ABSTRACT

Haier’s legend started with a determined CEO’s hammering down incident of over 70 refrigerators in 1984. After the incident, Haier has grown continuously both in domestic and foreign markets as a quality driven white goods company. Potato washing machine for farmers is just one example of its unique philosophy to respond to customer’s needs and their philosophy has been stratifying Chinese customers and also European customers. As Haier expands its global market, US market still imposes as a challenge for Haier to overcome. How can Haier establish their spot in the US market among the big giants Whirlpool, Maytag, GE, Samsung, and LG? How can Haier overcome its “made in China” brand image? This paper takes a closer look at their history, their competitive advantage, and their strategic issues as they battle to win the hearts of American customers. The paper concludes with possible solutions for Haier in what they can do to move Higher in the US market

KEYWORDS: Haier, Domestic and Foreign Markets, Potato washing machine, Whirlpool, Maytag, GE, Samsung, and LG?

INTRODUCTION

BASICS OF HAIER

History of Haier

As the first Asian factory introducing the most advanced four star refrigerator production lines in the German Liebherr Hare in 1984, Qingdao Refrigerator factory is regarded as the predecessor of Haier. While this factory had continuously suffered a loss of 1.47 million yuan (around 0.24 billion dollar) and stood on the brink of bankruptcy, it was Ruimin Zhang’s inauguration that turned around the situation. With realizing the importance of “brand,” Zhang chose to be “a later starter with higher standing point,” and started to formulate Haier’s brand. In addition to establishing its brand, Zhang emphasized their product’s quality as Haier’s first priority. One famous anecdote regarding quality was Zhang’s publicly breaking down 76 unqualified refrigerators in order to evoke the awareness of his employees. Now, Haier has not only established its brand image toward local Chinese people and maintains its leading position in the refrigerator industry in China, but also owns a significant large amount of share in white goods industry in the world.
Strategic Stages of Haier

Overall, Haier has adopted five strategic stages during its development. The first Strategy stage was Brand building strategy, from 1984 to 1991. In this period, Zhang was trying to build up the Haier brand, and they only produced refrigerators at that time. The next strategy stage was Diversification strategy, from 1991 to 1998. With the great profits gained from selling refrigerators, Haier began to produce other white goods such as air conditioners, washing machines. And it began to develop their black goods producing lines in 1997. From 1998 to 2013, Haier adopted Internationalization and Globalization strategy. After they gained great success in the past few years, Haier wanted to create a Chinese own brand in the world, so during this period, they were trying to build up their business in other countries such as the US, Europe and so on. In the recent two years, Haier newly put forwards Networking Strategy. And this strategy was trying to produce products that meet the personalized demands for the users.

Overall Industry and Products

Haier is started as a refrigerator manufacturer and is now famous for its white home appliance products. Starting with refrigerator business at the very beginning, Haier soon entered washing machine, air conditioner industries, and produced other household electronic appliances such as water heaters and microwaves. Other than white home appliances, Haier began to enter black goods with television in 1997, and entered Internet appliance industries as well. With its brand name and increased profits, Haier is now entering other appliance industries including vacuums, rice cookers, and DVD players.

STRATEGIC ANALYSIS

Value Chain Analysis

<table>
<thead>
<tr>
<th>Table 1: Value Chain</th>
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<tr>
<td>HRM: Competitive HRM Eliminating Middle Managers</td>
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<tr>
<td>R&amp;D: innovative development</td>
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<tr>
<td>Design: luxurious design targeting European, US customers</td>
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<tr>
<td>Operation zero defect by using 6sigma</td>
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<tr>
<td>Outbound Logistics: Reliable delivery</td>
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<td>Marketing: moving the heart of customers</td>
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<tr>
<td>Service: 6,000 A/S networks, 80,000 service workforces accumulated big data</td>
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Operation (Quality)

Haier today is gaining market share and profit through both related and unrelated diversification. However, Haier’s origin was ‘Sweeping the Chinese market with a refrigerator in quality alone’. In early years of Haier, Zhang received a complaint that Haier’s refrigerator has trouble in operation. Zhang soon found defects in 76 other refrigerators and he broke those refrigerators by using hammer in front of the employees to teach them a lesson. Zhang told to the shocked employees “Every product having trouble will fail to pass the inspection. We will divide products into only two sections: tested goods or rejected goods,” and he adopted 6sigma that he learned in America to settle ‘zero defects strategy’. In 1985, Haier produced “Chingdao-Repere” Refrigerator and earns much profit with its high quality. Although “Chingdao-repere” refrigerator gains much popularity from the customers, Haier keeps the pace of the production to make sure high quality of each product. Zhang Ruimin’s zero defect policy has made Haier of today.
Marketing

As mentioned earlier, Haier targeted niche market and invented unique products not only to gain profit, but also to capture the hearts of the customers. It is to show that Haier is attuned to the needs of the customers. This business values is a reflection of the founder CEO, Zhang Ruimin’s personal value. Zhang Ruimin analyzed 200 years of business history and noted that Business is a process of satisfying the desire of the customers. Haier, in Business makes its best effort to attain customers satisfaction, trust, and loyalty as the most important task. Haier’s every strategy is to ‘Always gaze customer need, move the heart of customer.’ This business value is also applied in Haier’s marketing. At a ‘2014 Korea-China CEO forum’ held in Qingdao, vice president of Haier said that Xiaomi beat Samsung to be the first place in smart phone market. It is not that technology of Xiaomi is superior to Samsung, but that Xiaomi won the marketing strategy.”

Delivery (Outbound Logistics) and Service

Haier focuses on reliable delivery and prompt after sales service. Especially, Haier controls the quality of service by skipping the mid-distribution between the producer and the customer and operates the channel directly and controlling the quality of the products. By way of illustration, one customer living in northwestern china bought Haier personal computer. Haier promised to deliver the computer even though the delivery would have to cross the Gobi desert and travel 1,560km to reach the customer’s house. On the way, the express car broke down in the middle of the Gobi desert and employee rode on a camel to deliver the computer to the customer. This is a good example to show Haier’s priority in customer satisfaction. In terms of service, Haier has 6,000 A/S networks, 80,000 service workforces and accumulated ‘big data’. Moreover, they increase the A/S period of LED TV panel from 2 years to 3 years. Haier has incredible A/S policy which only requires the customers to pay 6.7% for LED TV panel to have it fixed.

Human Resource Management

Ruimin Zhang, who was considered as one of the wisest CEO in China, put forwards many famous principles of human resource management, and these principle has shaped a special culture Haier, always encouraging employees. Under Zhang’s leadership, Haier’s employees became energetic and ambitious. A company’s culture usually impacted the performance of the company. Haier’s special horse racing culture did contribute to their success. As Zhang said, “as a manager, your task is not to find out the talents, on the contrary, you should set up a good system making your employees become talent …you are not necessary to know their blemish, but you should always keep their merit in your mind.” These systems were not only the core and treasure in Haier’s history, but it also influenced many other companies. Another interesting mechanism of Haier is the “Game mechanism.” In the 1980s, those big state-owned companies were called “iron bowl”. It meant that once you took a position there, you would never need to worry about your life because it was too tough to break down. Therefore, some of those who entered into these companies may somehow become lazy and gradually loss their ambitions. And this was very descriptive among companies at that time. However, Zhang innovatively set up a new system, showing that Haier would select people by competition. “Everyone is talent, we race horses rather than selecting them,” said Zhang, which meant that Haier was trying to judge employees’ performances by competition instead of considering their education level and other outer conditions. Zhang also said, “We offer you the competition area, and we tell you the fair rules of the game which is open to everyone, it only depends on your effort whether you can run over your competitors.” This fair competition did keep Haier’s employees’ ambitions, for the reason that it gave them a sense of crisis, that was, if they did not work hard, they may probably face with layoff.
Financial Analysis

ROE of 2011 = 1,407,458/2,337,909 = 0.61 (amazing!)
ROE of 2012 = 1,695,122/2,501,181 = 0.68
ROE of 2013 = 2,036,882/2,761,754 = 0.74 (amazing!)

The ideal ROE ratio is 10%~20%. But Haier shows the amazing ROE ratio over 60%. But it could be because debt is too big and so equity is too small. Especially, we need to check the liability account of Haier because they recently have made a massive investment in overseas. We could confirm those massive investments in cash flow statement. Total cash flow of 2013 decreased 50% compared with previous 2 years. And it is because financing activity cashflow is making a record of big deficit. (Appendix A.1)

So we analyzed the interest coverage ratio either. This ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period. ‘Ratio under 1’ means that the company is having some problems in generating enough cash flow to pay its interest expenses.

And ideal ratio is to be over 1.5. (Appendix A.1)

Interest coverage ratio of 2011 = 1,853,865/22,492 = 82 (amazing!) 
Interest coverage ratio of 2012 = 2,244,072/64,504 = 34
Interest coverage ratio of 2013 = 2,637,824/68,334 = 38

However, Haier shows the amazing interest coverage ratio either. And this could mean that Haier borrowed money at a low interest rate or they borrowed short-term debt. So we checked the debt composition from balance sheet. (Appendix A.2) As a result, we confirmed that most debt of Haier is composed of short term debt. And we concluded that sound finances of Haier are considered to be very good.

Industry Analysis

First, the threat of new entrants is considered to be low in home appliance industry as the entry barrier of manufacturing household goods is quite high owing to the industry’s nature of capital intensiveness. In other words, household goods industry requires large investment in purchasing, maintaining and amortizing its capital equipment. Moreover, due to numerous established multinational firms, there would be less threat regarding the new entrants to takeover the existing customer loyalty and brand preferences. Second, the threat of substitute products in a home appliance industry is considered to be very high because the industry generally offers a relatively similar product. That is, if a firm lacks customer loyalty or brand preferences, customers may choose to switch to another firm’s similar product. Therefore, firms in this industry need to develop continuous innovation to survive. Third the buyer power is rather medium because it mostly depends on how each firm in home appliance industry develops its distribution network and differentiates its products and services. Fourth the bargaining power of suppliers is medium to low because most multinational home appliance firms outsource its manufacturing process to overseas suppliers to lower production costs. However, there are some firms that are vertically integrated and supply itself through in-house production. Lastly, the industry has a very high rivalry amongst existing competitors, namely GE, Whirlpool, and LG. In specific, firms in household appliance industry
pursue both cost leadership and product differentiation strategy through large economies of scale and many innovations.

**Globalization Analysis**

**Globalization and Transnational Strategy**

Since 2005, Haier is striving to build a global brand throughout the world. For instance, Haier has a worldwide network of trading companies, R&D centers, manufactories, industry parks, and over 80,990 global sales networks. As Haier’s CEO Zhang Ruimin says, “The objective of most Chinese enterprises is to export products and earn foreign currency. This is their only purpose. Our purpose in exporting is to establish a brand reputation overseas,” unlike most Chinese firms that sell under foreign firm labels as an OEM contract manufacturer, Haier looks forward to establishing a genuine global brand. In terms of globalization, Haier uses the transnational strategy as a coordinated approach to achieve both reducing costs and adapting to local markets. According to Strategic management (book), this strategy is used to optimize “the trade-offs associated with efficiency, local adaptation, and learning.” In other words, transnational strategy allows the firm to combine the benefits of large economies of scale and fast local responsiveness. Therefore, Haier’s goal of establishing their presence in global markets is undertaken through operational efficiency and by adapting to local customers. In order to pursue transnational approach as its globalization strategy to build a global brand, Haier focuses on two strategies: product differentiation and customer responsiveness. First, Haier focuses on product differentiation to gain customer attraction. Other than following the global competition trend of developing general products, Haier instead developed niche products to meet its local customers’ needs. Second, Haier invested huge amounts of money to stay close to local global customers in order to achieve fast customer responsiveness. For instance, Haier acquired a local manufacturing plant in South Carolina, US to serve local customers with their own ‘made in USA’ products.

**Haier in United States**

As aforementioned, Haier is doing overseas business in over 30 countries. Out of these countries, their Western markets, namely US and Europeans markets are their main target. Haier shows a strong desire to be established in these markets over the developing countries, which is the reason why they first launched their business in western markets before third world countries, unlike many other businesses that first target developing countries. Haier’s vision was that success in western market would eventually lead to success in third world countries because western market customer’s demands are harder to meet than others. Out of the western markets, which include European markets and the US market, we particularly chose the US market to investigate because Haier has gained a fair recognition in certain parts of European markets, in Poland for instance and even their logo, Hiser Haier used in Europe is their testament to growing reputation in Europe. US, however, despite Haier’s growth, is a market where Haier is still fighting for recognition and still has many issues that Haier needs to work on. We particularly look at Haier, because for Haier, success in the US market leads to success in other countries as well. There is also many opportunities for Haier in the US market and as Haier gains recognition from the US, Haier will be signed outable to gain recognition from other markets and make their entrance and success in other markets successful.

**Haier Competitors and Financial Analysis**

The US market’s mega electronics companies are namely GE, Whirlpool, and Maytag. Before the mid-1990s when foreign companies started to enter the US market, the three companies took up about 90% of the refrigerator sales in the US. The customer recognition of the three brands is high and the customers do not doubt its quality. Although the focus
of the products are different from Haier, who are currently focusing on the niche markets, the three mega companies recognize Haier as their competitors, and for Haier, these three companies are obstacles they need to overcome in order to establish their brand in the US. The three companies’ main focus is high end and full size refrigerators and dishwashers and other home appliances. The three mega companies do not focus on niche markets or on innovative products. Another set of competitors are foreign electronic companies in the US, who are the Korean major players, LG and Samsung, LG and Samsung entered the US market earlier than Haier and they were able to win customers first by their low price and eventually earn recognition for their quality. The US customers are willing to buy Korean products over Haier products that are from China. The five whitegoods companies, including the US companies and Korean companies all focus on full size refrigerators and middle to high end products. Their focus differs from Haier whose focus is on niche products and in marginal segments. In the first half of 2014, Samsung and LG topped the J.D survey of American customer’s satisfaction. Especially Samsung ranked the first on Drum laundry machine, refrigerator, gas oven, and microwave. Samsung particularly rated first on Drum laundry machine for its ‘operability, convenience, design, functionality and price,’ and obtained 828 out of 1000.

However, Samsung and LG’s profit decreased 93%, 51% respectively in 2014 during the third-quarter. They argued it is due to early stage investment by converting from ‘stuck in the middle strategy to differentiation strategy’. The two companies aim to be a first in global electronics market in 2015, and they might be a strong competitors to Haier. (Appendix B)

ROE of 2011 = 408M/4.18B = 10%
ROE of 2012 = 869M/4.26B = 20%
ROE of 2013 = 1.09B/4.92B = 22%

Ideal ROE ratio is 10%~20%, so we could say that Whirlpool shows the excellent outcome. Moreover, ROE of 2012 doubled compared to previous year, and they maintain those result. As a result, we could expect the growing threat of Whirlpool.

STRATEGIC ISSUE: PRICE AND BRAND IMAGE

As Haier battles to expand their market in the US, they face several challenges. First, their strategy is that of a transnational strategy where there is a high pressure for low price and for local adaptability. Haier has been doing well in terms of adaptability as mentioned in their niche products and in differentiation. However, Haier faces strong pressure for price because there are already too many white goods companies that have been well established in the US Market. These white goods companies such as Whirlpool, GE, Maytag to name a few have already won the hearts of the US customers along with foreign companies such as Samsung and LG. Because customers trust these companies and acknowledge them of their durable quality, the customers are not willing to pay for Haier products unless it is low cost. The customer willingness to pay is low for Haier compared to these companies because US customers associate Chinese brands with low quality. Customers do not know of Haier’s brands and they are not willing to take the risk unless there is a low price appeal. The CEO Zhang Ruimin, however, has a different philosophy. Zhang Ruimin wants Haier to be recognized as a high quality brand and he is unwilling to lower the cost and present their products as low cost brand. Brand image is another prominent issue that Haier needs to overcome as only about 4% of US customers recognize the brand Haier according to a survey conducted by Forbes in 2014. Majority of customers do not know what Haier is as Haier has
been targeting marginal segment through wine cellars and college compact mini fridges. Haier has been promoting some big screen TV’s recently, which has been confusing customers all the more. Haier first needs to get the name out there as a brand whose quality can be trusted and earn fame for specific line of products that others can recognize.

CONCLUSIONS

Lower the Price

In order to increase the market share in US home appliance industry, Haier should reduce their price. Although most US consumers expect cheaper price from Chinese companies, Haier is currently maintaining their price level in the US market as in they do in China. This was due to the fact of Haier being very confident of its quality standards. However, it was the ambiguity of the price and quality that made Haier’s pricing become ‘stuck in the middle’ in the United States market. Therefore, if Haier looks forward to escape from this situation of stuck in the middle, Haier should focus on cutting the price. This could be done through reducing unnecessary niche product lines and instead focusing only on the profitable products. It is because Haier’s diversification leads to high investment in production facilities and high cost and thus high price level. Therefore, it can be suggested that Haier should lower their manufacturing costs associated with specializing on of their main product. This way, Haier’s business funding resources can be saved and thus can be used for developing its main product lines. Moreover, Haier’s high quality on specialized product and its lower price will be able to gather sophisticated US customers. Thus, it would lead to the chance of introducing Haier’s product experience to new US customers.

M&A of Well-Known Brands

Another way for Haier to escape from ‘stuck in the middle’ stigma is through merger and acquisitions of well-known brands. Until now, Haier’s acquisitions have not been successful. In specific, Haier America made a bid for appliance maker Maytag and soon withdrew its bid, while Haier’s competitor Whirlpool instead bought Maytag in 2006 to create the world’s biggest appliance maker. On the other hand, Haier has been successful in establishing joint ventures with leading appliance makers while leveraging its position in China. For instance, Haier succeeded to acquire 60% stake from Sanyo-Electric Company’s refrigerator business to form a joint venture named Haier-Sanyo-Electric in 2006. From this acquisition, Haier was successful to expand markets in Japan. Therefore, it can be said that Haier’s cooperation with local well-known brands is beneficial for establishing its brand image to that local customers.

Few years ago, Haier assessed the possibility of acquiring General Electric’s appliance industry but failed to do so. Nowadays, General Electric is an American multinational conglomerate company that ranks the 26th largest firm in the US by gross revenue and also is the 14th most profitable firms. If Haier successes on acquiring GE, this will help Haier in reducing its operation process and save time and efforts on increasing the US market share.

In specific, M&A has several benefits to Haier as follows. First of all, an existing income cashflow and customer base will be taken over. Sales track records will be available to make a sales projection or analyze the sales activity. Secondly, skillful staffs, operational know-hows and brand image will be taken over. A good M&A deals will generate synergy effect to one or both parties, whether it leads to a technology improvement or better brand name. Especially in terms of the brand name, Haier is expected to offset a large amount of negative brand images that come from the recognition of Chinese company in US market and eventually lead to expanding the market shares for better profit.
Moving on from CSR to CSV

There has been increasing trend for production and consumption of green products with the rising issue of climate change and global warming. According to ASEIC, this trend is creating a huge niche market for both environmentalists and entrepreneurs to provide innovative solutions by introducing eco-friendly products. Green products refer to eco-friendly materials and energy-efficient production which do not contain polluting elements. It is said that this trend also promotes a paradigm shift of consumers’ consumption toward environmental stewards and eventually help achieve environmental sustainability. Haier, as one of the largest home appliance company, focuses on public charities with the belief of “To be true forever” for stakeholder management perspective. For instance, in order to increase the environmental consciousness, Haier holds a series of public activities such as activities of Green Sail in charities, education and sports. Nonetheless, Haier has not yet started a different means to sustain and protect the Earth, creating shared value. Nowadays, many firms in all fields of industry, either small or big, are facing a new conception of capitalism. According to “Strategic management textbook”, this new concept broadens the corporation’s purpose to not only profit but also creating shared value. In terms of home appliance products, Haier has a great opportunity to take advantage of CSV through eco-innovation. Based on Haier’s original innovativeness, the firm should concentrate on environmentally sustainable products and develop more eco-friendly technologies by more investment on R&D. For instance, Haier could create a new technology that saves energy but also differentiate the product by customizing toward local customers. This would enable Haier to attract sophisticated US local customers and raise their willingness to pay and eventually establish a global eco-friendly brand image.

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