influence of women's preferences. For example, what comes with house purchases is always furniture buying, and in China, it is mostly women who furnish the house, regardless of who pays (Ni, 2012). Therefore, furniture manufacturers and home improvement retailers that cater to the tastes of female customers may have a better opportunity to boost their sales. You cannot ignore women in the home improvement business. It is especially important that Home Depot consider Chinese women as key purchasing agents. "Our main customers are female, both young and mature. We not only provide stylish decorating products, but also offer customers interior decoration ideas as well as updates on the latest trends and information in this field," said Inditex, the owner of ZARA stores. B&Q plans to open a new generation of female-friendly stores, recognizing the fact that women in China are often the key decision makers regarding home furnishing decisions (Moody, 2009).

Finally, many international retailers have shifted from the big-box format to the UBS format. For example, Best Buy decided to abandon the big-box business model and, instead, expanded its Chinese subsidiary Five Star, which is based more on a boutique store model. IKEA is expected to open three regional shopping centers in cities like Wuxi, Beijing, and Wuhan. In addition to IKEA stores, the centers will have outlets for fashion, food, home electronics, and entertainment.

### To Focus on Strength

Home Depot can amplify its strength and develop toward success. First, because of its successful business in the United States, Canada, and Mexico, Home Depot has established relationships with hundreds of suppliers in China for its North American markets. Home Depot can negotiate with these suppliers for its stores in China for a favorable rate.

Second, Home Depot is a US-based Fortune 500 Company and should advertise its brand name as reliable, trustworthy, and representing a luxury lifestyle, as portrayed in Hollywood movies. The company is known to carry reliable products. For example, Home Depot recently became the exclusive vendor of US-made Behr paint. It's a strategic move in a market where paint laden with chemicals harmful to people's health is the norm (Schmitz, 2011). By selling environmentally friendly Behr paint, Home Depot aligned its business with the Chinese government's priority of green technology. Chinese consumer Qian said he came to Home Depot because he trusted the materials there as safe and authentic. There's so much counterfeiting in China that people do take

*The connection between "American products" and "luxury lifestyle" has been a recipe for success for many international retailers in China.*

comfort in an overt guarantee of authenticity,” says Murphy, the Kingfisher chief (Warner, 2007).

Third, Home Depot, as a US company, has a very good return policy. Most Chinese competitors do not have a comprehensive return policy, and Home Depot should advertise this policy to Chinese consumers. However, the policy has to be well written so that customers do not take advantage of it. For example, some Chinese customers might buy a tool from Home Depot, use it, and then return it for a full refund.

Fourth, Home Depot, being a top American company, carries the country of origin effect of being from the United States. Research shows that the Chinese have a very positive image of American products (Yang, 1998). An international retailer from the United States can promote the country of origin equity of its products and store brand.

### To Cultivate Local Partnerships

Entry-mode literature suggests that firms entering culturally distant markets are better off having a local partner (Barkema, Bell, & Pennings, 1996). An IKEA manager told the researcher that trust was very important in China where personal relationships meant so much. The interviews show that managers in Home Depot China faced a challenge in communicating with various departments and with various levels of the Chinese government, as well as with landlords for their stores. Interview data indicate a common theme that in Home Depot’s China policies and strategies, there is a lack of consistency, transparency, and clarity.

While American business culture is typically transaction based, the Chinese business culture is more relationship based. *Guanxi*, the Chinese version of relationship, is built upon a degree of trust, reciprocity, and long-term commitment. A top executive of Coca-Cola University in Shanghai told the researcher that, in China, local partnerships were crucial. “You really have to know whom you are getting into business with,” he said. “People with Chinese connections can do a lot. ... Local market expertise is critical. To be successful you can’t overlay your US or Western European private equity experience in these markets. If you have trustworthy local partners to help you, that would be a good start.” In China, developing a good *guanxi* with the relevant organizations and authorities can make a difference to the outcome of any business endeavor. In China, people need to get to know their business partners and to gain mutual trust before any business is conducted. *Guanxi* with local partners, such as government, landlord, suppliers, wholesalers, and consumers, will lead the way toward business success.

International retailers should make every effort to foster local partnerships.

American companies usually use actions of giving back to the community through corporate social responsibility (CSR) to gain support from the Chinese government. Participating in earthquake relief and sponsoring sports and educational events brought attention and support from the Chinese government and from consumers to a foreign company and its brand. For a US company, the alternative of such public CSR—bribery—is not an option. The Anti-Corruption Act of the United States obstructs any US company from using this method to promote relationships with Chinese government officials. Home Depot does have a set of core values developed in the mid-1990s, and such CSR work can be very beneficial to expand the Chinese market.

In summary, the new UBS stores will be boutique in size, female friendly, trendy, chic, and appear at many busy street corners to increase volume of sales. The precondition before the massive promotional effort is to increase market share by opening more stores on a smaller scale on populous streets and near big subdivisions. Perhaps Home Depot can become an Apple Store experience with chic home improvement centers in Chinese malls. Consumers will then choose a home design on an iPad or a MacBook in such Home Depot design stores. To buy from Home Depot could become a symbol of social status in China under the UBS concept.

### Conclusion and Discussions

This longitudinal case study of Home Depot’s operations in China illustrates how an international retailer may

*The new UBS stores will be boutique in size, female friendly, trendy, chic, and appear at many busy street corners to increase volume of sales.*

fail in a foreign market such as China. The interview data and field notes contribute to the creation of a four-dimensional "Host Culture CELM Analysis" framework, which points out that Home Depot's DIY business model does not work for China, and can be replaced by the new DIFM business model. Consequently, the DIFM business model is best carried out in a UBS store format, which is cozy, trendy, female friendly, and easily accessible.

This interview-based single-case study research has these notable contributions. First, this research stresses the importance of host culture in creating a business model when an international retailer expands to a foreign country. Second, the research develops a new Host Culture Analysis Framework: CELM. Third, by applying the CELM framework to the Chinese market, this research creates a new DIFM business model for Home Depot China, to be viewed as an example for any international retailer. Fourth, this article proposes a new UBS retail format for international retailers entering emerging markets. Finally, this research shows that in-depth interview is a solid research method to be applied to case studies for the discovery of deeper reasons of international expansion failures.

When a company launches a marketing program in a different culture, the first question that should be asked is whether the company respects the host culture. When a company learns to respect culture, the efforts will pay off. When the marketing program and the local culture are glued together, sustainable competitive advantages are created (Lee, 2000). Local cultures in a foreign market determine business models. China has a

complex culture that influences marketing strategies and consumer preferences. International retailers' marketing strategies must be locally adaptive and responsive; that is, international retailers must think globally and act locally.

Reid and Walsh (2003) found that "critical market assessment, in many cases, appears to have been lacking, while simplistic analysis based on facile assumptions have been applied" (p. 298). Some international retailers build a company in China based on the assumption that if they get only 0.1% of the one billion Chinese as customers, then they will be profitable. This mentality can create major risks for consumer products that are culturally grounded such as home improvement. These companies, such as Home Depot, simply have not studied the host culture properly before they enter a foreign market. If an international retailer such as Home Depot wants to succeed, it must change its development strategies in China and find a proper way of combining the corporate culture of Home Depot with the host culture of China. As the ancient Chinese strategist Sun Tzu said, "Know yourself and know your enemy, you will win every war (知彼知己百战不殆)."

The main limitations of this study are twofold. First, the study is based on a single case of Home Depot China, which limits its generalizability. Second, the interviewees were generated from a convenient sample in the United States and China, which can increase data bias. Additional research examining international retailers in other industries in China would help to enhance the understanding of the main competencies and resources needed for the internationalization of retail success.



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## Notes

1. Yuan (元) is the primary unit of renminbi, (RMB, sign ¥, code: CNY; also CNY, 元 and CN元), the official currency of the People's Republic of China. The renminbi (人民币), meaning "people's currency," is issued

by the People's Bank of China. It is the legal tender in mainland China, but not in Hong Kong, Taiwan, or Macau. One yuan is subdivided into 10 *jiǎo* (角), which in turn is subdivided into 10 *fēn* (分). Through most of its history, the value of the renminbi was pegged to the US dollar. For example, 1 US dollar was equal to 6.25 Chinese yuan on October 18, 2012. Renminbi is not a hard currency and usually cannot be used as a



currency outside of China (*Washington Post*, 2012). China has initiated various pilot projects to “internationalize” the RMB in the hope that it will become a reserve currency over the long term (Wagner, 2011).

2. Mencius: Mencius (孟子, Mengzi, 372–289 B.C.) is regarded as the “Second Sage” because of his significant role in promoting the thinking of Confucius. He was born in the state of Zou, in the present day Shandong Province of East China. Mencius learned from Zisi, a grandson of Confucius. In the *Book of Mencius*, which earned him the title of “Second Sage” in Chinese cultural history. Mencius stressed independent thinking and division of labor (Wen, 2012).

3. Migrant workers in China are mostly people from impoverished regions who go to urban and coastal regions in search of work, and they are the main force for urbanization in China. An estimated 230 million Chinese have left the countryside and migrated to the cities in recent years, and about 13 million new people join the legions every year. They include men, women, and couples with children. Men often work in the construction field for skyscrapers and subdivisions, while women work in apparel and electronics factories. Most migrant workers have traditionally gone to Beijing, Shanghai, Shenzhen, and coastal cities. Recently, they are also heading to second- and third-tier cities where new opportunities are opening up (Hays, 2012).

4. Chinese traditional flower and bird market (中国传统花鸟市场): In many cities in China, there are one or more Chinese traditional flowers and birds markets. They are usually part of the Chinese bazaar, located in the downtown popular areas. Visitors can purchase all kinds of flowers and birds, as its name suggests. In addition, one can find a wide array of plants, souvenirs, and replicas of ancient Chinese weapons, and such pets as dogs, cats, goldfish, turtles, rabbits, and rodents. The market offers the typical Chinese shopping atmosphere with bargaining shoppers and shrewd shopkeepers. Bazaar markets are direct competitors of Home Depot’s gardening department in China.

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