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Along the Giant's Footprints: Bama China

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ALONG THE GIANT'S FOOTPRINTS: Bama China¹

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Abstract

When McDonald's entered Chinese market in 1989, Bama Company, a key supplier of McDonald's deserts, followed to explore this potential high-volume bakery goods kingdom in Asia. Having been influenced by western culture since the economic reform in the 1980s, Chinese people, especially the young generation, love to enrich their daily diet with western food. Along with American fast food booming in China, bakery products, such as cakes, cookies, and other deserts are also well accepted by consumers. This case introduces how Bama grows its international market by following its giant client. While maintaining its long term partnership with McDonald's, Bama also develops other clients in the fast food chain in this unfamiliar yet exciting world. Bama China further seeks more expansion and explores larger growth in the Asian-Pacific region to develop bakery markets. This case study discusses several options for the future of Bama China.

Key words: Chinese bakery industry, B2B, fast food, dessert

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ALONG THE GIANT'S FOOTPRINTS: Bama China

In a beautiful fall afternoon of 2014 in Beijing, the sweet aroma of desserts from a food processing plant carried by the pleasant breeze was welcoming a special group of visitors from the U.S., midsize agribusiness executives who are interested in entering Chinese markets. Dr. Paula Marshall-Chapman, the CEO of the Bama Companies, was proudly introducing her company's Beijing joint ventures as she showed the group two of their plants in the city, Bama Beijing and Baijiayi.

Bama entered China in the early 1990s. Being a major supplier to McDonald's in the U.S., Bama was called to supply fried pies for McDonald's Chinese market. As the fast food giant quickly expanded, producing in China seemed to be a very good opportunity and a necessary step for Bama even if it had no experience in this part of the world.

However, Paula was determined to take the challenge.

The History of Bama

Bama Companies, Inc. founded by the Marshall's family in Dallas, Texas in 1937, is headquartered in Tulsa, Oklahoma today (Figure 1). Its family based business can date back ten years earlier in 1927 when Henry C. Marshall took advantage of his wife's pie baking talent and started to market the pies as a wholesaler in Waco, Texas. The name 'Bama' also came from her name, Cornelia Alabama Marshall. However, due to the Depression, Bama experienced a failure expansion in 1931 in Waco. Around that time, one of the Marshall's sons, Paul Marshall, noticed their small and old-fashioned

production needed to be replaced by modern, efficient, and machine-aided technology.

Later, Paul met his wife, Lilah, in Oklahoma City, who shared the passion of starting their own modern Bama Pie production in Tulsa, a potentially big market. They arrived in Tulsa on February 6, 1937, and had their own Bama Pie operation.

[Insert Figure 1 here.]

Several turning points spawned Bama's fast expansion in the following years: after the US entered World War II, Bama became a major supplier of pie products to the military. In December 1943, Paul acquired Mrs. Marshall Pies from Archie Marshall, another pie business with the same last name coincidentally. By the end of 1945, Bama grew into a well-structured and profitable operation. Since then, Bama established its own brand well in Oklahoma area and was ready to draw national attention.

The most remarkable development capstone for Bama is its partnering with large fast-food chain restaurants. In 1965, Paul landed Bama Pie in Sandy's restaurant chain, then fast growing and very popular burgers-and-fries restaurants. With this success, Paul took his next step of approaching the fast food tycoon, McDonald's. Because of its centralized decision on menu items and supply management, Paul carried his frozen pies to McDonald's headquarter in Chicago. By sending a cold call and getting surprised himself, Paul was able to leave his samples for the dinner of the executives that evening. The frozen pies knocked open the door to this kingdom of fast food chains. In the following year, Paul drove between Tulsa and Chicago almost weekly to work with both

management teams and eventually made his pies fully satisfy McDonald's quality standard. Paul invested \$250,000 to "build a line that would produce 20,000 pies an hour" and to supply more than 600 McDonald's restaurants nationwide. This marked Bama's long-term relationship with McDonald's, growing fast along with it as its principle supplier.

The unique relationship with no contract has lasted for twenty-four years. It also had a licensing arrangement collaborating with a Canadian bakery that offered pies to McDonald's operations in Canada. In early 1992, Bama exported its bakery goods to Taiwan and Hong Kong, which were the first two landed spots in Asia (Belford, 2002). Paula Marshall-Chapman, Paul's daughter, assumed the President in 1985 and CEO in 1991. She felt that Bama should be responsible for McDonald's pies worldwide, and it has a lot of room to grow.

China

China's 1.4 billion population accounts for 19% of that of the world's, allowing it to be a big market for consumer goods. Despite the aging problem caused by the one-child policy, the young generation who grew up with western cultural influence will still be a huge consumer market for western food. China's 2015 new policy encourages families to have two-children, which will create a larger young population in the next decade or two.

Chinese urban population accounts for about one half, and near 40% of the urban population reside in only 53 main cities (Figure 2) with population over 2 million each.

The density of population is 320.6 people per km² in 11 provinces (including provincial level municipalities) along the coast (Figure 3). This high density forms a good environment for the service sector. The process of urbanization is still accelerating. As estimated by Chinese Ministry of Housing and Urban-Rural Development that there will be 300 million Chinese people migrating from rural area into cities by the 2025.

[Insert Figures 2 and 3 here.]

Over the past three decades, China has experienced amazingly fast economic growth, with an averaging annual growth rate of 10% (World Bank, 2014), and has become the world second largest economy by nominal GDP. Furthermore, Chinese disposable income per capita grows with its GDP reaching \$4,578 in 2014 (Trading Economics (a), 2015), while this number reaches \$7,629 in Shanghai, the richest municipality. Although this number is much lower than the US level of \$41,850 (Trading Economics (b), 2015), the growing size of middle class in large cities, however, possess similar purchasing power as those average income families in the US. Bakery desserts are very affordable for them, as we can see from Table 1. Guangzhou, located in the south coast of China, has \$ 29,014 GDP per capita with a 4.9% increase in 2014. Guangzhou as the third economically active city after Shanghai and Beijing has about half per capita GDP of Chicago, the third in the US. According to current growth rate, we can estimate that within eight years, Guangzhou will reach the same level of per capita disposable personal

income as in the US average and only 13 years as that in Chicago.

[Insert Table 1 here.]

Bakery industry in China

The bakery industry in China has been flourishing with the increase in direct foreign investment (Borsuk, 2012) since the 1990s. In 2012, there are 469 multi-city scale bakery companies in China. The prime-operating revenue of bakery companies was 65.3 billion CNY, with 6.2 billion CNY profit.² The total industrial asset was 35.4 billion CNY.

These numbers all approximately doubled a year later to reach the amounts of 140.7 billion CNY, 11.3 billion CNY, and 66.9 billion CNY, respectively. The prime-operating revenue of bakery industry accounted for 12 percent of the whole food manufacturing industry in early 2014, of which the annual growth rate was 12.09% (Figure 4). It is estimated that the operating revenue of bakery industry may reach 465.8 billion CNY by the end of 2017.

[Insert Figure 4 here.]

Chinese bakery industry is primarily composed of many scattered small players.

Although some chained branding firms have been established, none of them has grown as a nationwide company. Even for the two largest ones, Holiland and Christine, their total

² One US dollar was about 6.4 CNY during this period.

annual revenue of 2 billion CNY is still a small share of the 70 billion CNY industry.

Also, simple competition in price and location is another character of the Chinese bakery industry. The majority of the players just run one or several retail stores facilitated with a kitchen usually right behind a store. (China IRR, 2014) Another character of the bakery market is that customers in China are replacing their traditional breakfast with convenient and instant bakery food. Especially the food consumption pattern among the young generation in urban areas has changed to be more like those in the western world, which generates many opportunities for bakery food.

Special chain stores: Holiland, Christine and 85°C

Currently there are three remarkable players in mainland's market. Two large bakery chains, Holiland and Christine, own thousands of retail stores and also sell their products in grocery stores, convenience stores and corner stores in the northern and the southern markets of China, respectively. Holiland is a domestic brand, found in 1992 by a billionaire businessman and photographer Luo Hong (Daxueconsulting, 2013). Christine is an internationally held company based in Shanghai and controlled by Taiwan businessman Lo Tien-An (Forbes, 2012). While another Taiwanese bakery chain store 85°C launched successfully its business in tier-one and -two cities in Mainland China after it beat Starbucks in Taiwan.

Although focusing on different regions, Holiland and Christine run in a similar pattern that they work hard on building their brands via the stable high quality of products such

as sweet bread, egg tarts, sweet dim-sums³ and cakes including light cheese cake⁴, black forest cake and mousse cake. Starting its business in a small town in southwestern China, Holiland developed from tier – three and –four cities to larger cities on the east coast. Therefore, after becoming the largest player in Beijing, Holiland experienced a hard time when it competed in Shanghai. It tried online business nationwide, but delivering in cities with no retail stores became very difficult.

Christine segments its markets by consumption level and sets its target market as white collared professionals and young people. The products are mainly dim sum, bread, decorative cakes, mooncakes, cookies and candies, which are usually priced moderate or high in the market. The sales network, including 1092 retail stores and various channels, covers 34 cities in Yangtze River Delta, but it has never tried to be nationwide as it communicated with the authors.

Unlike the previous two players, 85°C focuses more on services than its products. It produces various kinds of cakes, cookies and dim sums and offers coffee as well in its stores. The team believes that five-star service can be priced by “common people” level. Its customers range from high-income group to lower medium-income group. For instance, main consumers between 2 am to 4 am are taxi drivers, the similar customer

³ Chinese dim-sum can be considered as Chinese pie. It usually has mooncake size with crispy pie shell and stuffing that is sweet or savory.

⁴ It is a kind of sponge cake with cheese flavor.

segment to Holiland. The retail stores are also located at the corner of busy streets, which may allow the windows open on two streets. So far the annual revenue of 85°C has reached 14 million CNY. The volume is still far away from Holiland's or Christine's, but its growth pace since 2004 and its success in Taiwan will give this young player a big development capability. (Anonymity, 2014)

Convenience store and corner store

The shopping malls in big cities now become recreational places, including movie theaters, restaurants, cafés, dessert shops, and even ice skating arenas, a place attracting a lot of young people living in cities to hang out with friends. Grabbing a piece of dessert and chatting with friends at a corner of a shopping mall is a common social activity in cities. Corner stores with fancy decoration selling sweets and tea drinks along the commercial street are also popular to young people. The convenience stores, unlike those in the US, providing some take-out dessert products in small amounts are very popular to residents living in big cities.

In China, usually people won't have a conventional oven in their kitchen, although toaster oven gets popular in Chinese home kitchens. For hundreds of years, people have been used to stopping by a store, a small restaurant, or a food stand and buying snacks and dim sums. Even now, buying a cup of tiramisu or a piece of cheesecake on the way home from work is still popular especially among young people.

Fast food in China

Although Chinese traditional cuisine is still dominating, as the entry of Western fast food restaurants led by KFC, McDonald, Pizza Hut, and Subway, fast food has become a common and popular food style in China, which creates a big market for bakery food as these items are provided on the menu of the fast food chain restaurants. According to ACMR-IBISWorld, it is estimated that there will be 121.7 million USD generated by the fast-food restaurant industry in China by the end of 2015, which is up by 9.7% from 2014 (Table 2). Industry revenue kept an annualized growth rate of 11.5% for over five years through 2015 (IBIS World a, 2015).

[Insert Table 2 here.]

According to ACMR-IBISWorld, it is forecasted that the fast-food industry revenue will have an average annual growth rate of 8.5% and reach \$183.0 billion in 2020, despite that the growth rate is slightly slowing down but remaining strong (Figure 5). In regions with well-developed fast-food markets, competition is expected to intensify, which would push players to explore less-developed regions for new opportunities. The continuous spreading of chain operations follows the trend of economic development from the east to the west and from tier-one and -two to tier-three and -four cities (IBIS World b, 2015).

[Insert Figure 5 here.]

Bama China

Called by McDonald's to enter the Chinese market, Bama had a committed large client

with a reliable market. However, in the early 1990s, China was at its early stage of economic reform with a premature market. It was not fully open for sole ownership of foreign direct investments (FDIs), and all FDIs had to enter as joint ventures with Chinese state owned enterprises (SOEs) with the Chinese SOEs having dominating shares (The World Bank News, 2010). Bama started the same way. Cooperating with Beijing Capital Agribusiness Group (CAG), Bama today owns three equity joint ventures: Beijing Bama Food Processing Co., Ltd, Beijing Baijiayi Food Co., Ltd. and Guangzhou Bama Food Processing Co., Ltd (Figure 6).

[Insert Figure 6 here.]

Joint ventures in China

Beijing Bama Food Processing Co., Ltd, (as known as Beijing Bama) was founded in September, 1992 as a joint venture with Beijing Nan Jiao Farm, which was the only dairy company in Beijing then supplying the entire city with small volume of powdered milk, fluid milk and yogurt. Today, its brand, Sanyuan, is the third largest national dairy brand in China, processing 1000 metric ton of fresh milk daily, which is the marketing part of CAG. Sanyuan Foods also controls 50% share of the Beijing McDonald's joint venture.

Thanks to the rapid increase in the early era of economic reform, Beijing Bama grew fast as a frozen pie supplier for McDonald's, improving and developing its products to compete in other Asian markets as well. Beijing Bama has become the standard apple pie supplier in Asian-Pacific region.

From 2004 to 2013, the company developed with substantial increases in assets, revenue and profit. Sales revenue reached about \$90 million in 2015. Beijing Bama supplied its products to Hong Kong and Singapore in 1999, and expanded to Korea, Malaysia, Philippines, Japan and Indonesia in 2000. It also exported back to the US. By providing high-quality products and service “exceeding customers’ expectation”, Beijing Bama has been able to extend its bakery business to more branded fast food restaurants. Currently, Beijing Bama has contracted with Subway, McCafe, Papa Johns, Pizza Hut, T.G.I. Fridays, Walmart and Sam’s Club in China. It is now estimated having 0.7% market share of the entire frozen food industry in China.

As the demand for Bama grows out of the capacity of its plant site, a new plant under a new business entity Beijing Baijiayi, also a joint venture with CAG started operating in 2004 on leased premises. Its new plant was built and opened in 2008 in Daxing District, a far suburban area of Beijing. Different from the frozen pie business of Beijing Bama, Beijing Baijiayi has different production lines producing other types of bakery foods such as cakes and frozen dough for McCafe, pastries, pizza dough, cookies, puff for other branded companies.

South coast area is the most essential market for McDonald’s, which accounts for 50% of McDonald’s products sale volume in China. As McDonald’s adopts regional supply system for burger buns due to delivery difficulty of bread, Bama Company invests a new plant to produce burger buns for McDonald’s south coast market. In September 2008, the

third equity joint venture, Guangzhou Bama located in Yonghe investment and development zone, Guangzhou, was constructed with a 41 million CNY investment. It went into operation in June 2009. The registered asset was 20.5 million CNY, with a share of 60% from US and 40% from China. Guangzhou Bama mainly takes charge of supplying burger buns in the southern area and has started to produce cakes for McCafe.

According to the enterprises income tax law, joint venture firms may deduct a certain proportion of the investment from the taxable income. (Ministry of Commerce PRC, Invest in China) Therefore, Bama engaging two new joint ventures will benefit not only for market expansion but also for tax deduction.

Wherever Bama launches new business, it always insists the new companies holding the original culture and values. For example, its mission and vision emphasize the power of its people and the company's resulting growth (Figure 7). Bama's leadership believes that its culture is very important to business success.

[Insert Figure 7 here.]

Partner with McDonalds

Making a major investment in China, the then unfamiliar land to the majority US mid-sized business like Bama, was a direct response to the call by McDonalds. In April 1992, the first McDonald's restaurant opened on Wangfujing Street, the then most busy and upscale shopping street in Beijing, and in the fall of the same year, Bama established

the joint venture with Nan Jiao Farm to supply McDonald's in China (Sina Finance, 2009).

Generally, the recipe is passed down from Tulsa, Oklahoma in the US with some simplification. There are several pie varieties with different fillings. The major one is apple pie, which is also the first variety introduced to China. Other varieties were gradually introduced to the menu adapting to Chinese particular preference, such as red bean paste pie, pineapple pie, and taro pie as shown in Figure 8. Such adaptation benefited both Bama and McDonald's.

[Insert Figure 8 here.]

In 1993, the cost of each pie on production one is 4 to 5 RMB. After Bernie Sheridan joined Bama China as the CEO, from 2000 to 2001 the cost of red bean pie was reduced by 50% and the revenue went up due to the volume. The pies produced by Bama China in Beijing started to be profitable.

As Bama's clients expand, Bama makes its own business plan according to the clients' marketing plans, such as matching the flavor of the combos and combining several characters of the existing desserts to develop a new one.

Key accounts

As a business-to-business (B2B) firm, Bama China focused its market more on the western fast food restaurant chains and large food wholesalers. Bama China has regular

business reviews with its key accounts---- Yum! Brand and McDonald's, from which it obtains 80-90% of its profits.

These two key accounts kept their fast growth at a rate of one new KFC restaurant per day and one new McDonald's every three days up to the early 2010s. In 2012, KFC and McDonald's opened 760 and 300 new operations in China, respectively, and more were established in 2013. In 2015, the two players opened more outlets in fourth-tier cities.

Guaranteeing the continuous supply to key accounts with clean label (quality assurance) is the main responsibility of Bama's production department. To keep appropriate production capacity is another important criterion. Bama tries to run an ideal 75% of the capacity which can be both profitable and flexible to handle some urgent promotion orders, with occasionally an acceptable 85%. Accessing to the general business plan of key accounts regularly is very important, as Bama would adjust its own future plan including human resource, marketing and quality assurance (QA) with different international standards to match. Keeping the key accounts posted with current information of products also matters especially when suppliers of essential ingredients such as flour and fruit change, which may impact the flavor of products. Bama collect data through its clients' market reports and from consulting firms to conduct its own research and market plans.

Production and Product Development

In addition to its permanent menu, Bama China also develops new products as a special

theme for their clients, such as French dessert taste, Children's day and so on. Evaluating quantitative and qualitative data including regulation of ingredient of food, laws (domestic and international) and trade, Bama gains feedback from its internal team to the process (BOMP, Business Opportunity Management Process). BOMP process connects the customer needs and new products. It starts with evaluating a project's sales, purchasing, operation, and product development. Then the Research and Develop department will produce samples and prepare for procedure pricing. There will be a sample test every two months and ten times adjustment. Whether the project is moving on to commercialization step depends on customer feedback of the samples. Usually it takes seven months to introduce a new product into market. Commercialization is the step that the customer sells the new trial product in its operations to gain the feedback from the terminal consumers and to decide final price and specifications of the new product. After the final price and final spec are determined, the new product will be put into mass production.

During the new product developing period, many factors should be considered as to reduce the cost. For purchasing part, considering the harvest time of ingredients, cost of new products should be balanced by the cost of seasoned fruits and vegetables. Also, quality control, regulation of food complement and shelf life should be considered as well. For the delivery part, the packaging design will depend on the weight of the

products, therefore the new product may keep the regular shape and weight as Bama's regular products.

The three joint ventures covered all orders from the whole China and the region their business reached in East Asia. The delivery part is an essential step for finishing an order from a customer. As all the products produced in Bama are frozen, temperature of transportation needs to be -18 degrees Celsius. The packaging and processing manager takes charge of the design of the package including the cost and the function for transportation. Thaw-frozen test will be examined on new products in order to respond to the emergency during transportation such as temperature rises unexpectedly. The package box is usually fixed weight of the products to keep frozen and moderate humidity.

Food Safety

When Bama entered Chinese market in the early 1990s, the Chinese food industry was quite old fashioned. As Paula visited Nan Jiao Farm's food processing plant then, she noticed the daily cleaning of the production equipment was performed with an employee wiping everything with a rag carelessly rinsed in one bucket of water, which she called "a bucket a day", falling far short of Bama's hygiene standard. Although pathogen caused food poison incidents always existed, they were mostly isolated and did not cause the public attention then. Even though, Bama enforced the same high hygiene standard in

this Beijing operation as its U.S. plants with its state of the art production technology, much higher beyond Chinese common practice then.

In the 2000s, large scale food safety incidents emerged in China and caused the public attention. Although some were due to natural causes, they tend to spread fast because of Chinese high density of production and lack of preventive measurements. Also, Chinese consumers tend to over react to health related shocks because of lack of adequate information available in general and their lack of trust to the government controlled media. For example, the bird flu in 2013 (CDC, 2013) caused great business reduction of KFC, Bama's key client. The wild spread of SARS in 2003 (WHO, 2003), although not a food born disease, caused the entire food service sector to almost cease functioning over a few months period.

Moreover, serious of food safety scandals caused by illegal ingredients and procedures applied by the Chinese food manufacturing industry concerned the public greatly in the last decade. On one hand, Bama's ingredients come primarily from Chinese domestic suppliers, the safety control of inputs are a challenge. On the other hand, confusing information about food safety combined with Chinese patriotic emotions lead to domestic industry protection against foreign brands. For example, genetically modified grains (Radford, 2014), Ractopamine fed pork (Ortega et al. 2012), Sudan I found in Heinz Ketchup (Hu, 2005; China Quality, 2005), and especially expired meat supplied by OSI to major American fast food chains in China (Li, 2014; USA Today, 2014) were all

targeting U.S. firms and had a negative impact on their business. Bama, whose sales heavily depend on the two U.S. fast food giants, is facing the full risk without any diversification cushion.

Competition

Bama China developed rapidly as a major supplier of frozen pie, pastry and biscuit to fast-food restaurants and some grocery stores engaged in an emerging market. Therefore, the current competition would not be an issue for it. However, as the fast-food restaurants industry in China grows rapidly, other major players could notice this emerging market and may also want to enter Chinese and Asian markets to continue their supply to the restaurants. Although having the first mover advantages, Bama needs to keep its clients satisfied in terms of both quality and cost, and stay competitive.

Potential entry

There are two major bakery companies in the US, ConAgra Foods Inc. and the Schwan Food Company, each taking about 8-9% of market share (Figure 9).

[Insert Figure 9 here.]

The Schwan Food Company, of which market Share is 9.1% of frozen cake and pastry manufacturing industry in the US, is America's largest privately held frozen food producer, founded in 1952. Their over 350 frozen food products range from gourmet

entrees and desserts to vegetables and fruits, which are distributed to grocery stores or to consumers directly through home delivery. Through Mrs. Smith and Edwards's brands, the company sells various frozen pies, cakes and pastries. It is reported by IRI that Edwards brand has been best-selling frozen pie and cheesecake brands in the past five years. Schwan kept their variety of products through innovation. From 2011 to 2015, Schwan's Mrs. Smith's line of frozen pies and soft cakes have been introduced, including six new favors in its frozen fruit pie selection. It was estimated by IBISWorlds that its revenue declined slightly at an annualized rate of 2.2% to \$520.9 million in 2015. The competition is more on the fresh manufacture side.

ConAgra Foods Inc., with a market Share of 8.1%, is one of North America's leading packaged food companies, founded in 1919 in Omaha, NE. The company has four segments: consumer foods, commercial foods, Ralcorp food group and Ralcorp frozen bakery products. ConAgra Foods produces frozen pie and cake products under Marie Ollender's brand targeting the consumer foods market. Through new products introductions in brand development, in the past five years, the company gained substantial growth. Later in 2013, ConAgra acquired Harlan Bakeries, a frozen dessert producer valued as \$40.0 million. Therefore, the segment of frozen desserts production of the company continued to grow. However, due to the competition from fresh manufacturing desserts, the company's Ralcorp segment has suffered as the recent demand growth for private label products slowed down.

Existing Chinese bakeries

As mentioned earlier, the Chinese bakery market is quite segmented without very large firms who can cover the nationwide market. The existing firms' scale of production and reputation may have not met the expectation of US fast food industry. As they are targeting the B2C market through retail chains and online stores, currently they may not compete in the B2B market. However, these long-established traditional brick-and-mortar retail chains may expand their business on providing pre-baked pastries and cakes to supermarket and hypermarket industry, which will become potential competitors to Bama who also may expand to this market segment.

Competition in input factors

Besides the competition from other potential companies, Bama also has to face the increasing labor cost and material costs. Internationally, China's minimum wage, especially in cities along east coast, is in the mid-range of Asian Countries in 2015 (China labor bulletin, 2015). From 2007 to 2012, commodity price had increased 51 percent in China due to the high demand, especially the grain prices. As the economy slows down, it has become harder for companies to pass on the costs to customers (Wei and Shi, 2012).

Market Expansion

Bama could consider to keep exploring markets in other Asian countries with McDonald's, using China as a base. McDonald's restaurants spread out over East Asia, Southeast Asia, as well as South Asia where are geographically around the mainland China. It is feasible for Bama to deliver its frozen products by truck on land and by ship crossing the sea.

Becoming a key supplier of KFC would be an option. KFC in China has been the largest fast-food chain with its booming number of restaurants for the past five years. The fast-food industry in China is still increasing although the growth rate starts to decrease, and KFC keeps growing in China through increasing the number of restaurants and developing localized menus. KFC has already been a valuable customer and counted a good portion of Bama China's profits, but there is a lot room to expand the supply to KFC in China and other Asian countries. However, it should be noted that rising concerns on health and negative image of "junk food" for McDonald's and KFC are a potential challenge to fast food industry.

Developing bakery products in the retail market could be another option for Bama to expand the business in China. This may require Bama to acquire a bakery brand. In the US, Bama produces pie shells selling in the grocery stores (Figure 10). However, as most Chinese home kitchens do not have a large oven, baking pies at home has not been popular there. Therefore, developing new types of products especially smaller sized ones targeting Chinese market is necessary, as toaster ovens become more and more available

in urban Chinese kitchens of young families.

[Insert Figure 10 here.]

The market of fresh bakery in China is growing, as the handmade cakes and cookies served in coffee shops or fresh bakery food franchise stores become popular among young generation. Thus, it might be a market that Bama China can partake to be a supplier of frozen dough and other half prepared ingredients built on their existing B2B expertise or even sell consumer products under its own brand in directly owned or franchised stores. In addition, considering the growing concern of the diet-related epidemics, Bama China could also evolve their bakery products into healthier alternatives. For instance, the recipe of cakes could be adjusted into less sugar and less energy.

In addition, convenient store chains like fast growing 7-11 can also be targeted channels for the bakery industry, as shopping in convenient stores is a new trend among young people. Currently, 7-11 stores offer various rice and vegetable rolls, sandwiches, salads, and Oden⁵ as hot food, which are popular to students and young office staff as quick meals. It won't be surprising to see bakery desserts in such outlets soon. These stores do

⁵ Oden is a Japanese winter dish consisting of several ingredients such as boiled eggs and processed fishcakes stewed in a light, soy-flavored broth.

not have a kitchen to make desserts on site and Bama can provide ready to eat desserts as they have been developed in Baijiayi.

Online shopping is a fast growing trend, especially in China when the biggest online retail platform of Alibaba has a bigger sale volume than the combined Amazon and eBay (Popper, 2014), thanks to the high density of city dwellings and the delivery services using cheaper labors than the U.S. Bama can sell directly to consumers from online “stores” for ready-to-eat desserts both on Ali Baba’s platform and on its own website.

What shall Bama China do next? Shall it focus on its core B2B by supplying more chained restaurants in Asia? Shall it enter B2C retail market by selling half-prepared baking ingredients? Shall it develop its own brand for ready-to-eat bakery food in quasi food service market like 7-11? Shall it invest in online retail stores for ready-to-eat desserts? Bernie would like to bring some solid proposals to Paula and the headquarters in Tulsa, OK.

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Table 1. Percent Change in Inflation-Adjusted GDP Per Capita (Annualized), 2013–2014

City	Population (thousand)	GDP (PPP, \$Million)	GDP per capita (PPP, \$)	GDP Growth per capita (%)
Beijing	21,639.1	506,137	23,390	4.7
Guangzhou	13,106.3	380,264	29,014	4.9
Shanghai	24,683.4	594,005	24,065	5.2
New York	20,073.9	1,403,463	69,915	0.1
Los Angeles	13,221.0	860,452	65,082	0.1
Chicago	9,568.1	563,188	58,861	0.7

Source: www.brookings.edu/research/reports2/2015/01/22-global-metro-monitor

Table 2. Revenue Growth in Fast-food Restaurant Industry in China

Year	Revenue (Million USD)	Growth
2005	30,861.6	0.0%
2006	35,494.6	15.0%
2007	42,519.0	19.8%
2008	52,867.4	24.3%
2009	60,284.2	14.0%
2010	70,155.2	16.4%
2011	80,644.6	15.0%
2012	90,862.0	12.4%
2013	101,068.7	11.5%
2014	110,932.9	9.8%
2015	121,693.4	9.7%

Source: IBIS World

<http://clients1.ibisworld.com.ezproxy.lib.purdue.edu/reports/cn/industry/currentperformance.aspx?entid=940>



The plant in Tulsa, OK



Rinker materials plant, Oklahoma City, OK

Figure 1. Bama's U.S. production sites

Source: ww3.tulsachamber.com & www.kel-crete.com

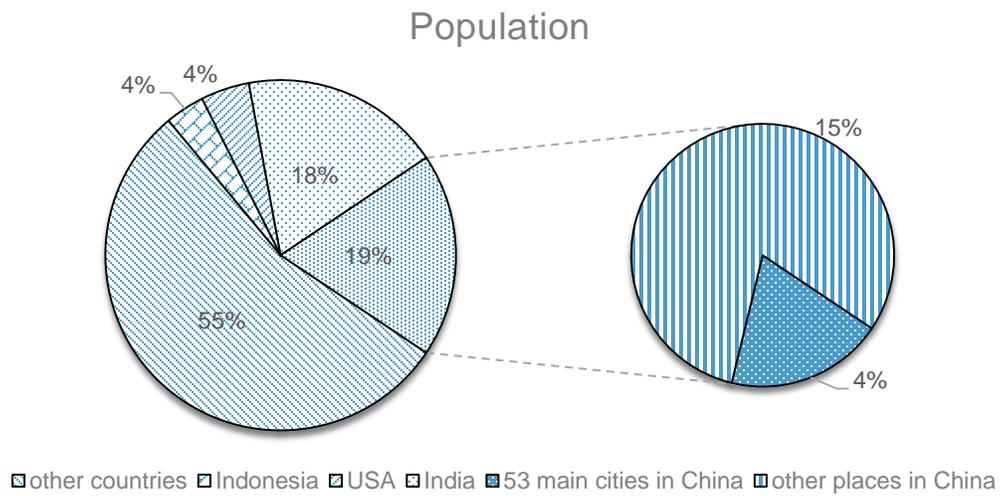


Figure 2. Population in the world by the end of November 2015 and Population census in China 2010

Source: http://www.geohive.com/earth/population_now.aspx & <http://www.geohive.com/cntry/china.aspx>

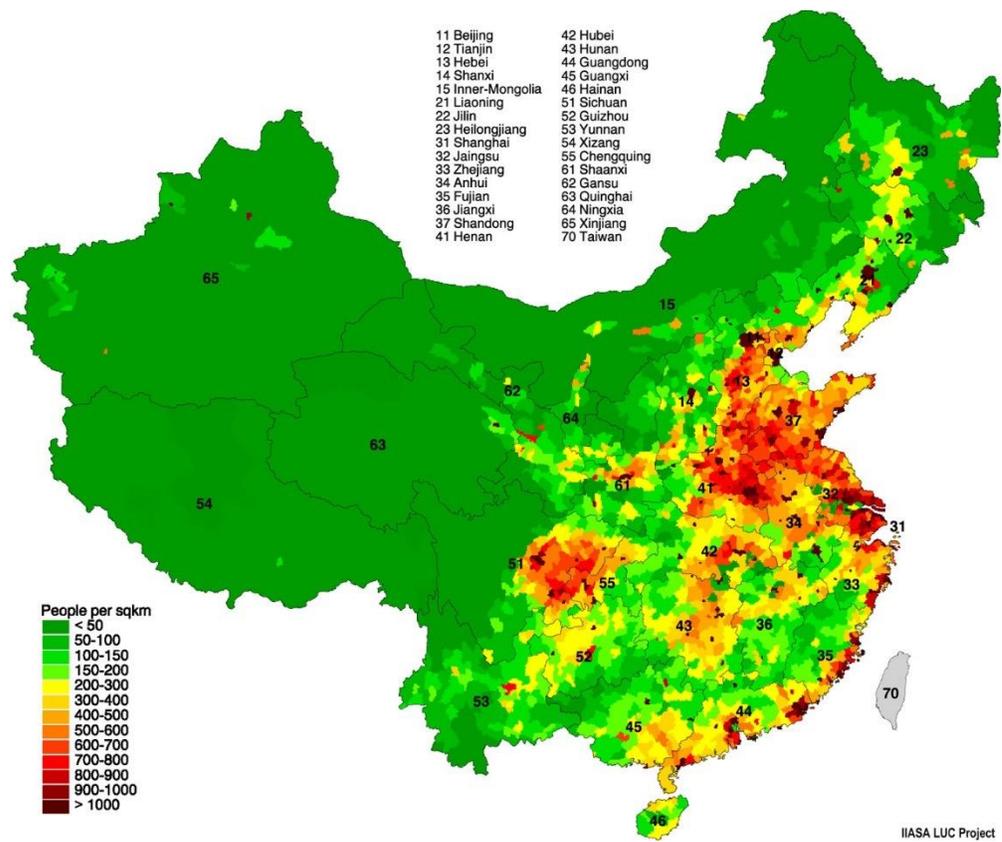


Figure 3. Population density in China (people per square-kilometer)

Source: www.china-food-security.org

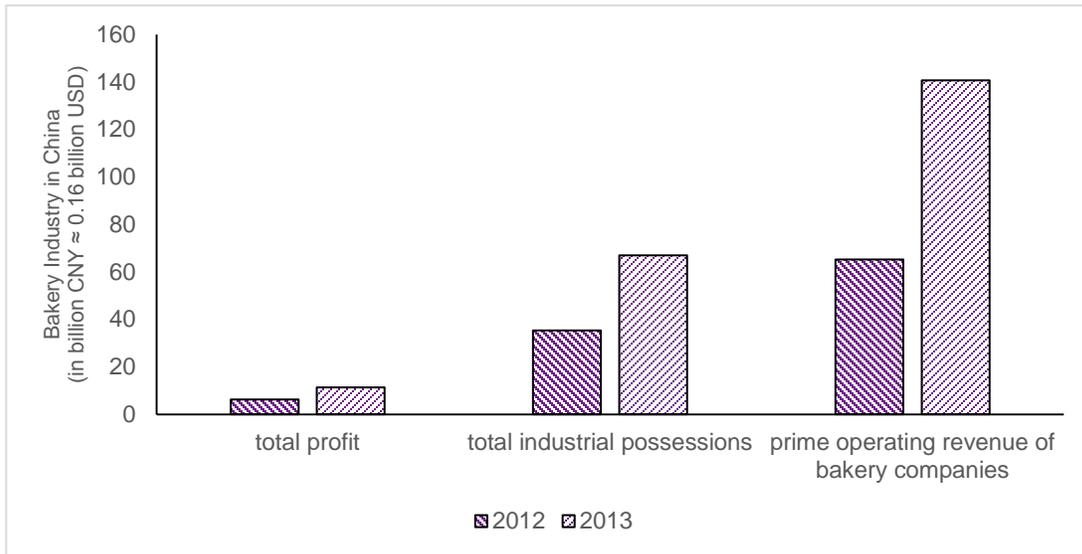


Figure 4. Bakery industry in China

Source: Data from China Industry Research Report (ChinaIRR)2015

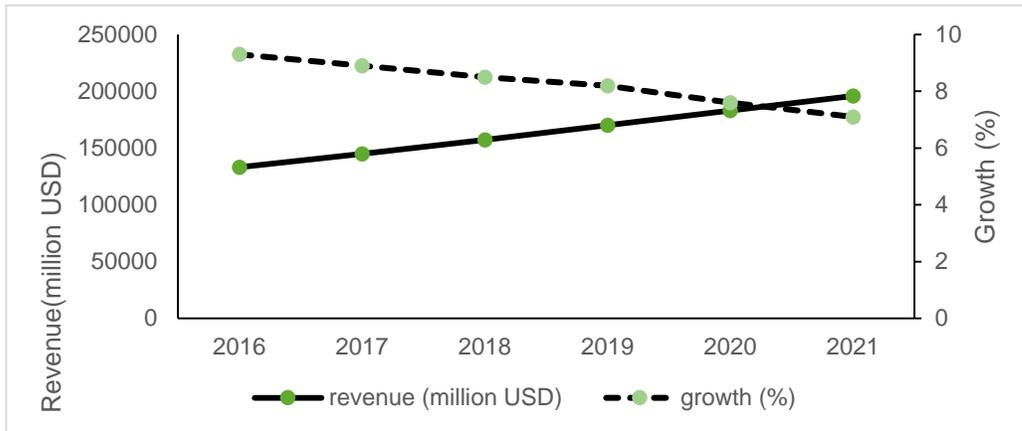


Figure 5. Revenue outlook of Fast-food restaurants industry in China

Source: IBIS World

<http://clients1.ibisworld.com.ezproxy.lib.purdue.edu/reports/cn/industry/industryoutlook.aspx?entid=940>



Beijing Bama Food Processing Co., Ltd

Beijing Baijiayi Food Co., Ltd.

Guangzhou Bama Food Processing Co., Ltd

Figure 6. Bama China logos

Source: <http://www.bjbaijiayi.com/index.asp> and
<http://company.zhaopin.com/CC139539857.htm>

Organizational Culture & Values

Mission – “People Helping People to Be Successful”

Vision – “Create and deliver loyalty, prosperity and fun, while becoming a billion dollar company.”

Figure 7. Bama’s mission and vision

Source: Bama Companies Inc. management report



Figure 8. McDonalds' pie in China

Source: Google images

Market Share

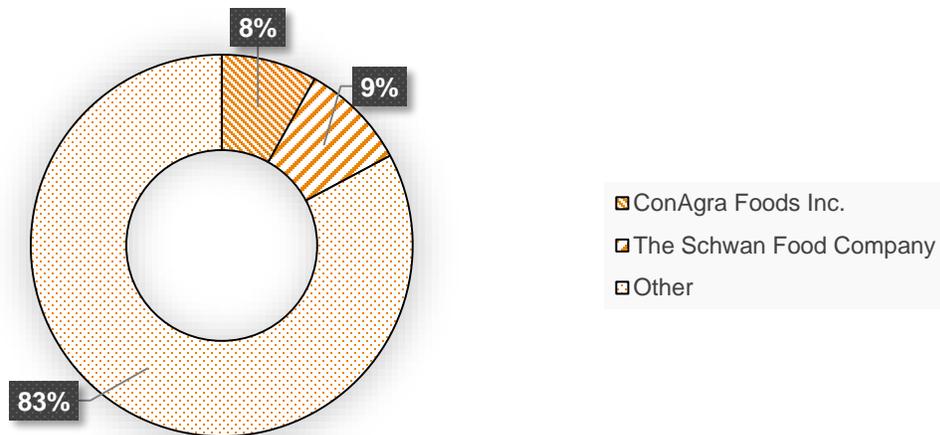


Figure 9. Major players in Frozen Cake & Pastry Manufacturing in the U.S.

Source: www.IBISworld.com



Figure 10. Bama Companies' pie shells in the US

Source: www.biglots.com