

The Presentation and Analysis of Haier

Haier

海尔

THE THIRD SEMESTER PROJECT WORK

Class 2008 International Finance

GROUP 4

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1.0 Introduction

1.1 Brief introduction to Haier

Haier is the 4th largest White Goods manufacturer in the world and the most valuable brand in China. Haier's headquarter is located in Qingdao, People's Republic of China. Haier has 29 manufacturing plants, 8 comprehensive R&D centers, and 19 overseas trading companies around the world like America, Europe, ASEAN, Southern Asia, Asia-Pacific, Central Africa as well as China. Haier has approximately 50 thousand employees and becomes a large-scale manufacturing company. The total global revenue in 2008 reached 119 billion RMB.

Haier was founded in 1984 and its reputation has been heightened significantly throughout the world which should be attributed to the efforts during last 25 years. At the end of 2008, the brand value finally touched 80.3 billion RMB. Since 2002, Haier has got the most valuable brand in China for 7 years. Lots of mainstream media also speak highly of Haier in recent years, such as *Finance Time*, *Forbes* and *The Asian Wall Street Journal*.^[1]

As the most successful Chinese corporation, Haier shows us a myth that a small factory has become a worldwide famous multinational company in 25 years. Definitely, as business-course students, it's quite interesting to analyze Haier's development and current situation.

1.2 Problem formulation

According to the 2008 annual report of Haier, the growth rate of total sales revenue just increased by 3.19% which is far from the 2007.

The main products are refrigerators and air-conditioners. Refrigerators occupied 44.3% sales contribution from the business line and gain 26.63% of market share in Chinese market and have been the No.1 for 19 years. But there is a big problem in the air-conditioners which can be divided into Home-use and Commercial-use. At the end of 2008, the air-conditioners' total sales revenue of Haier decreased by 7.15% in Chinese market, the sales of Home-use air-conditioners occupied for 27.2% while Commercial-use air-conditioners only got 5.1%.^[2]

Due to the financial crisis, the revenue went down in both of the overseas market and

Chinese market. In Chinese market, there are large amounts of competitors competing for market share of air-conditioners with Haier. As the Top3 manufacturers of air-conditioners in China-Midea, Gree and Haier occupied major market share. Haier's market share of air-conditioners is decreasing and the gap between Haier and the other two competitors is larger and larger. In August of 2008, the total market share of Haier (including exporting and Chinese market) was 8.64%, far from 20.08% of Gree and 18.06% of Midea. At the end of 2008, Haier occupied 14% of the market share while Gree and Midea got 47%. [3]

1.3 Problem statement

The main problem focused on this report is: How can Haier take the advantages and increase the market share of air-condition in Chinese market?

The market competition of the air-conditioners in Chinese market is fierce currently. Both of domestic and foreign brands exist and each of these brands is similar with others. As the most valuable brand in China, Haier should make efforts to increase the market share of air-conditioners and maintain the leading position in China.

1.4 Interpretations and demarcations

As the main business product of Haier which occupied 32.3% sales contribution from business line, according to the 2008 annual report, the declining market share of Haier's air-conditioners influenced the whole performance of Haier's total revenue and market share directly.

Among the product catalog of Haier, only the market share of air-conditioners decreased in Chinese market as one of the main business products, other products all increased which play less important roles in Haier. The market share is an indication which can show the performance of air-conditioners in such a competitive market. Other indications such as revenues, profits are not good ways to show the market situation and just are the internal data to make a historical comparison in air-conditioner itself.

2.0 Methodology

2.1 Data sources

We apply secondary data to analyze the market share, revenue and gross profit growth

rate of Haier's air-conditioners. The secondary data comes from the 3rd quarterly report in 2009 and 2008 annual report of Haier as well as Haier's home page and the CMM consultancy company.

2.2 Research methods

Quantitative research methods mainly are survey. We can get the data through this method. Then we can use the data to analyze the market share and the customers' satisfaction rate. At last find out the main problem that Haier is facing to. (Rosalind Masterson, David Pickton; marketing: an introduction; McGraw Company; 2004; page 167)

2.3 Theory

4Ps was used to analyze the current situation of Haier's air-conditioners while SWOT was applied to study the current situation of Haier Company from macroscopic view.

4Ps is also called marketing mix refers to product, price, place and promotion. The function is to help develop a packet that will not only satisfy the needs of the customers within the target markets, but simultaneously to maximize the performance of the organization.^[4] A SWOT analysis can help to identity the strengths, weaknesses, opportunities and threats of Haier. Strengths and weakness are internal factors that create value or destroy value while opportunity and threats are external factors. ^[5]

2.4 Limitations

1. All data used are secondary data which is previously collected by other people for certain purposes. Secondary data are not detail and latest influencing the accuracy of this report. (Rosalind Masterson, David Pickton; marketing: an introduction; McGraw Company; 2004; page 164)
2. The 3rd quarterly report in 2009 and 2008 annual report of Haier was written by Haier, so we can not evaluate objectively.
3. The data we search through quantitative research is not absolutely exactly. So we can not evaluate exactly either.
4. SWOT lacks for enough quantitative analysis and detailedly logical analysis. So, using the SWOT analysis is hard to answer "Whether the strength of Haier is strong enough to seize the opportunities or fight against the threats?" "Whether the

weakness is too weak to seize opportunities or fight against the threats?" [6]

5. As 3-semester college students, the knowledge and analysis methods are limited.

3.0 Presentation of Haier

3.1 Mission

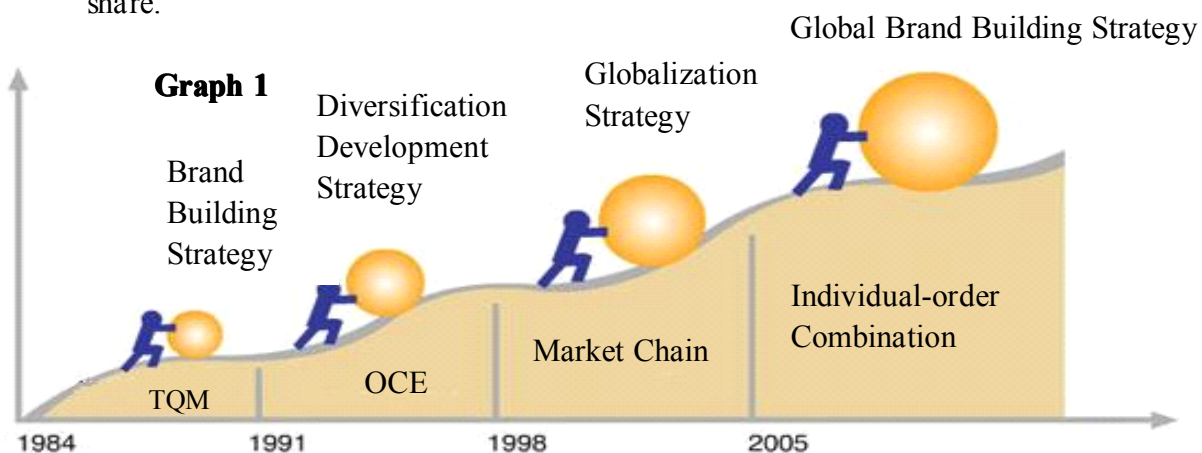
To be more competitive in such a challenging market, Haier will treat “To Innovate For Customers” as its core target and be a Customer-Orientated company in 2009. Haier wants to develop sustainably by keeping the Sales Growth, Innovation in IT, R&D and System with the positive cash-flows, so as to promote the competitiveness constantly and maintain the leading position in the industry continually. [7]

3.2 Vision

Haier will continue to insist on the corporate spirit-"creating resources and global reputation" and press ahead with the guiding principle-"combining individuals with orders and acting fast to get success". It aims to create a true global leading brand which belongs to China by pushing forward the information process recreation and establishing a user-centered process of information, a global network of logistics, fund and information flow. [8]

3.3 Strategy

From 1984, Haier has implemented 4 strategies combined with TQM(Total Quality Management), OEC(Overall, Every, Control & Clear), Market-Chain and “individual-order combination” managerial models to run business in order to expand its market share.



4-step strategy map http://www.haier.cn/about/vision_index.shtml

Brand Building Phase (1984-1991)

Only Focusing On Refrigerators

Haier Group grew out of the Qingdao General Refrigerator Factory which established in 1984. In that early stage of China's reform and opening, the economy was not quite flexible and the supply was still controlled by government. Haier observed that under the "Plan Economy", there is no pressure of competition in the market. So the most important task at that time to Haier is to focus on the quality and build a reliable brand image in customer's mind.

Then Haier raised "Brand Building Strategy" and the "Zero Defect" quality standard. Only focusing on the refrigerators let Haier accumulate many useful business and management experience.

As a result, Haier's product remained consistently popular and the company was even able to increase price by 12% though there were several competitors in the late 1980s.

Diversification Development Phase (1991-1998)

Expand To Brown Goods

With more and more competitors entering into the White Goods market, the competition became more serious. Lots of competitors cutting down the price rather than adding more innovation that caused losses and merger

Haier did not enter the price war but changed its strategy called "Diversification Development strategy" which broad its market to "Brown Goods". Haier analyzed that the reduction in demand did not mean the market had reached the peak, but rather that products were not meeting the expectations of increasing savvy consumers. Haier made lots of market research, listening to customers and even treat complaints as a valuable tool for modifying the relationship between customers and company.

Globalization Phase (1998-2005)

Be a Multinational Company

Globalization in the 21st century provided opportunities for Chinese companies to earn foreign currency because of the low labor costs and low raw material cost. But with the development of Chinese economy, these competitive advantages will go to an end because the costs of manufacturer are increasing.

Haier thought, in this situation only the multinational corporations with their own proprietary intellectual property and strong brand identities would have able to compete with other competitors in the worldwide.

“Globalization strategy” was issued by Haier which includes 3 steps:

- 1) Enter international mainstream markets;
- 2) Utilize main sales channels to deepen market penetration;
- 3) Establish Haier as an internationally recognized global brand.

Global Brand Building Strategy Phase (2005-)

Build a Local Haier Brand Worldwide

Now, we are living a global information age that every thing changes faster. No company can satisfy consumers only by itself, finding a way to integrate the individual talents is the key to future success. By launching a 1000-day information management revolution, Haier support a single information platform to its design centers, manufacturing bases and trading companies in over 30 countries in order to share global resources immediately and conveniently. In the Global Brand Building phase, Haier aims to build a local Haier brand in each geographic area all around the world.

[9] [10]

3.4 Product

Haier is quite a successful manufacturer of integrated home appliances satisfying the needs of global consumers by continuous innovation. Its products fall into 4 units: White Goods (Refrigerators, Air-conditioners, Washing Machines, Water Heater, kitchen Appliances), Brown Goods (Color TV, Mobile Phone and Computer), Client Solution Business (Central Air-conditioner, integrated Kitchen, interior Decoration, Medical Equipment, Intelligent Home Appliances) and Equipment Components Manufacturing Group (Plastic and Metal Plate Production Line, Material Integration Production Line, Electric Control Integration).

The paper’s focus product is the Air-conditioner divided into two parts—Home Air-conditioner and Commercial Air-conditioner.

Haier manufactures eight series of Home air-conditioners offering thousands of choices to satisfy the needs of global consumers. Haier's "oxygen-bar" air conditioner

is the highlight among the normal ones. The air conditioner designed especially for the 2008 Beijing Olympics automatically filters dust and bacteria. "Oxygen-bar" air conditioner can separate nitrogen from oxygen in the air to keep the oxygen concentration at about 30%, so as to give the room a well-ventilated feel even with the air conditioner switched on.

To Commercial air-conditioners, Haier features 4 categories, 10 series and over 1000 models including home, business, multi-user, and cold water machine systems. At present, Haier has one of the most complete and high-tech production bases for central air conditioners in China.

In 2008, Haier's air conditioner was chosen as one of the "Ten Creative Products Affecting the World" by the World Innovative Economic Research Center, and was the only brand listed from a developing economy. In the highly competitive US market, Haier air conditioners were rated NO.1 by *Consumer Reports* magazine, who recommended Haier as a "Best Buy"; the only brand from China so named. ^[11]

3.5 Markets

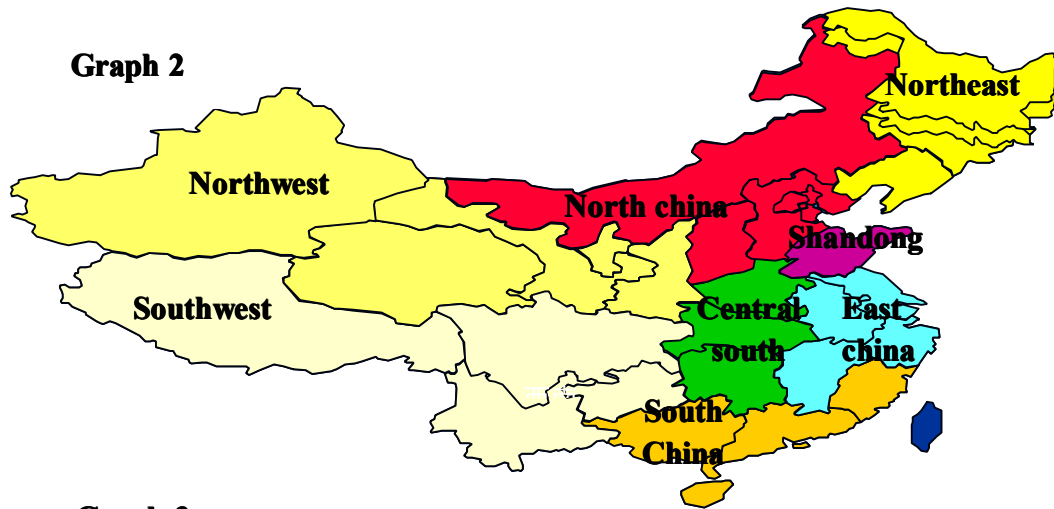
According to the CMM, the most authoritative consultancy company in China, Haier gained 26.2% market share in the whole Chinese household appliance market in 2008 and still was the No.1, especially in the high-end industry, the covered market share even reached 30%. ^[12]

In the overseas market, Haier still got the revenue about 5.13billion RMB, although Haier faced the financial crisis and Haier's revenue decreased by 16.51%. ^[13]

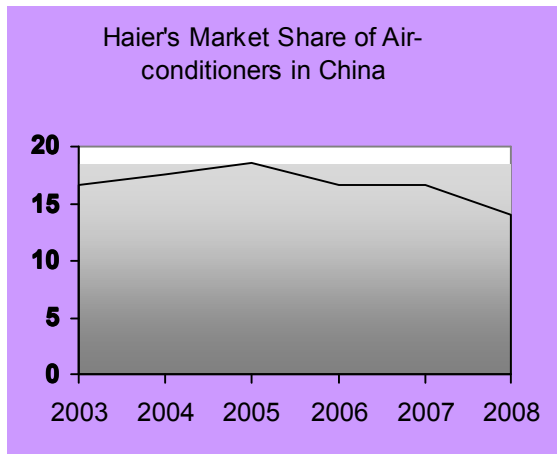
According to the map below, Haier has divided the mainland of China into 8 units as sales areas on the base of Geographic and Demographic factors. Then Haier segments every area into 5-class according to the development of the economy condition, as a result to create a 5-class distribution network. Because of the differences in each city class, limited personnel and cash flow of Haier, Haier issued different distribution strategies in order to satisfy consumers' needs and expand the market share.

The market share of the focus product-air-conditioners in 2008 was about 14%, while Haier's main competitors Midea and Gree got almost 47%. According to the **Graph 3** below, Haier's air-conditioners' market share decreased from 18.56% 2005to 14%

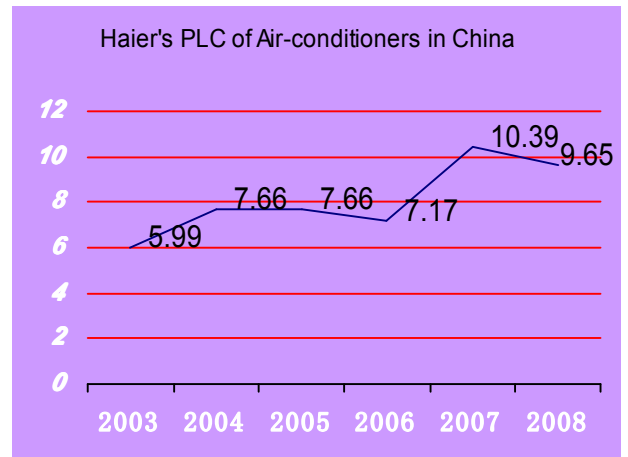
2008. Facing half of the market shares occupied by Midea and Gree, Haier should realize the threats and try to change the current situation.



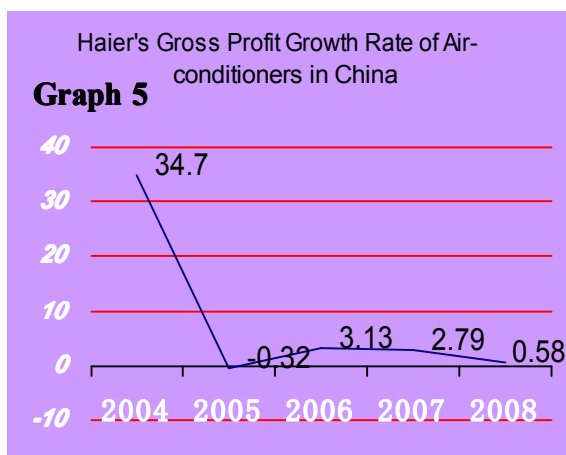
Graph 3



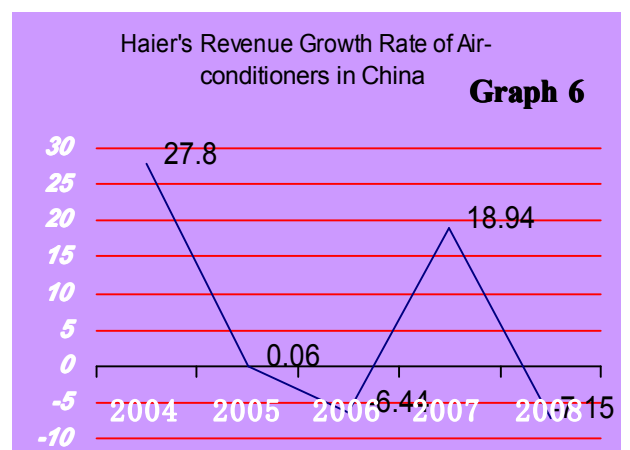
Graph 4



Graph 5



Graph 6



Graph 4 indicates the PLC of air-conditioners from 2003 to 2008. According to the Figure, we can find Haier's revenue decreased slightly in 2006, and went up dramatically in 2007. After the revenue hit the peak in 2007, it dropped slightly again

in 2008. Above all, this PLC is a typical scalloped PLC. In the future, we can forecast that Haier will launch new product adding more new characteristics or enter another market to find new customers.

According to the **Graph 5** and **Graph 6**, the revenue and gross profit growth rate of air-conditioners are not stable but fluctuated dramatically from 2004 to 2008 and both dropped sharply at the end of 2008. Haier’s revenue profit growth rate decreased by 7.15% in 2008 while Midea and Gree increasing by 28.77% and 10.58%. **[14][15]**

3.6 Financial and Economic Resources

According to the 3rd quarterly report in 2009 and CMM-the most authoritative consultancy company in China, the total assets of Haier reached 16.9billion RMB and increased 38.28% than the end of 2008. **[16]**

According to the Haier 2008 annual report and CMM, the total revenue of Haier was 30.9billion RMB while the air-conditioners occupied 9.64billion RMB. The gross profit margin of air-conditioners touched 23.18% and increased by 0.58% from the end of 2007. **[17]**

3.7 Dealers and Distributions

Haier created a unique system that combine designing, producing and selling together. One third of products produced and sold in China, another one third of products produced in China but sold in the overseas markets and the rest one third of products produced and sold overseas.

In China, Haier has a diversified distribution strategy—5-classes distribution network.

Table 1 Haier’s 5-classes distribution network

	Division standards	Typical cities	Distribution methods
1-class city	42 trade and industry company located	Beijing Shanghai Qingdao	Directly distribute to big stores
2-class city	Prefecture-level city	Foshan Datong	Local stores and franchised stores
3-class city	County –level city	Pingdu	Franchised stores and sole traders
4-class city	Town		Franchised stores
5-class city	Village		Franchised stores

In the 4-class and 5-class such as some town and villages, Haier builds “one store one

district”. In this way, can Haier cut the intermediate links and reduce the costs in distribution channel. It is beneficial for Haier to control the retail terminal sales and management. [18]

3.8 Research and Development

Now Haier has entered the key area influencing the development of business, and developed many advanced study about CFC subsidiaries, energy saving, mute, digitize, information, biological engineering, macromolecule and materials. The projects of technology store have reached 68.

Until now, Haier established 6 Integrated R&D centres, 16 GISC(Global Information System Centre) and 8 Global Design Centres around the world. [19]



Global D&R Network http://www.haier.cn/about/develop_laboratory_03.shtml

Haier also cooperates with Italy MERLONI to consolidate the leading position in the area of washing machines and made a tight relationship with Germany MERZ, Holland PHILLIPS and Japan PANASONIC which represent the strength of hi-tech.

4.0 Analysis

Due to the previous information of Haier, we realized the Haier’s air-conditioners market share is going down in China. The paper focuses on the problem of decreased market share and analyzes by using 4Ps and SWOT Analysis model.

With 4Ps: The products of Haier’s air-conditioners are classified in Home air-conditioners and Commercial air-conditioners. The places are mainly in the first-class and second-class city markets. The prices of air-conditioners are mainly in 2000-4000RMB and over 5000RMB, as seen in follow **Table2**. The promotion is specialized in e-marketing and also is traditional personal selling and often donated to public

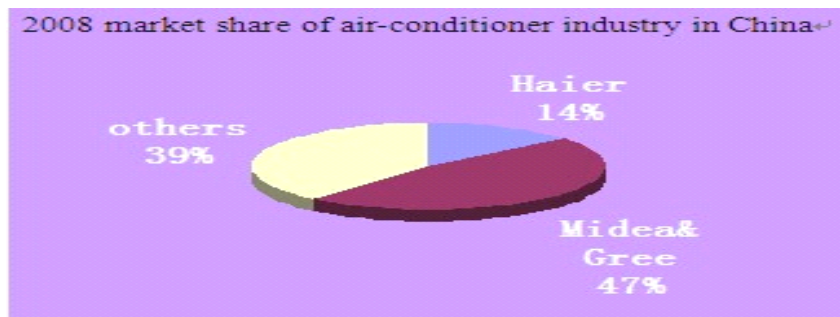
welfare.

Table 2 Price range of Haier’s air-conditioners

Price range	<1000	1000-2000	2001-3000	3001-4000	4001-5000	>5000
Types of air-conditioner	5	9	41	30	12	41

With SWOT Analysis: The internal factors: The Strength of Haier is well-established “Haier” brand image and many successful marketing strategies. The weaknesses of Haier are the issues of distribution and logistics. Directly facing retail terminal sales make Haier must bear high operating costs. The external factors: The opportunities are “Rural Area Subsidized Electrical Appliances Purchase Policy” by the government and the real estate market appearing to more mild, and the tendency of economic recovery. While the threats are fluctuation of raw material prices, slowdown of consumer spending caused by the global financial crisis and intense competitors. Haier’s market share of air-conditioners ranked NO.3 following Midea and Gree in China. Facing a strong competitive market, Haier’s market share decreased. As shown in follow **Graph**

8:



Graph 8

5.0 Recommendation

Based on the previous analysis of Haier, some recommendations are made to expand Haier air-conditioners market share in China.

1. In regard to Home air-conditioners business, Haier should improve technological innovation, expand promotion network, complete after-sales to realize management of the whole process and promote business competitive strength.
2. In regard to Commercial air-conditioners business, Haier should centralize big clients and big program, improve order forecasting system and popularize the sales model in cultural marketing, project marketing and strategic marketing.

3. Haier should speed up the Chinese market network construction; especially the sales and services network in third, fourth and fifth class city markets. To create new growth point, Haier should improve network coverage and operating efficiently. In terms of price, Haier should expand low-end air-conditioners, and then Haier can cover each price range products.

4. Haier should pay more attention to the opportunity of “Rural Area Subsidized Electrical Appliances Purchase Policy” made by the government and capture the surging demand in rural market, and enforce the distribution channel and promotion in this economic recovery period.

5. Haier should improve product innovation compared with Haier’s competitors. Because the consumption propensity within the growing numbers of middle-income class in domestic first and second class markets are high-end, fashionable, healthy and environment-friendly products. These consumers are more and more focus on the products’ additional value and functional innovation. The proportion of middle and high end consumption will improve step by step. Based on the demand of diversification and personalization, Haier should develop customer-oriented products.

6.0 Conclusion

Haier is the 4th largest White Goods manufacturer in the world and the most valuable brand in China. Currently, the market competition of the air-conditioners in Chinese market is fierce. Both of domestic and foreign brands exist and each of these brands is similar with others. The main problem is how Haier can take the advantages and increase the market share of air-condition in Chinese market. As the most valuable brand in China, Haier should make efforts to increase the market share and maintain the leading position in China. 4Ps are used to analyze decisions that marketers have to take or issues they face in air-conditioners. And SWOT Analysis is used to analyze the internal and external factors of Haier. Based on the previous analysis of Haier, some recommendations are made to increase Haier air-conditioners market share in China, such as improving product innovation, expanding promotion network, centralizing big clients and big program.

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- Graph 1** http://www.haier.cn/about/vision_index.shtml
- Graph 2** http://www.5ixue.com/Soft/200601/Soft_20060103103258.html
- Graph 3, 4, 5, 6** <http://www.haier.cn/about/pdf/> Annual Report from 2003 to 2008
- Graph 7** http://www.haier.cn/about/develop_laboratory_03.shtml
- Graph 8** <http://www.globrand.com/2009/257824.shtml>
- Table 1** http://www.5ixue.com/Soft/200601/Soft_20060103103258.html
- Table 2** http://price.ea3w.com/air-condition_index/subcate345_list_1.html

8.0 Log Book

This Project Work provides a presentation and analysis to Haier, one of the world-well-known White Good companies. Our group is made up of 6 members, we worked together and worked all out for this report. During the whole process, we learned a lot from members and counselors.

On Nov.5, 2009, It was the first time that all members sit together to discuss about this project work. After a long blissful discussion, we chose Haier as the company we analyzed. What we must admire was the whole division of work could be so organized by our leader, Xu Mengyin. Just check that out.

Division of work: Introduction		Mei Yingying
Methodology		Gu Huan
Presentation, Bibliography	Xu Mengyin	Li Weihong
Analysis, recommendations, conclusion		Liu Nan
Overall organizing, Log Book		Liu Buting

On Nov.6, 2009, we brought our excitement to the counselors' office. Two counselors welcomed us with their kind smile. Counselors were being kind after we told them the reasons why we choose Haier and problems associated with learned theories. We were so moved and we found being guided by them will let the work be easier although it was really a tough job for us. With the suggestions and attentions offered by counselors, we felt confident and cleared about the whole process of the project work.

During Nov.7 and 8, each individual in our group worked very hard on this paper. What we learned from this entire cooperation was not only the patience we should try to listen to each other from the bottom of our hearts, but also the ability to communicate with each group member and the two counselors.

On Nov.9, we handed in our first draft to the counselors and waited for the results.

On Nov.11, counselors gave us some valuable advices and pointed out a bunch of mistakes simultaneously. Apparently, the paper was not as good as we expected. Although counselors were not that satisfied with our entire paper work, they still encouraged us.

On Nov.12 to 17, we were not defeated by the tough work and worked harder than

before to modify our paper.

On Nov.18, we handed in the second draft which we expected better than the last one.

On Nov.20, counselors praised what we had modified and gave us some suggestions which could help our paper to be outstanding.

On Nov.21, we corrected some mistakes that pointed out by the counselors and everyone was excited because the entire work was almost done.

On Nov.22, we handed in our third draft and wished it is the best among all group works.

On Nov.25, counselors were delighted after reading the third draft modified by us and each member in our group felt so relieved. We felt the joyful atmosphere among us and knew what the cooperation was.

On Nov.27, 2009, the final draft which contained not only the students' endeavor but also the counselors' constant encouragement handed in.

Work Plan															
Task	Date(2009 Nov.)														
	5	6	7	8	9	11	12	—	17	18	20	21	22	25	27
Discuss about target company , main problem and the division of work	■														
Interview counselors		■													
Work on the first draft			■	■	■										
Hand in the first draft					■										
Interview counselors						■									
Work on the second draft							■	■	■	■					
Hand in the second draft										■					
Interview counselors											■				
work on the third draft												■	■		
Hand in the third draft													■	■	
Interview counselors														■	■
Hand in the final draft															■