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Bauing Construction Holding Group Co. Ltd.: Going Global

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After 2014, when Shaoming Gu, the chair of the board of Shenzhen Bauing Construction Holding Group Co. Ltd. (Bauing Group), decided to expand the company internationally, the group successfully established subsidiary companies in several Southeast Asian countries. These subsidiary companies grew rapidly and became profitable. Based on this success in Southeast Asia, Bauing Group decided in 2016 to expand further by entering the US market. Entering the US market entailed some challenges and difficulties, including cultural and regional differences, language barriers, and the need to become familiar with different construction standards and laws. Bauing Group also needed to address a pressing issue: determining its market entry strategy.

Background of Bauing Group

Shenzhen Bauing Construction Group Co. Ltd. (Bauing Construction) was founded in April 1994 as a subsidiary of Bauing Group with registered capital of ¥680 million.[[1]](#footnote-1) Bauing Group, one of the biggest companies in China’s construction and design industry, had comprehensive qualifications. Its services included interior design, curtain wall and steel structure engineering, integrated artificial-intelligence engineering, fire-control building engineering, electromechanical installation, security solutions, metal window and door installation, conference centre construction, and medical device engineering. The company provided its clients with integrated design, construction, and installation solutions as well as management services. It was China’s leading integrated design enterprise, and it had been nominated for awards as one of China’s 100 top developing enterprises in construction and as one of the top 10 Chinese construction and design firms. Bauing Group had A-level design qualifications related to decorating, curtain walls, artificial intelligence, and fire control as well as first-class construction qualifications in these categories and in electronic-door and electromechanical installation. It was also qualified to supply security solutions, medical devices, financial security solutions, and international contracting.

Bauing Group’s business network reached the whole country and all around the world. It was present in all five regions of China, excluding Taiwan, and it had branches in Beijing, Shanghai, Wuhan, Guangzhou, Kunming, Chengdu, and other major cities. Its focus was public cultural projects; the construction of sports sites, luxury hotels, and transportation stations; the design and decoration of hospitals; and the decoration of luxury residences.

The Construction Industry in China[[2]](#footnote-2)

According to a MarketLine industry profile, the Chinese construction industry had grown significantly in recent years. Its value had increased by 6.1 per cent in 2016, and this increase was expected to continue. The most lucrative segment of the construction industry was residential construction, which represented 53.8 per cent of the construction industry’s total value in 2016. Because residential construction projects were smaller and more standardized, they were also cost-efficient and did not require significant expertise or financing. Thus, this segment involved a relatively large number of smaller companies that competed mainly based on price, creating “a nearly perfect competition environment.”

Non-residential construction contributed 46.2 per cent of the industry’s total value in 2016. This segment was much more concentrated than residential construction; a small number of large companies here competed via tenders for large commercial and infrastructure projects. In this segment, achieving a competitive advantage was highly dependent on economies of scale and specialization.

Non-residential construction had grown over the past few years because of large government investments in infrastructure, which analysts expected would continue to stimulate additional growth in the near future, in turn ameliorating some reductions in demand for housing and non-residential projects. Some of these major infrastructure developments included a bridge between Shenzhen and Zhongshan; a second international airport near Beijing; an expansion to the country’s railway network; and the One Belt, One Road (OBOR) initiative, which represented investments of many billions of dollars.

Bauing Group Goes Global

Bauing Group had a business presence in more than 20 countries and regions around the world, including Europe, Southeast Asia, Mid-Asia, West Africa, and Australia.

In 2014, Bauing Group’s board chair, Gu, made the decision to take the company abroad. Many of his speeches spoke of a desire to

promote economic and trade co-operation through humanistic exchanges, combine the implementation of building projects, infrastructure construction, electric power engineering, [and] Smart City business together with transnational cultural exchanges, [and] create an international brand of Chinese private building enterprise with Bauing characteristics.[[3]](#footnote-3)

More specifically, Bauing Group was motivated to go abroad for two main reasons. First, the country’s OBOR initiative provided a great opportunity. This initiative, announced by Chinese President Xi Jinping in 2013, aimed to create a web of railways, roads, pipelines, and energy corridors to connect and integrate the Eurasian continent. It involved a massive expansion of Chinese-led infrastructure construction across Eurasia, with the ultimate goal of connecting China to customers in Western Europe. The scope of the initiative was dramatic. It had attracted more than 60 countries.[[4]](#footnote-4) The project had already made real progress, with more than 200 enterprises signing contracts for projects along OBOR routes. Many of these were funded by the US$40-billion[[5]](#footnote-5) Silk Road Fund (a Chinese government investment fund meant to increase investment in countries along the OBOR route).[[6]](#footnote-6)

Potential opportunities for those involved in the initiative were significant. Countries along the route envisioned widespread economic benefits, and the investment came at a welcome time. A report from McKinsey & Co. found a growing gap between the need for infrastructure worldwide and infrastructure spending, noting that the world was falling short by 11 per cent, or up to $350 billion, every year.[[7]](#footnote-7) For the more than 45 countries that had signed on to the initiative, Chinese spending could fill much of this projected infrastructure spending gap. Projects associated with the initiative could revitalize stagnant Central Asian countries, providing power, running water, and transportation to landlocked areas. The expansion of construction could also create opportunities for the firms that constructed bridges, power plants, rail lines, and other infrastructure along the OBOR route. Chinese firms were racing for opportunities to submit tenders for projects associated with the initiative. Given Bauing Group’s primary business and strengths, the company decided to follow the OBOR initiative to upgrade and transform itself.

Second, the building industry in China’s domestic market had become more competitive, which posed challenges for Bauing Group. In 2016, the overall building and decoration industry in China was improving. During 2016, total revenue in the industry increased, and the growth rate changed from negative to positive (see Exhibit 1). However, most public companies in this industry in China saw their gross margins decrease for reasons such as increased period costs, decreased operational capabilities, and poor cash flow.[[8]](#footnote-8)

Going global therefore became the inevitable strategy for Bauing Group. In September 2014, the group purchased 51 per cent of the shares of Shenzhen Ninefold Construction Group Co. Ltd. to leverage its overseas resources. In December 2014, it founded PT Bauing Construction Group Indonesia (Bauing Indonesia) to lay the foundation for global-oriented management and international development under the OBOR initiative. In 2015, Bauing Group set up a subsidiary company in Hong Kong. Based on the group’s success in Southeast Asian countries, Bauing Group decided to expand its business into other countries in that region and to enter new markets in the United States and Australia.

Bauing Group’s Success in Southeast Asia

In Indonesia, where Bauing Group established its first foreign company in 2014, the construction industry had undergone significant recent growth, at annual rates slightly below 10 per cent in 2016. The non-residential segment accounted for 90.1 per cent of Indonesia’s total construction value, which was partly the result of increased government spending on infrastructure projects and increased demand for commercial and residential construction, due to an increasingly urban population and increased incomes.[[9]](#footnote-9)

Since 2014, Bauing Indonesia had grown rapidly (see Exhibit 2), and the overall financial performance of Bauing Group from 2013–2016 had also grown steadily (see Exhibit 3). Bauing Group had continually established new companies in other Southeast Asian countries, including Vietnam and Myanmar. The company had successfully completed many large-scale projects in these countries, including the Indonesian Army eco-house project, the Country Garden Forest City sales office, KL Port Klang Yima Hotel fitting-out projects in Malaysia, and the Crowne Plaza Danang fitting-out project in Vietnam. It had also launched many new projects, which were under construction (see Exhibit 4).

The success of Bauing Group in Southeast Asia was a result of two factors. First, the OBOR initiative and the opportunities it provided: the initiative was expected to bridge the infrastructure gap and thus accelerate economic growth across the Asia-Pacific area and throughout Central and Eastern Europe. The area of the initiative encompassed approximately 60 countries, primarily in Asia and Europe, and also included Oceania and East Africa. The anticipated cumulative investment over an indefinite time scale was variously estimated at $4 trillion–$8 trillion.

Second, Bauing Group’s corporate culture emphasized wisdom, sharpness, and bravery—characteristics of the eagle—which reflected the core values of Bauing Group’s Lingnan cultural heritage. Lingnan culture, from Guangdong and the nearby provinces in south-eastern China, encouraged people to “always [be] brave, to go out to try new things, to embrace change, to adapt [to a] new environment wisely.”[[10]](#footnote-10) This approach combined values from Cantonese, Teochew, and Hakka cultures, and was typically contrasted with Zhongyuan culture, which came from China’s northern plains (Zhongyuan was Mandarin for “central plain”). Throughout history, many Lingnan people had immigrated to Southeast Asian countries, taking with them the Lingnan culture and lifestyle and maintaining their dialects from one generation to another. They were a special ethnic minority group that played important roles in different walks of life in most Southeast Asian countries. By basing its corporate culture in Lingnan culture, Bauing Group was able both to naturally gain some advantages and to overcome cultural conflicts when entering Southeast Asian countries.

The US Construction Industry[[11]](#footnote-11)

A MarketLine industry profile indicated that the US construction industry had been experiencing healthy growth. It had increased in value by 6.5 per cent in 2016, and analysts expected this growth to continue at a similar rate between 2016 and 2021.

The highest contributor to the US construction industry’s total value was the non-residential segment, which contributed $712.5 billion, or 60.1 per cent, in revenue. Residential construction contributed $473.2 billion, or 39.9 per cent of the industry’s total value in 2016. Strong demand for residential properties, fuelled by a significant increase in household income and lower mortgage costs, had been largely responsible for the strength of the US construction industry in recent years.

Non-residential construction in the United States had been slightly unstable but had improved in recent years. Spending on infrastructure, however, had stalled due to an uncertain political climate. MarketLine expected growth in the US construction industry to continue to slow as private investments slowed. Analysts expected investors to be less confident about this industry and expected banks to tighten qualifications for lending.

In this scenario, non-residential construction was expected to increase. Analysts projected that the main contributors to the industry would be large-scale projects, including The Wharf in Washington, DC; the One Vanderbilt building in New York City; and a planned high-speed rail line in California. The US industry was also vulnerable to a labour shortage, which might act as a deterrent in the coming years.

New entrants in the US construction industry faced capital barriers “related to significant capital outlay and economies of scale” and large, established competitors, which made the industry relatively difficult for newcomers.

Residential construction, in contrast, was less concentrated and therefore more suitable for smaller companies. Moreover, the industry as a whole was influenced by the country’s overall economic climate, so it could vary over time, just as industries did in other countries.

Challenges of Entering the US Market

In 2016, Bauing Group decided to further expand its business and to enter the US market. The company’s overall management strategy in the US market was to realize fast, high-quality expansion and healthy, sustainable growth through constantly improving management and operations and providing comprehensive construction and management services to its clients.

Although it had successfully entered Southeast Asian markets, Bauing Group faced unprecedented challenges in the United States, including cultural conflicts, regional differences, language barriers, and different standards and laws governing construction. More important than meeting these challenges was the need for the company to decide on the most suitable market entry strategy for Bauing Group to enter the US market (see Exhibit 5). Should it enter the market through licensing, greenfield projects, franchising, business alliances, exporting, turnkey projects, joint ventures, or acquisitions?

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Exhibit 1: China’s Building and Decoration Industry—Total Revenue

and Growth Rate, 2012–2016

**Total Revenue**

**Growth Rate**

**Revenue (¥1,000)**

**Growth Rate (%)**

**2012**

**2013**

**2014**

**2015**

**2016**

10,000,000

8,000,000

6,000,000

4,000,000

2,000,000

40

30

20

10

0

0

−10

**Year**

Note: ¥ = RMB = Chinese yuan renminbi; ¥1 = US$0.17 on January 31, 2016.

Source: Adapted by the authors from Baichun Lai, “2016 Analysis of China’s Architectural Decoration Industry Listed Companies [in Chinese],” Shenzen Guangtian Science and Technology Development Research Institute, June 21, 2017, accessed April 15, 2018, www.sohu.com/a/150901237\_659865.

Exhibit 2: Bauing Indonesia’S Operational Performance, 2015–2017

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Registered Capital (US$)** | **Total Assets (¥)** | **Net Assets (¥)** | **Revenue (¥)** | **Gross Profit (¥)** | **Net Profit (¥)** |
| 2014 | $4,000,000 |  |  |  |  |  |
| 2015 | $4,000,000 | 215,429,940 | 63,885,937 | 203,150,565 | 64,524,708 | 58,430,191 |
| 2016 | $10,000,000 | 260,611,555 | 176,982,877 | 366,277,976 | 107,513,888 | 92,813,371 |
| 2017, First Half | $10,000,000 | 265,382,272 | 181,080,767 | 35,377,148 | 6,726,625 | 5,311,540 |

Note: ¥ = RMB = Chinese yuan renminbi; ¥1 = US$0.17 on January 31, 2016; 2017 data refers to only the first half of the year.

Source: Company files.

Exhibit 3: Bauing Group’s Financial Performance, 2013–2016 (in ¥)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Total Revenue** | **Total Costs** | **Gross Margin** | **Net Profit** | **Operational Cash Flow** |
| 2013 | 3,726,811,295 | 3,433,162,670 | 294,598,087 | 219,834,226 | –448,596,095 |
| 2014 | 5,382,464,813 | 5,019,268,829 | 368,513,312 | 272,954,954 | –738,645,006 |
| 2015 | 6,853,661,299 | 6,369,445,922 | 492,235,480 | 376,808,558 | 3,444,370,942 |
| 2016 | 6,851,510,073 | 6,284,031,093 | 551,279,876 | 420,796,567 | –569,343,508 |

Note: ¥ = RMB = Chinese yuan renminbi; ¥1 = US$0.17 on January 31, 2016.

Source: Company files.

Exhibit 4: Finished Projects of Bauing Group in Foreign Markets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Country/Region** | **Project** | **Contract Price** | **Contractor** |
| 1 | Indonesia | Indonesian army eco-house project |  | PT Bauing Construction Group Indonesia |
| 2 | Malaysia | Country Garden Forest City sales office and KL Port Klang Yima Hotel fitting-out project | US$9,185,940 | Ninefold Construction Group |
| 3 | Danang, Vietnam | Crowne Plaza Danang fitting-out project | US$14,062,200 | Ninefold Construction Group |
| 4 | Macau | Studio City Macau ballroom and gymnasium fitting-out project | US$4,576,574 | Ninefold Construction Group |
| 5 | Macau | Grand Waldo Hotel Macau fitting-out project | US$4,957,543 | Ninefold Construction Group |
| 6 | Macau | Studio City entertainment studio fitting-out work | US$2,436,716 | Ninefold Construction Group |
| 7 | Tajikistan | National Reception Center curtain wall project | US$13,422,605 | Ninefold Construction Group |
| 8 | Scotland | Crawfordton House |  | Kenneth Ko Designs Ltd. |
| 9 | England | London My Home |  | Kenneth Ko Designs Ltd. |
| 10 | Switzerland | Lugano Home |  | Kenneth Ko Designs Ltd. |
| 11 | Australia | Hendra House |  | Kenneth Ko Designs Ltd. |
| 12 | Turkey | Istanbul My Home Hotel |  | Kenneth Ko Designs Ltd. |
| 13 | Singapore | Saint Honore Cake Shop chain store |  | Kenneth Ko Designs Ltd. |
| 14 | Hong Kong | The Peninsula Hotels |  | Kenneth Ko Designs Ltd. |
| 15 | Hong Kong | The Peninsula Hotels Japanese Restaurant |  | Kenneth Ko Designs Ltd. |
| 16 | Hong Kong | The Emperor Jewellery Store |  | Kenneth Ko Designs Ltd. |
| 17 | Hong Kong | Cerrui1881 |  | Kenneth Ko Designs Ltd. |
| 18 | Hong Kong | Dior |  | Kenneth Ko Designs Ltd. |
| 19 | Hong Kong | Swatch flagship store |  | Kenneth Ko Designs Ltd. |
| 20 | Hong Kong | Shanghai Tang Mall |  | Kenneth Ko Designs Ltd. |
| 21 | Hong Kong | Chinese Arts & Crafts |  | Kenneth Ko Designs Ltd. |
| 22 | Hong Kong | Wing On department store |  | Kenneth Ko Designs Ltd. |
| 23 | Hong Kong | CRC department store |  | Kenneth Ko Designs Ltd. |
| 24 | Hong Kong | Mercedes-Benz flagship store |  | Kenneth Ko Designs Ltd. |
| 25 | Hong Kong | Warner Music office centre |  | Kenneth Ko Designs Ltd. |
| 26 | Hong Kong | Bazaar |  | Kenneth Ko Designs Ltd. |
| 27 | Hong Kong | Toppy |  | Kenneth Ko Designs Ltd. |
| 28 | Indonesia | My Hotel |  | Kenneth Ko Designs Ltd. |

Note: Contract prices for items 1 and 8–28 not provided by Bauing Group.

Source: Company files.

exhibit 5: foreign market entry strategies

As background information, there are three main foreign market entry strategies. The first strategy comprises four contractual modes of market entry. The first contractual mode is *exporting*, which refers to business activities where goods and/or services are sold outside the country in which the major value-added activities took place. The second mode is *licensing*, which describes contractual transactions in which the owner of knowledge-based resource assets sells to another organization or individual the right to use these intangible resources for a defined purpose. The third mode is *franchising*, which is a contractual agreement between a franchisor and usually many franchisees that are legally and financially separated. The franchisor sells to the franchisees the right to commercialize goods or services under the franchisor’s established brand name and a proven business concept. The fourth mode is the *turnkey project*, which is defined as a market entry mode where a firm sells complete operations and supply- and distribution-chain services. Market entry through a turnkey project usually includes the start-up of operations, and the necessary training, qualifications, and consulting with local personnel; the firm then turns the key over to the local government in return for an agreed-upon payment-of-use fee.

The second foreign market entry strategy comprises two main co-operative modes of market entry. The first mode is the *business alliance*, which refers to agreements between two or more participating organizations that target long-term business objectives. The second mode is the *joint venture*, which refers to a business arrangement in which two or more legally distinct firms decide to own and control a common business.

The third foreign market entry strategy comprises mainly two hierarchical modes of market entry. The first mode is *acquisition*, a corporate action in which one company buys most, if not all, of another firm’s ownership stakes to assume control of the firm. The second mode is a *greenfield project*, which is a type of foreign direct investment whereby a parent company builds an entirely new organization in a foreign country (i.e., a foreign start-up).

Source: Mario Glowik, *Market Entry Strategies: Internationalization Theories, Concepts and Cases of Asian High-Technology Firms* (Berlin: De Gruyter Oldenbourg, 2016), 156, 164, 166, 169, 172, 193, 194.

1. ¥ = RMB = Chinese yuan renminbi; ¥1 = US$0.17 on January 31, 2016. [↑](#footnote-ref-1)
2. MarketLine, *Construction Industry Profile: China*, 7, December 31, 2017, accessed March 31, 2018, https://store.marketline.com/report/ohmf2537--construction-in-china/. [↑](#footnote-ref-2)
3. “Bauing Group: Create Centuries Foundation [in Chinese],” Manager Sohu.com, November 3, 2017, accessed January 21, 2018, www.sohu.com/a/202078986\_479806. [↑](#footnote-ref-3)
4. *One Belt, One Road: An Economic Roadmap*, Economist Intelligence Unit, 2016, accessed February 24, 2018, www.eiu.com/topic/one-belt-one-road. [↑](#footnote-ref-4)
5. All dollar-denominated currency amounts are in US dollars. [↑](#footnote-ref-5)
6. Jonathan Woetzel, Nicklas Garemo, Jan Mischke, Martin Hjerpe, and Robert Palter, *Bridging Global Infrastructure Gaps*, McKinsey & Company, June 2016, accessed February 24, 2018, www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/bridging-global-infrastructure-gaps. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. Baichun Lai, “2016 Analysis of China’s Architectural Decoration Industry Listed Companies [in Chinese],” Shenzen Guangtian Science and Technology Development Research Institute, June 21, 2017, accessed April 15, 2018, www.sohu.com/a/150901237\_659865. [↑](#footnote-ref-8)
9. MarketLine, *Industry Profile: Construction in Indonesia*, 7, December 21, 2017, accessed March 31, 2018, https://store.marketline.com/report/ohmf2574--construction-in-indonesia/. [↑](#footnote-ref-9)
10. Bauing Group, *Bauing Culture: Cultural System*, 2011, accessed March 1, 2018, en.szby.cn/culture/cultural-system. [↑](#footnote-ref-10)
11. MarketLine, *Construction in the United States*, 7, December 21, 2017, accessed March 31, 2018, https://store.marketline.com/report/ohmf2481--construction-in-the-united-states. [↑](#footnote-ref-11)