Haier’s Refrigerator Market Study in China

DESCRIPTION

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Abstract

The purpose of the thesis is to analyse and explain the market of Haier’s Refrigerator in China. The thesis will mainly concentrate on the foundation of Haier as a leading provider of refrigerator in Chinese market along with the strategy that the company has adopted to make a successful brand in the country from where it has originated.

The paper will primarily analyse the market of China and the growth potential that Haier tapped to sell their products and become one of the giant in home market.

In order to understand the potential, the paper will discuss the current market of China and evaluate growth potential as a leading refrigerator provider.

Every product when it becomes a success depends upon certain policies and those policies are skilfully adapted after studying the growth potential of a market.

Similarly with Haier, the organization has passed through several formulation and strategy which will be dealt explicitly in this thesis.

Haier is not only an indigenous brand. Its acceptance in the global market is paramount. The paper will also provide a detailed analysis on the corporate strategy that the company has adopted to become a global brand.

Bestowing on all the aforesaid criterions which will be dealt in this thesis, the paper will study the brand management and ethics which inculcates to make Haier as one of the leading refrigerator provider in Chinese market and even globally. Subject Heading, [keywords]

Pages Language

Remarks

Tutor Employer of the Bachelor’s Thesis

Table of Contents Introduction ................................................................................................................................ 6

Purpose of the Study .................................................................................................................. 8

Limitations of the study ............................................................................................................. 8

Presenting Target Company – Haier .......................................................................................... 9

Company Background ........................................................................................................... 9

Analysing Growth of Haier .................................................................................................. 11

Prospects of Haier ................................................................................................................ 12

Haier’s Market in China ........................................................................................................... 13

Analysing Market of China .................................................................................................. 13

Advantage of Haier in Chinese Market ............................................................................... 14

Growth Analysis................................................................................................................... 14

SWOT Analysis ....................................................................................................................... 15

SWOT Analysis - Haier ....................................................................................................... 15

Internal Strength............................................................................................................... 15

Internal Weakness ............................................................................................................ 16

External Opportunities ..................................................................................................... 16

External Threats ............................................................................................................... 17

PESTLE Analysis..................................................................................................................... 18

Political Analysis ................................................................................................................. 18

Social Analysis ..................................................................................................................... 18

Cultural analysis................................................................................................................... 19

Technological Analysis ........................................................................................................ 19

Economic Analysis............................................................................................................... 20

Legal Analysis ...................................................................................................................... 20

Environmental Analysis ....................................................................................................... 20

Haier’s Marketing Strategy Formulation ................................................................................. 21

Corporate Vision ...................................................................................................................... 23

Strategy Control ....................................................................................................................... 24

Brand Management .................................................................................................................. 29

Brand Positioning..................................................................................................................... 30

Brand Development ................................................................................................................. 31

Segmentation............................................................................................................................ 33

Competitor’s Analysis .............................................................................................................. 36

Supply Chain Management ...................................................................................................... 37

Market Principle....................................................................................................................... 39

Organization Structure ............................................................................................................. 40

Haier’s International Market .................................................................................................... 41

Recommendation ..................................................................................................................... 42

Conclusion ............................................................................................................................... 44

Bibliography ............................................................................................................................ 45

Introduction

China has long been considered as a nascent country when it comes to foreign industrial

investment. With the joining of WTO [World Trade Organizations], China has opened their

door finally for foreign multinationals to establish their base in the country. The thriving

economy backed by cheap labour and conducive industrial environment becomes a boon to

those foreign investors who can develop products from their own country at a much cheaper

cost.

The indigenous growth of Chinese market was once considered insignificant, especially after

the advent of foreign organizations. During the communist rule, Chinese nationals were left

with fewer choices to choose products based on their need. It is only the government that

decided the product line which was in fact the only option for the people.

The dawn of Globalization and addition to it, rapid change in global economy did not even

leave China behind. Many foreign organizations invested heavily in this country knowing the

fact that people prefers to buy foreign goods rather opting for indigenous products.

Amidst all these advancement couple of Chinese organizations which once faced severe

hiccups to establish them as a key performer in specific verticals rose from severe downturn

to some of the industry level giant.

Haier for instance which we are going to discuss more in this thesis have successfully created

policies to break all barriers that were once faced by them and came out as a forerunner being

a leading provider of home appliance product. The tremendous efforts applied to establish

their base have become successful when Haier was considered as the leading home appliance

manufacturer, not only in the country but to the rest of the world.

Once at the point of insolvency, Haier came out a clean chit to become an undisputed leader.

Of all the products that Haier manufactures, Haier’s refrigerator has become household

commodity in Chinese market. Recent statistics revealed Haier holds 37% of the total

refrigeration market alone in China. This clearly proves the massive hold of the company in

their own country.

Haier is famous to use the concept of disruptive innovations to define their product solutions

and the role of management. Having established as an open platform company, Haier

refrigeration is simply the last word for Chinese consumers.

The innovative management policies backed by constant new adoptive measures have created

a bond between the customers and the company. So if any customer in China aims to buy

refrigerator, it is only Haier that primarily comes in existence.

Owing to the interesting progress of this Chinese giant, it is our endeavour to delve deeper in

finding the policies and procedures that Haier has adopted to retain their longstanding

popularity without any downfall in recent times.

No matter if the Chinese people are inclined buying foreign goods but they have always

preferred refrigerator to be of Haier.

Purpose of the Study

The purpose of this thesis is to excavate information from all possible sources to analyse the

strong growth of Haier as a leading provider of refrigerator in Chinese market. Based upon

quantitative analysis to show the progress, our sole purpose is to simply evaluate all the

strategies that were adopted by Haier to become an undisputed brand in refrigerator market

alone in China. Though the company is not only considered as a national unit anymore

because of their longstanding popularity as a leading home appliance manufacturer, this paper

will just draw a critical analysis on their methodologies and approaches adopted being a local

giant.

Limitations of the study

Understanding and evaluating a company’s growth is a daunting task. It involves qualitative

and quantitative research data to determine the actual reason for the growth of a company. In

this instance, when developing a thesis on Haier’s growth in China, we have lacked

qualitative analysis which implies market survey to find out the current status of the

company’s position. But as Haier has established as a forerunner in refrigeration and which is

still unchanged even during various foreign competitors playing neck-to-neck, the

relationship between Chinese people and Haier is still lying at the same position.

The thesis paper thus tries to gather as much as valid quantitative data to lay out strong

evidence highlighting growth of company. In some cases ambiguous data were encountered

which were further researched to find out best possible valid data for a clear analysis.

Presenting Target Company – Haier

Company Background

One of the leading manufacturers of home appliance goods in China – Haier has been an

undisputed leader for a long time. The company which was formerly known Qindao

Refrigerator Plant having their establishment in the year 1984 once faced bankruptcy have

now redeemed their position as one of the most innovative organization and the fourth largest

maker of white goods. The skilled managerial policies infused by meticulous planning made

this company as one of the top leader in home appliance industry.

In the year 2012, the global revenue of Haier has reached a profit level of 163.1 billion CNY

and 9 billion CNY respectively. The company have enjoyed a profit of 2.5 times the growth

of revenue. Based upon industry research, Haier has been considered as one of the top

leading home appliance manufacturer for last four years. Even in the year 2012, the company

also bagged the coveted “World’s Top 50 Most Innovative Companies” ranked by Boston

Consulting Group (Chan 2011). In fact, it is the only company based on China that ranks

within the first ten positions as home appliance manufacturer.

Besides refrigerator which was considered as the primary business, Haier has also

successfully ventured in freezers, cell phones, microwaves, computers, cell phones, air

conditioners, televisions and vacuum cleaners.

Haier Group Corporation is based Qingdao and have successfully captured the lead in

refrigeration segment as it accounts one-third of all refrigerator sold each year. Having

successfully tapped the Chinese market, the company further expanded globally building

sales network in more than 160 countries and presence of 38,000 retail outlets all over the

globe.

The sales and distribution channel is further backed by growing network of subsidiaries with

production facilities throughout China and having 12 more manufacturing plants outside the

country. The foreign production centres are located at Philippines, Pakistan, Jordan,

Indonesia, Malaysia, Iran and at United States.

The credit of Haier’s success goes chiefly to the CEO [Chief Executive Officer] Zhang

Ruimin who brainstormed innovative and powerful growth oriented strategies to spread the

name worldwide. The company is controlled by Chinese Government but it operates as an

independent entity. The subsidiary – Qingdao Haier Refrigerator Co. Ltd is successfully

enrolled in Shanghai Stock Exchange. As per the financial analysis, Haier’s estimated sale is

more than $4 billion a year.

It was in the year 1920 that the company first initiated the process to build refrigerators by

establishing a factory in the coastal region of China named Qingdao. However the communist

revolution in China in the year 1949 tuned into a major disaster as the company was taken

over by the government. It was under the socialist regime that the company saw its slow

downfall. By 1980’s the production was at a snail pace which eventually led to heavy debt

and severe crisis. As a result the company unable to pay 600 of their employees and was on

the brink of bankruptcy. Interestingly it is the same year when China opened door to the

international market and a good number of foreign multinationals took the opportunity to

enter this virgin market.

However with the course of time and passing several hurdles the company slowly increased

in firm steps and have christened the name Haier Group in the year 1992. Following the

company achieved the coveted ISO 9001 certification and having backed by strong

managerial process, the company finally aimed to establish themselves as one of the leading

brand in Chinese market (Haier 2013).

Analysing Growth of Haier

Considering all other refrigerator companies that prevails in China or those who have entered

Chinese market, Haier Group is still undisputed when it comes to brand recognition. The

principle behind the same are:

 Competitive price

 Better and durable quality

 Better support

 Large number of service centres to cater customer’s request / grievance

Following is a graph that clearly indicates the steady growth of Haier right from 1995 till

2007.

Figure 1: Growth of Haier (Haier 2013)

The 2007 Sales Turnover shows a staggering growth of RMB 118 Billion [USD 16.2 Billion]

0

1

2

3

4

5

6

7

1984 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007

Growth of Haier Sales

Prospects of Haier

The prospect of Haier is inevitable with the progress visible from 1990s. The company has

strategized to implement the fourth globalization strategy. This phase may be tough for Haier

but that is the only way to occupy more solid position in the international domain. The

Chinese home appliance market is still the largest market in the world having a significant

20% growth each year. The brand value of Haier can retain their similar position in the

current market followed by further expansion to other international market where they still

have not penetrated further. Recent strategies of Haier involves setting up of more business in

other countries, develop state-of-the-art design centres, sales, manufacturing and after-sales

services network. It is the intention of Haier to position as a global leader in in white goods

manufacturing.

White goods are those appliances like washing machines, refrigerators etc. Haier is premier

white goods manufacturer in China. It has acquired a long history of very high customer

satisfaction and certification. Haier has revolutionized the market by innovative marketing

offers like a 90 day usage with full repayment guarantee if and when the customer is not

satisfied, no questions asked. This has built up the customer satisfaction that no other

competitor has scaled up with. The Chinese market has also been caught through the

branding of “green marketing” or “green” products. The machines are soundless and exhume

less pollution. These are two techniques that are unparalleled and unmatched.

Haier originated as a Chinese company and established its manufactured facility in China;

later on it shifted its major manufacturing operations in India, founded sales outlets and

manufacturing units in various cities and established a good Supply Chain network with

warehouses at strategic points. Haier then merged the German company Liebherr and took

their high grade products licences. Haier now has about 10000 patents within China and the

world. Haier is known for its line of diversification in the white good market. This is the

strength that has created the prospect of Haier. Very few companies have created so many

diversified products within the same type of products as Haier did. The brand name in this

case is established through captivating all the needs of a customer in the white goods sector.

The rise of Haier in manufacturing has attracted the attention of accrediting bodies in the

industry and has increased the market base very rapidly (Duysters et al. 2009). Being the

company #1 in China and the domestic market, now it has taking over the Indian market at a

rapid pace, while also approaching very vigorously the Japanese, Korean and European

markets. This is an interesting model of increasing the base and the influence through

diversification and with the same strategy deepening the presence in domestic markets. The

surplus of the domestic market helps Haier invest in new products and in new markets- a very

remarkable path indeed.

Haier’s Market in China

Analysing Market of China

China is a highly energy-conscious, waste-conscious/pollution conscious and price conscious

market. Haier has topped the market with its “green” products and recycling energy products,

a recent innovation of a water heater recycling the waste energy is already launched in test

markets and road-shows.

Price wise Haier is not very cheap, but it allows a 90 day zero interest full repayment

guaranteed usage that has attracted the customers.

In every single product Haier tops the benchmark of utilizing the least energy intake.

The most important area where Haier has made remarkable inroads and very fast ingress is

the huge rural market with 640,000 villages and 35,000 towns. Chinese people now can

afford the necessities of city life and every household now feels the need of white products.

Added to this is the equally huge Indian market. In India the market for white products is the

middle class market and they are 350 million in number where the households are 70 million.

These two numerous markets are the fastest growing sectors Haier now targets. European

market and the Japanese market are the high valued market (Chan 2011). Haier’s special

marketing technique has this differential approach - one to serve the high valued western

market, the other the big number Chinese and Indian markets.

Advantage of Haier in Chinese Market

Growth Analysis

From a small manufacturer to serve local markets in white goods Haier rose up to become the

biggest Chinese multi-national to have offices in every big market and in almost all consumer

durable economies through its marketing strategies and innovative approach in products. The

growth in terms of turnover is not how to measure Haier. The parameters of Haier’s growth

are [1] number of countries Haier has penetrated since its inception till now. [2] Turnover

ratio within that countries market. [3] Increased revenue per new product introduced in a

market. [4] Brand value increment [5] Number of new products introduced. There are many

other factors that are of various degrees of importance.

Considering these factors the growth is a composite abstract concept that can be quantized or

can be described and understood with qualitative evaluation.

Because the growth is as we described, there is no monotonous increment or any functional

relationship of the growth syndrome. Growth takes piecewise changes of direction or

moments and follows different functional representations in different markets.

Haier is a remarkable growing firm that has averted all economic recessions. It tackled the

recessionary threat through innovations and through breaking through new markets.

SWOT Analysis

In order to analyse the growth of Haier in China and abroad, a SWOT [Strength – Weakness –

Opportunity – Threat] analysis has been developed. This analysis will help gain

understanding the internal and external factors that affect an organization.

The progress of Haier is not smooth. It is indeed with strong determination and will that

Haier crossed the major pitfalls that they encountered during communist regime. Haier

reached the zenith becoming the leader of white goods in China. However with China signing

WTO pact thereby opening door to foreign investors in the local market, the competition

increases by leaps and bounds leading to taking alternative strategies to retain the

marketplace and moreover aim for further expansion in other developed and developing

countries.

The said section will try to highlight the internal and external factors to evaluate strength,

weakness, opportunity and threat in Haier.

SWOT Analysis - Haier

Internal Strength

Haier is considered the most successful white-brands manufacturer in China. Despite the

previous turmoil which took place during the communist regime, Haier came out of the

rubble, progressed steadily and in the year 2008, Haier bagged 13th position as “600 most

reputable companies” in the world and No. 1 in China (Chan 2011).

The success of Haier is supported their strong management backbone and innovative

practices. Counting on their independent intellectual property, Haier has participated setting

up of 23 international standards. Moreover their implementation of Overall Control and Clear

Management Code became one stepping-stone to count the success and gain attention outside

the country.

In order to set-up a strong base in the international market, Haier has went through three-set

globalization process and further established tripartite [design/production/marketing]

operational framework in six key regional markets like Europe and North America. Till date

Haier sells product in over 160 countries all over the world.

Moreover Haier also successfully carried out diversification of white good products adding

washing machine, air conditioners, television in their product line. Consequently this gave

Haier to concentrate on much diversified market in white good products.

Internal Weakness

Despite acquiring a dominant position in the domestic market, Haier significantly lacks in the

competitiveness of international hi-end market. The advertising strategy is feeble thus leaving

a wide gap to let people get aware in their product lines in hi-end market. The selling points

which changes with the course of time remains within the boundary and customers are totally

unaware of the latest offerings.

Focusing on traditional product line, Haier is laggard in capital, management and technology

when compared with other international white products giant. Moreover there is distinctive

gap on passing data and information between suppliers and distributors which leads to higher

product cost compared with other manufacturers.

External Opportunities

The rapid growth of China in the age of economic globalization increased the demand rate of

consumer appliances by leaps and bounds. With the new flexible government policy, the rural

part of the country is not left behind. People have become more aware of white-good

products and they look for to buy the best one having all important features. This is one major

advantage of Haier being a known entity in domestic market.

“Go Green” is the latest buzzword that caught attention to nearly everybody. The rapid

industrialization leading severe crisis in environment balance is becoming one major factor.

Manufacturers now have become finer trying to develop energy-efficient and eco-friendly

products. Furthermore the active involvement of government to promote eco-friendly

products is another driving force that Haier should encash. They should make further plans to

develop eco-friendly products and enable policy to let customer purchase them.

With the increase in Globalization, the factor of interdependence between organizations from

different frontier is on the rise. As the global market eyes towards China, the Chinese

manufacturers should take this opportunity to expand further outside of the country in

alliance with global business partners. Expanding the base outside China will help Haier to

define policies for more sustainability in global market.

External Threats

Haier is not the only leading manufacturer of white products in China. Other competitors like

Midea and Gree are also in the run as a tough competitor. Moreover the introductions of other

major foreign manufacturers like Whirlpool and Electrolux in Chinese market increases the

cut-throat competition (Chan 2011). The acquisition of Maytag by the largest white-good

manufacturer Whirlpool Corporation also became a major threat to Haier in domestic market.

Price is another factor that is of prime consideration when it comes to selling. Haier’s product

costs higher compared to other suppliers. Even in order to boost the sale, the new entrants in

the market are offering lucrative deals and organizing heavy promotion of products. However

the product of Haier has higher cost compared to other suppliers. This can be considered as

one major reason that may dip the sale down-the-line. With increased competition Haier

should make some plan to reduce cost which may give far better opportunity in the domestic

market.

PESTLE Analysis

Political Analysis

China after the reverting the Cultural Revolution has actually reverted the politics of Cultural

Revolution with all the benefits they have acquired during that period. The rural part of China

now does have cash income and are open to urban facilities and amenities. The rural

population is keen to have urban life-style and thus urban products are very much in demand,

the demand is increasing at an increasing rate.

The party centric life-style is now waning out and more business-like or non-political

lifestyle is coming up fast. People are interested in their lives outside the ambit of the party

dictum. They are less and less inclined to think around the party line.

Social Analysis

After the Cultural Revolution the rural families too are not tied to the fields or farms to the

same extent as they had been. Mobility is a rising phenomenon. The youngsters are migrating

either seasonally or permanently to the cities. Cities are gaining more social and economic

values than the countryside even though agriculture is the main-stay. The migrating section of

the Chinese population is donning the urban fashions in their dresses and in their house-hold

appliance usage. Urban life-style is basically western induced social and cultural life-style.

Western life-style is more gadget oriented and energy usage oriented. It is no surprise that any

disposable income in the hands of those who have migrated would be spent on gadgets; this

has an induction effect on the countryside, where the youngsters send the gadgets to their

folks in the countryside. Power is now an integral part and the most important aspect in

everyday life-style. Power immediately turns the attentions to effort saving gadgets where

manual work is to be replaced by power gadgets. Daily house-hold chores are the first

candidate to be replaced through gadgets- this is the scope of Haier’s products. China is the

country where the white goods are having the most glaring rate of growth. The disposable

surplus [beyond daily food] is spent first on gadgets and white goods markets.

Cultural analysis

Urban utilities and gadgets do have a status value. Status values are aggrandized through

brand development. Most of the advertisements in any part of the world deal with gadgetries

and luxury products, and the people are continuously fed with life-style dreams. This life-

style is essentially the western life-style where individual families are sought to have a

“private life”. This is the discerning factor. When in the western countries condominiums

with shared facilities are now the choice for migrant populations and the middle class

populations then in countries like China and India, people see a cosy life-style as a “private”

life with self-sufficiency in terms of usage of gadgets. People spend their valued surplus

income in buying [not investing as in the older days] gadgets.

Technological Analysis

Chinese are technology savvy and their general inclination in using technological awareness

is exemplary among the developing economies. Technology now has become more chip

based and are increasingly cheaper. The only sector in present day’s society is the electronic

and high-tech sector because almost all machines and gadgets are becoming chip based. The

technology has developed the concept of “use and throw” concept in the society, Chinese are

very fast users of changed gadgetries. China being the manufacturing hub of the world and

especially of the developing world, they have the base of gadget manufacturing very next

door to domiciled urban populace. They are fast in changing from one cheap gadget to the

latest version. This offers a great scope of the Chinese white goods manufacturing.

There is another very important aspect. China now encourages single child family. Parents

want their children to have the best amenities and facilities. Children are enjoying a better life

than their parents did. This has made the white goods as almost indispensable in any family

life-style.

Economic Analysis

China is now moving from a sustainable economy to a cash based and market driven

economy. Though Chinese people are very price conscious they have the cash and the cash

industry is more prominent. India on the other hand is heavily dependent on the loan market

for high value gadgetries. In China people do still love cash transactions more because the

stability of Chinese jobs in one locale is not very guaranteed. But the disposable income in

their hand is more. Add to this the fact that the medical and other basic needs are still being

taken care of by the public sector, thus the disposable income in the hands of Chinese middle

class or Chinese small entrepreneur is more than those in any other developing nation. Cash

economy moves the society to a more utility driven mode and the economy becomes more

predominantly a commodity economy- China is now the strongest commodity economy now

in the world where it has averted the recession and is still rising up. – This is another scope

for white good products.

Legal Analysis

Unlike the old days China is now legally more hedonistic and commodity and user friendly.

People do have the right to own property and pass it on to the next generation. Though these

gadgets do not stay life-long, yet the habit of using them is imbibed. People would like to

have a more cosy life with their rights on gadgets. Sharing life-style is not any more in vogue,

and the Chinese government has laws to protect the wealth and properties for individual

families.

Environmental Analysis

The super-fast speed in urban development and in the gadgetries and in the energy usage has

caused havoc in the Chinese cities and countryside. Pollution and waste is sky-rocketing. Off

late the Chinese society slowly comprehends the danger of the imminent environmental

disaster. The environment concerns are rising along with. That is why the Chinese customers

are now watching out for environment question and environment rejuvenation. Hair’s “green”

strategy has caught on. What is advertised and what is there in reality have a huge gap, but

the Chinese would be concerned about the pollution and waste of energy within the

household and would like to have less energy consumption and pollution generation. Hair has

certainly made a mark of that and the Chinese customers are willing to pay a premium on

“green” products than to go for cheaper competition.

Haier’s Marketing Strategy Formulation

Haier had three different strategies clubbed together into one set. The first set is the

diversification within a focussed set. The white goods market was targeted and Haier invested

in creating 15, 100 products with 96 categories-all within the wide goods category. . From

1995 it began a wholesale diversification into totally unrelated businesses, from

pharmaceuticals to logistics as well as catering and financial services. The company declared

diversification and internationalisation as the two wheels of its long-term growth strategy.

However, most of these unrelated diversification ventures ended in failure after modest initial

success. (Fan 2006)

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