

Haier Group Company MarketBuster

Summary

The Haier Group was formerly known as Qindao Refrigerator Plant. It climbed from the verge of bankruptcy in the early 1980s to establish itself as a world-renowned brand and is now the fourth largest maker of white goods (appliances that were traditionally covered with white enamel—dishwashers, dryers, washing machines, etc). Currently it is China's largest appliance maker. Its products include refrigerators, freezers, air conditioners, dishwashers, microwaves, televisions, vacuums, cell phones, and computers.¹

The Story

There have been three key stages in Haier's development as a company.

1. Developing a domestic quality reputation: After Haier was incorporated in 1984, it began to develop a reputation for its refrigerators. The company used a Total Quality Management system and rigorous standards to develop a strong brand name in China. The implementation of these new quality standards helped Haier to turn a profit only a year after facing the possibility of bankruptcy.
2. Diversification: Haier then began to diversify its business and expand its product offerings. It had already developed a brand name for its refrigerators in China and it looked for other products where it could transfer this brand name. Other appliances such as freezers, dishwashers, and microwaves were the first expansions because they were most closely associated with refrigerators.
3. Global Expansion: Haier realized that to continue to grow, it needed to expand globally. It sought out opportunities to transfer its brand name and quality reputation to both developed and developing countries.²

MarketBusting Moves

China's eBusiness

There were significant external barriers that Haier had to overcome as it developed an e-business strategy. China is a difficult environment for e-business because it lacks a technical infrastructure. In addition, consumers don't readily accept the internet as an acceptable way to do business since there is a cultural preference for personal face-to-face contacts. The management of businesses in China has been reluctant to commit resources to developing e-business and there are also legal barriers that make internet business difficult. Online payment systems are also hard to develop because there are few personal and institutional credit systems.³ Despite these challenges, Haier realized that the rewards would be significant if it could successfully develop an internet business strategy.

Move #14: Radically improve your productivity

¹ 'Haier Group Company Overview', 2004.

² Tung-lung & Ping Li, 2003, p. 40.

³ Ibid, p. 38.

Haier began by creating two online networks. The first is a business-to-business network that is based on www.iHaier.com. This site is an international supply chain that finds the best suppliers, sets up close partner relationships, and reduces purchasing costs. It does all of this while simultaneously improving product quality. The site allows Haier to place orders, receive automated stock replenishment, process payments, and have production related control. As a result, Haier is able to work more closely with suppliers to secure the necessary components for growth.⁴

Move #2: Digitize to combine or replace links in an existing chain

The second online network Haier created is business-to-consumer based on www.eHaier.com. This site takes online orders from customers and has helped Haier to build one of the best distribution networks in China. The site also allows Haier to process specialized orders.

The pursuit of an e-business was much more than setting up a website and an information system. Haier had to readjust its traditional business processes in order to take advantage of the e-business. Haier reengineered its entire business operation so that it could implement the supply chain management provided with iHaier. Its information, materials and transaction flows were readjusted. The e-business could not be a standalone entity and Haier incorporated it into every part of its business to reduce costs and increase efficiency.

Haier's e-business is not remarkable in and of itself. What makes it unique is that Haier has implemented a successful e-business that is customized to China's special situations. Haier identified e-business as a growth area and has remained committed to implementing this strategy in the face of obstacles. For example, many individual Chinese consumers don't have direct internet access at home, so Haier made another e-business model: B2B2C. In this model, Haier provides its products to distributors and then retailers provide services for the consumers. Haier has asked its distributors and retailers to provide internet access for its consumers so that they can access eHaier. Distributors and retailers also serve as a source for providing product information, offering consultation or advice, and taking orders from the consumers who don't have internet access or don't feel comfortable placing online orders by themselves. In this way, Haier is able to pursue a strategy of low-cost production and high-value for its customers.⁵

International Expansion

Haier's international expansion strategy differs greatly from the majority of Chinese firms. A large majority of Chinese firms purchase resources overseas and sell their goods under foreign firms' labels. Haier's international expansion goal is not to merely sell its goods overseas, but rather to create a genuine global brand.⁶ According to Haier's CEO, Zhang Ruimin, "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."⁷ Haier developed a reputation for quality products in China and wants to transfer its brand name in expanding to other markets. Ruimin believes that in order for Haier's international business to succeed, it will need to create a localized brand name. "We have to make Americans feel that Haier is a localized US brand instead of an imported Chinese brand. The same goes for the European market."⁸

Haier is also set apart from other Chinese firms in the way it chooses which foreign markets to enter. Most Chinese firms initially enter other Asian markets that are close to home before attempting to penetrate into Europe and the United States. Haier's strategy is exactly the opposite. It chooses to enter the European and the United States markets first because its

⁴ Tung-lung & Ping Li, 2003, p. 41.

⁵ Ibid, p. 35

⁶ 'Haier's Purpose', 2004, p. 72.

⁷ Wu, 2003.

⁸ Ibid.

biggest competitors are located in these markets. The firm believes that if it can succeed in difficult markets, it will then be able to enter easier ones.⁹

Move #6 and #7: Dramatically improve the positives and eliminate tolerables and emerging dissatisfiers

Haier seeks to serve its customers in a way that its competitors can't. The firm places great emphasis on understanding what its customers want and quickly meeting their needs. The large competitors are often slow moving when it comes to developing new ideas and meeting customer needs. Haier sees an opportunity to compete against them by gaining a better understanding of the customers and meeting their needs faster.¹⁰ For example, Haier realized that most of the customers who buy its compact refrigerators are college students. These students generally have very small rooms and apartments and have a need to conserve space. Haier designed a refrigerator with wooden flaps on the sides that can be folded out to make a computer table. According to Haier, sales on these refrigerators were very high because, "we understand customer needs and meet them."¹¹

Move #4: Eliminate time delays in links of the consumption chain

Another example of Haier's speed to market is the design of its Access Plus freezer. Michael Jemal, the Haier America CEO, sketched the "freezer of his dreams" on the back of a napkin and gave it to Haier's CEO, Ruimin during a visit to headquarters. The freezer was designed to open from the top, but it also had a bottom drawer that kids could reach to grab an ice cream. The two compartments would have different temperatures—one that was very cold for storage and one that wasn't as cold for more frequently used products. The freezer also had a stylish design so that customers could put it in their kitchens instead of the garage or basement. Ruimin liked the idea and the next day he had a working model of the freezer. Ten months later, the freezer was on sale in the United States at Lowe's. Although the freezer reached the market incredibly fast, quality was not compromised. In fact, the freezer was given *Good Housekeeping's* seal of approval.¹²

Move #8 and #33: Break up existing segments and shift in a dimension of merit

When challenging the large, established firms of Europe and the United States Haier realizes that, "...we can't just do me-too products. The competition is much more established, with great brands and distribution, so if we're like them, we'll be crushed."¹³ Instead of copying the competition, Haier scouts out segments that the market leaders have vacated or are not interested in serving because profit margins or volumes are too low. In the United States, Haier sidestepped GE and Whirlpool by focusing on segments that these firms dismissed as peripheral. Haier's initial product focus in the United States was mini refrigerators that are commonly used in dorms, offices, and hotels.

In order to understand what customers want and how to differentiate, Haier sends its R&D people to talk directly to customers. R&D people also interview salespeople in chain stores to find out their specific needs. Haier understands that the products that sell well in China will not necessarily succeed in the United States. Its products for the United States are produced locally in its South Carolina manufacturing plant and all design and production is done locally.

Wal-mart and Home Depot stock Haier's compact refrigerators and Target sells Haier's air conditioning units. Haier's willingness to customize and differentiate its products has given it an entrance to these big retailers. When Home Depot requested that Haier equip its refrigerators with locks for cubicle and dorm room security, Haier responded immediately by developing a new model. A Target customer once suggested that Haier replace text descriptions on its air conditioning units with easy-to-read icons. Instead of dismissing this idea, Haier listened and developed a new model fitting the customer's description.¹⁴

⁹ Wu, 2003.

¹⁰ Ibid.

¹¹ Ibid.

¹² "Haier's Purpose", 2004, p. 72.

¹³ Sprague, 2002, p. 193.

¹⁴ Raskin, 2003, p. 64.

Key Lessons

Many believe that Haier could break into America the way Sony did in the 1950s or Samsung did in the 1980s. Like these firms, Haier has good quality products that are priced just below the competition. Yet Haier has an additional advantage that other Asian firms did not have. Because China has such a vast geography, disparate markets, and many national and local authorities, Haier has dealt with many of the problems of globalization without leaving home.¹⁵ The firm has proved that it can adapt to local preferences, therefore, its international expansion is just an extension of its strategy in the home market.

Haier is content to enter the market with brands that have lower prices and dependable quality. The strategy is to, “start with low-end items that high-cost American companies can’t profitably produce and then, as consumers grow accustomed to the brand, gradually work up toward the top. Our strategy is good, better, best.”¹⁶

Haier has already entered the United States with its niche products. The next step in its expansion plan is to start competing with the large, established competitors by introducing full sized refrigerators and other white appliances in the United States. Haier’s plan for entering the United States is to gradually build up its brand with niche products so that consumers will recognize the quality and dependability of its products as they shop for other appliances. When asked what the future holds for Haier, Ruimin replies,

“The question I think about almost every day is how to avoid the disadvantages of a large enterprise. In large companies, sometimes people don’t notice a problem until it has gone beyond being solvable. To avoid this, we have to consider how to make every person respond very quickly to the market. We are trying to make each employee at Haier work like an SBU, a strategic business unit. This way, pressure from the market is the driver of our development. I don’t want Haier to become like the Titanic. I want everyone to share responsibility with the captain instead of the captain bearing the responsibility alone.”¹⁷

¹⁵ “*Haier’s Purpose*”, 2004, p. 72.

¹⁶ Arndt, 2002.

¹⁷ Wu, 2003.

DRAT Table, Haier**SOURCE**

External

Powerful Incumbents	Large, established, white goods manufacturers from Europe and the US. (Whirlpool, GE, Electrolux, Maytag)
Opposition from advocacy groups	NA
Risk to key external stakeholders	NA
Inertia	Continuing to find ways to innovate its product offering and differentiate itself from its large competitors. Add value to its products to serve niche markets better than the competition.
Disruption of customer's system or process	Must prove to its US/European customers that it is a trusted brand name and can provide the same quality (or better quality) as its competitors.
Changes in standards or regulations required	NA

Internal

Internal political maneuvering	The Haier Group is a highly diversified company and as it continues to diversify, it must ensure that it can manage all its products effectively.
Reluctance or resistance by those needed for active implementation	Must continue to break the mold of the traditional Chinese firm in its international expansion. Also must defy the traditional business norms in China to fuel its growth.
Resource Constraints	As the Haier Group diversifies, it must be able to provide quality management and employees for all of its divisions.

Platform changes required

Human resource and skills platforms	Managing a diverse company can present HR challenges; also must manage employees across many different countries.
Logistics platforms	Keep looking for cheaper and faster ways to deliver products to the consumer; increase the speed of the supply chain.
Distributor platforms	NA
IT and database platforms	Increase the use of the ebusiness in China and in foreign markets.
Technology platforms	Use technology to improve the features of its products
Assets, operations, and systems platforms	Increased interaction between the supply chain links to eliminate bottlenecks and deliver products faster to the consumer.

Marketbusting Kite

Element	Needed to Support the Marketbusting System
Agenda The key things that the critical people spend time on	<ol style="list-style-type: none"> 1. International Expansion 2. Developing a reputation for quality in China and in foreign markets 3. Commitment to quality manufacturing standards 4. Market research to understand customer needs 5. Developing new products 6. Strategic product distribution
Norms What principles and behaviors are valued?	<ol style="list-style-type: none"> 1. Efficiency 2. High quality manufacturing 3. Being responsive to customer needs 4. Innovative ideas
News What information and measures are paramount?	<ol style="list-style-type: none"> 1. Market share in China 2. Market share in foreign markets (especially the US and Europe) 3. Customer satisfaction/comments
Allocations What gets resourced and how are people rewarded?	Resources go to <ol style="list-style-type: none"> 1. International expansion 2. Diversifying into new markets 3. Purchasing links of the supply chain Rewards and recognition for successes go to <ol style="list-style-type: none"> 1. Efficient manufacturing 2. Innovative ideas for new products
Structure Power, authority, responsibility structure	<ol style="list-style-type: none"> 1. Haier America, US sales and marketing arm of Haier Group, must approve all decisions through the China headquarters 2. Coordination among different product groups
History Key routines that have developed and drive activities	<ol style="list-style-type: none"> 1. Focus on quality because this was how the firm turned around from near bankruptcy 2. Listening and responding to customer feedback/requests 3. Relationships with large distributors such as Wal-mart, Lowe's, Best Buy, Target, etc.

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