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BA 495
3/10/09

Home Depot goes to China

This case describes the political climate and the enormous growth of China, the fastest growing economy in the world. In this case Home Depot is evaluating the option of penetrating the home building market in China and how to go about it. Since growth in the U.S is limited Home Depot has looked at China as an alternative for globalized growth. We will look at how the country is run, the different markets Home Depot can penetrate, and how the markets differ from North America.

- The Chinese economy has gone through some serious change since the death of Mao Tse-tung and the strong connection to central planning.
- Up until 1978 industry outputs were controlled by the government to establish self efficiency
- Between 1960-1978 GDP growth rate was 5.3% because of no profit incentives and competition
- The shift from centralized planning to market-oriented economy went through two phases; one in the 80's and one in the 90's.
    - In 1979 reforms were written which meant privatization of personal farms and the agriculture industry.
    - More reforms in 1980 that stimulated self management and competition which contributed to an annual growth rate of 10% in agriculture.
    - In 1985 the output within that industry decreased due to subsidy cuts and cost of input
    - During the early 90's there was an economic boom in China due to 2000 special economic zones which opened up the doors for more foreign companies
- Growth slowed in the late 90's due to the Asian Financial Crisis from 13.6% in -92 to 7.1% in -99
- Economic inequalities were growing between rural and urban areas and it was worse than in Europe and many emerging economies such as India and Indonesia.
- China joined WTO in 2001 and hoped for more investment, less inequality and long term growth
- The real market for Home Depot opened up in 1999 when the government decided to sell all the residential units that had been built that year and open up the real estate market
- This gave the Chinese economy another boost within home purchase and construction.
- Money put in to the economy from house purchases were $48 Billion in -99 and another $45 Billion in 2000
- Even though real estate investment was expected at 9.3% of the GDP in 2006 the expansion of Home Depot in to China is still a risky one due to several issues
    - Home Depot is a late mover with IKEA and B&Q already established in China
    - The "do it yourself" (DIY) market is almost non-existing, instead you hire local workers
    - Construction industry operates differently by only building the shell of the house
    - Descrimination of foreign retailers with higher taxes and allocation of land
- Still the DIY-market is predicted to have enormous growth and 200 million square feet of residential housing is planned annually after 2010 with ¾ of the movers wanting new furniture

Even though Home Depot is behind the likes of IKEA and B&Q the potential of the Chinese market is too good to pass up. There is no true market leader and Home Depot can start dealing with professionals in China since they already have experience with that and just wait until the DIY-market gets more attractive. The Chinese consumers like foreign brands because of high quality and if Home Depot starts up a college for better construction workers they could increase their span. Lastly, if the company is able to create a good supply chain there is no reason why Home Depot can succeed in China.