

# Haier International Strategic Analysis

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**Abstract:** Haier is a Fortune Global 500 company. Its current reputation and huge market share are derived from its successful internationalization strategy. Its "first difficult then easy" international market expansion method, Brand strategy and Differentiation strategy are groundbreaking, which is deserved to learn for a company hoping to become a multinational enterprise. This article will analyze the environment of Haier's implementation of its internationalization strategy (1998-2005) and its own development status, then study its strategic methods and ideas, as well as its impact and effects, and finally propose appropriate suggestions for its development in the next five years.

**Keywords:** "first difficult then easy", Brand strategy, Differentiation strategy, Corporate culture integration management

## 1. Introduction to Haier

Haier, the world's leading brand of large household appliances, was founded in 1984 by Zhang Ruimin, who acquired a failing collective-owned enterprise in Qingdao that mainly manufactured lights and electric motors. At the beginning of its establishment, the products were very single, only refrigerators. Now, Haier develop hundreds of categories including white home appliances, black home appliances and beige home appliances, which are exported to all over the world.

Haier has always centered on the user experience, follow the rhythm of The Times. It has experienced six strategic stages including the brand strategy, diversification strategy, internationalization strategy, the brand strategy of globalization, network strategy and ecological brand strategy. It has developed into an ecosystem leading The Internet of things the of The Times from a insolvency, failing collective small factory. It's the world's only Internet of Things ecological brand that topped the BrandZ™ top 100 most valuable global brands 2 years in a row. Haier has penetrated into 160 countries and regions around the world and served over 1 billion households. Besides, It has haier, Casadee, Admiral, GE Appliances in the United States, Fisher & Paykel in New Zealand, AQUA in Japan, Candy in Italy, Kaos COSMOPlat, Gooday, Ingkang Life, Haier Bio-Medical, Heinayun, Haier earned Foreign Exchange, Haier Brothers and many other ecological brands and new species. Its main market is China, and its channel integrated service business is the main source of revenue.

## 2. Haier's Internationalization Strategy

### 2.1. The Objective of Internationalization Strategy

"Let Haier become a world famous brand" and be one of the global top 500 enterprises. To achieve this goal, Haier plans to produce two-thirds of its products in China, sells one-third domestically and exports one-third.

### 2.2. Two Directions of Internationalization Strategy

"Difficult before easy" market expansion mode. First, it entered the front-line European and American countries, and then the Middle East, Southeast Asia and other developing countries.

Implement the brand strategy from "earning foreign exchange through export" to "creating brand through export".

### **2.3. International Market Entry Mode -- FDI**

#### **2.3.1. The Methods**

##### ① Greenfield investment

Haier's first international position was chosen in the United States. On April 30, 1999, Haier set up a production plant in South Carolina in the United States, and initially formed a "trinity" American Haier with its design department in Los Angeles, its Marketing Department in New York and its production department in South Carolina.

##### ② Merger

Haier's second international position is in Europe. In June 2001, Haier in Italy merged a manufacturing refrigerator factory, and set up the Haier electrical appliances co. LTD., making Haier brand go into the European market. And it used the original factory to change the old bad home appliances to Haier's production. It was shaped as advanced as the famous brands in Europe and the United States.

At the same time, Haier used the two ways in many developing countries and regions to open the global market.

#### **2.3.2. Motivation of FDI**

Haier belongs to the FDI of strategic demand and resource seeking. According to the theory of Strategic Assets, Haier can acquire advanced management know-how, brand, supply chain, distribution channels, innovation ability and other knowledge-based intangible assets through FDI in developed countries and regions. These assets are not available in the domestic market but are necessary for Haier to maintain brand vitality. Then these resources will be internalized to independently cultivate technological innovation ability and improve brand reputation.

At the same time, through FDI, Haier can break through trade barriers such as tariffs or quotas, keep its design and production close to the American market, meet the personalized needs of local consumers, and make quick and flexible responses to market changes.

Compared with the internalized training of Greenfield investment, M&A provides a way to obtain the overall resource system, enabling Haier not only to acquire the knowledge, technology and human resources of the other party, but also to have the organization, process and cultural environment that its existence depends on. Information and technology exchanges between companies are easier and more efficient, and less costly.

#### **2.3.3. Feasibility Analysis of FDI**

##### 1) Analyze the external environment faced by Haier based on PEST theory

##### ① Domestic market

Economic environment: China's household appliance industry was in a period of rapid development from 1980s to 1990s. The average profit margin of the industry was 20-30%, and the total output value was growing at an average rate of 32.1% per year. However, since the middle and late 1990s, the profit of the whole home appliance industry began to decline substantially, and the profit margin gradually dropped to 3%-5%, and some products even had zero profit. In the domestic home appliance market, the competition of this industry has already entered the oligopoly competition era, and the home appliance industry has entered the mature period of the industry.

To sum up, Haier was already a successful brand enterprise in China at that time, occupying a large market share. However, in order to keep developing and become a global brand, it must boldly "go global" and carry out international operation.

Technological environment: According to the Industry Life Cycle theory, Haier's domestic product production technology and design have been basically finalized, and the original product has entered the mature stage. Compared with developed countries and regions such as the United States, the technology of home appliance industry in China is still relatively backward, which is not conducive to Haier's product innovation, building its core competitiveness and maintaining its vitality.

Political Environment: China was the only country that supported FDI in Asia at that time, and the country gave strong support to the transnational operation of enterprises. In addition, the state has

issued a lot of industrial policies to support technology research and development, and strongly encourages innovation and R&D. As a result, it's conducive to Haier multinational operation.

**Social environment:** In the 1990s, Chinese household appliances have become daily necessities. Haier successfully entered the hearts of Chinese people with its service for product quality, which laid a foundation for Haier's brand strategy on the road of internationalization. Chinese are also proud of Haier's ambitious CEO, Zhang Ruimin, for building a global brand.

## ②International Market

**Economic environment:** In developed markets such as Europe and America, Haier's main products--refrigerators, washing machines, freezers and air conditioners, are at the end of the mature stage in the product life cycle and have already entered the standardization stage. Manufacturers in the developed world cannot compete on price or cost with low-wage China. At that time, many countries in Europe and America were in the period of large-scale adjustment of industrial structure and elimination of sunset industry, which provided favorable conditions for Haier to find development space. At the same time, they are the markets with the largest market capacity and the longest consumption power. Although it takes a lot of investment and high labor cost for Haier to build factories in developed countries with fierce competition, these countries have relatively high level of economic development and high level of consumption, so there is no need for Haier to carry out low-cost marketing. In addition, European and American dealers and agents have very perfect radiation capacity and channels for Haier to use.

**Technical environment:** Developed countries such as Europe and The United States have strong technical force and advanced management methods and experience for Haier to learn and reference.

**Political environment:** High product technical standards and environmental protection standards form a certain resistance to Haier's transnational operation, but provide Haier with the power to improve its technology independently. Meanwhile, the market economic system in Europe and America has been established for hundreds of years, with a relatively perfect competition mechanism and legal system. The market order is very mature.

**Social environment:** First of all, Greenfield investment in the United States will make Americans think that they are using brands produced by Americans, and consumers have a strong psychological identity. Secondly, consumers in developed countries are already familiar with home appliances such as refrigerators. Haier does not need to cultivate and guide consumption, but only needs to provide high-quality products in line with personalized needs to win their recognition and trust. At the same time, Haier also needs to pay attention to the cultural differences in the enterprise management process after hiring local employees.

## 2) SWOT Analysis

**Strength:** First of all, Haier has developed brand advantages in China. It is one of the most valuable brands in China and has a good reputation. Second, Haier's products are diverse and of high quality. Besides, Haier has always adhered to the idea of "user first", and has adopted a series of services to constantly meet customer needs in every link from product design to final product return visit. Moreover, According to the characteristics of different channels, Haier carries out professional division of labor and manages the channels strictly. Finally, Haier's huge domestic market share has accumulated abundant capital for its transnational operation. It has formed a set of good enterprise management concepts, gathered a lot of talents, and has certain absorption ability, which is conducive to the learning of advanced technology and experience through FDI.

**Weakness:** The patents applied by Haier are mainly about appearance and practicability. Lack of core technology leads to a lack of core competitiveness. Therefore, it cannot participate in the formulation of industry standards, let alone enter the high-end product market. Haier is lack of promotion and publicity skills, cross-cultural and international management talent experience and has problems in the relationship between employees and suppliers. And its inherent strategic advantages and marketing thinking are difficult to adapt to the requirements of the international market.

**Opportunity:** It is a brand enterprise with national key support; China strongly encourages foreign direct investment; Developed countries such as Europe and America are in the stage of large-scale adjustment of industrial structure, and household appliance products are at the end of the mature stage in the product life cycle, which provides favorable conditions for Haier to find development space; Europe and the United States and other developed countries with large market capacity, strong demand and high level of consumption; Developed countries such as Europe and The United States have

advanced technology and management experience for Haier to learn from. Hiring local talents is conducive to R&D and understanding of market demand, and facilitates personalized design of products to meet consumer demand. Europe and the United States and other countries have a good supply and marketing channels for Haier to use.

Threaten: As a new entrant, threaten by many very successful household appliance brands in Europe and America. Technical standards, environmental protection standards, perfect laws and regulations have great challenges to Haier's R&D; The psychological identity and cultural differences of foreign consumers are great difficulties for product designing and marketing.

#### **2.3.4. Main Problems of FDI**

High barriers to entry and high-level challenge; large initial investment and slow profit recovery.

#### **2.4. Specific Strategic Analysis**

##### **2.4.1. The Internationalization of "First Difficult Then Easy"**

In the early stage of Haier's development, whether to enter an industry mainly depends on the technical correlation degree and market correlation degree.

In terms of overseas geographical expansion, Haier chose to enter the highly challenging European and American markets first and then enter the developing countries. According to the 3L model, Haier can enter the developed markets in Europe and The United States with good supply and marketing channels, learn advanced technology and management experience through the "leapfrog model", and reduce transaction costs through FDI. The purpose of entering the US market is to acquire, expand and transfer market information and technology, to help headquarters design appliances that meet the needs of local consumers, and to inspire enterprises to pass a number of global product technical standards and environmental standards. When the developed countries and regions such as Europe and the United States have accumulated a good reputation, it is easy to accept Haier products in the second and third-tier markets such as South Asia, Asean and Central Africa.

However, there are following difficulties:

① The first-tier market is highly competitive, and the market is relatively mature. Local excellent brands abound, and many middle and high-end brand owners have brand awareness, brand reputation and brand loyalty.

② It is difficult to enter the mainstream market. Haier's retail performance in Europe and the United States is commendable, but in the United States the best sales are small freezers, small refrigerators. It was difficult to conquer the market of mainstream products. In Europe and the United States, many consumers think Haier is a German brand, rather than a Chinese brand.

Brand awareness and brand loyalty are extremely low. As a late entrant, Haier was strongly rejected by the market as soon as it entered.

Even when they first entered the American market, it was difficult to get into the big box stores. It just sells at small agents.

③ With huge investment in plant construction in European and American markets, it is difficult for Haier to recover costs in the short term. In addition to the expansion of second-tier markets and the reduction of profit margins in the domestic market, it is difficult for Haier to achieve a virtuous circle of costs and profits.

From the perspective of GVC theory, value appreciation has several links, which are scattered in different enterprises and regions. The profit space of each process of the industrial value chain is unbalanced. The production and manufacturing link is the lowest, the research and development innovation and brand service profit are at the top, design and marketing are in the middle. In the short term, the enterprise has a loss in the rate of profit, but in the long run, it is conducive to the initiative of international competition. Countries in Asia and Africa have markets with strong demand and abundant human resources, making them a competitive place for enterprises to develop and grow. Under the background of the weak strength in the early stage of enterprise internationalization, Haier actively arranged the chessboard of enterprise development. It has the considerable courage. Haier, in these numerous second-tier markets, have invested a lot to merge joint ventures, build factories, manage talents and construct channels. The huge cost and the big risk naturally make the profit is fat.

#### 2.4.2. International Brand Strategy

"Three steps": go out (into mainstream countries and markets); go in (into mainstream channels and sell mainstream products); go up (become a local mainstream brand).

Haier has obtained the certification of relevant international markets through the strategy of "first difficult, then easy". Then it insists on providing high quality products to And combined with the export of products, it adheres to provide high-quality and humanized products, to achieve the domestic and foreign users' brand recognition of "high quality" ,"high-tech","humanized design" and "quality service" on the material level. In terms of brand operation, it is proposed to "meet the needs of consumers in advance" through the "trinity" (design center, marketing center and manufacturing center). In order to take root overseas and try to localize all aspects of overseas subsidiaries, Haier implements "Three integrations and One Creation"--use local financing and wisdom; capital operation melts the local market rules; the use of local talents. Although there are specific problems at the practical level of completing localization, in the early stages of internationalization, it cannot be denied that the initial accumulation of investment is needed for the maturity and improvement of the long-term international market.

For the specific ideas of international brand strategy, we can look at the following aspects:

① Use the localization strategy of "three in one" combined with "three integrations and one creation" to firmly root overseas.

The value chain is composed of a series of value creation activities. Haier has established design, manufacturing, and marketing centers in the United States and other countries, making manufacturing, purchasing, marketing and information circulation more convenient, and better realize its business philosophy of "market first, then factory" and "order first, goods second". In this way, through good supply and marketing channels, the problem of inventory squeeze is avoided by meeting consumer demand. Coupled with local financing and wisdom, it will help to become a truly localized brand.

② Implement talent localization and introduce international talents.

Talent strategy is the core of corporate strategy. In terms of talent management, almost all overseas departments of Haier are consisted of local people. The number of sales personnel and R&D personnel from China is small. In terms of channel construction, nearly all adopt a regional agency system, and most of the employees in wholly-owned or joint venture factories established in the country are local professional managers while there are no permanent managers in the home country's headquarters. Basic affairs are managed by local professional managers.

Based on the cultural differences between China and Europe and the United States, Haier also pays attention to adjusting the company's employee management model to give employees of local subsidiaries more decision-making power. At the same time it implements the Total Quality Management decision, adheres to customer-oriented production design, empowers each employee, stimulates and collects employees' innovative ideas, links everyone's interests directly with market effects to fully mobilize employees' enthusiasm. Meanwhile, it conducts employee training to promote personal development of employees.

Haier has gradually achieved the integration of Haier culture and local culture through common business philosophy and corporate spirit. In American factories, you can see management concepts of Haier nearly everywhere like in China, but the methods are flexible and diverse, and are more America. The pre-class meeting system, 6S high-quality typical commentary, selection of outstanding Haier employees, etc., make Haier employees in the United States feel novel and energetic. These passionate management methods have formed an atmosphere for Haier employees to compete with their colleagues. Employees' aggressive state has achieved encouraging results, which will help Haier to innovate and strengthen its core competitiveness of the company.

#### 2.4.3. Differentiation Strategy-Quality Is The Foundation Of The Brand

Develop diversified products and technological innovation to strengthen core competitiveness.

Haier believes that quality is the foundation of world-renowned brands, and adheres to technological transformation to pass the six most stringent quality standards in the world. Moreover, Haier insists on continuous innovation, understands the individual needs of customers, and does not hesitate to invest in R&D, so that the products or services provided have unique performance or value. "Improve brand awareness through leading products; increase brand reputation through trendy products; improve reputation through gap products", In this way, the products have distinctive features, they have

won the trust of customers, which will help Haier compete with local old brands.

However, if Haier wants to maintain product and quality differentiation, it needs extensive R&D, product design, high-quality raw materials, etc., and the input cost is naturally high.

#### **2.4.4. Pay Attention to the Construction of Corporate Culture**

Good brand operation is inseparable from corporate culture. Under the leadership of Zhang Ruimin's philosophy, Haier has formed a unique corporate culture and management system, and has made certain adjustments in overseas markets according to local culture. Haier pays more attention to customer relationship and brand building in terms of corporate culture, but fails to keep up with the progress of the industry economy in other aspects. It has led to lower distributor loyalty and lack the value care of individual employees.

*Table 1: Haier Brand Value List (Internationalization Strategy Stage)*

| Time(year) | Brand value (100 million yuan) | Ranking      |
|------------|--------------------------------|--------------|
| 1995       | 42.6                           | /            |
| 2000       | 330                            | second place |
| 2001       | 436                            | second place |
| 2002       | 489                            | first place  |
| 2003       | 530                            | first place  |
| 2004       | 612                            | first place  |
| 2005       | 702                            | first place  |
| 2006       | 749                            | first place  |

*Data source: Haier Corporate Culture Center*

On the whole, the "first difficult then easy" international expansion method faces many challenges and obstacles, and requires a lot of cost input which causes a low profit margin in the initial stage of internationalization, but it is conducive to Haier's acquisition of advanced technology and management experience, enhance core competitiveness and create brand honors. Therefore, Haier's internationalization strategy is successful, making it the number one brand of white goods in the world and the home appliance company with the most patents in China. It provides consumers with diversified products, forming its core competitiveness including technologies, brands, and products (based on VRIO analysis).

After going through the internationalization strategy stage, Haier successfully implemented the globalization strategy and network strategy, and entered the ecological brand strategy stage in 2019. Haier's rate of return in the initial stage of internationalization is relatively low, because of the large amount of funds invested in the establishment of foreign direct investment brands, and then it is obvious that Haier has become a world's top brand enterprise. At the same time, its products and businesses has been involving in more and more industries including white home appliances, black home appliances, information, finance and medicine, the company insists on implementing diversification strategy, and its profits continue to rise.

### **3. Suggestions**

Now I will propose a development plan for the next five years based on the experience and lessons brought by the implementation of the internationalization strategy, as well as the current development situation and environment of Haier.

#### **3.1. Corporate Governance**

Haier Group should actively develop the consistency of the interests of group shareholders, employees and the company, and actively give dividend to shareholders. Meanwhile, Haier should actively build a continuous and stable long-term incentive mechanism to increase the enthusiasm of employees. Then pay attention to the company's capital turnover rate and shareholders' equity to maintain a virtuous cycle of costs and profits. The supply chain model of "on demand and supply" has created an efficient and stable operating environment for Haier. Goodaymart's channel system has built a platform for after-sales service and channel outlets. The high-end positioning caters to the upgrading of consumer demand and strategic adjustment. The forward-looking and high barriers of the model provide a premium for stock prices. Therefore, the company can maintain a "buy" rating on the stock.

### 3.2. Main business

Strengthen network and product competitiveness.

In terms of network, on the basis of maintaining the original network advantages, formulate key store improvement plans; seize the rapid development of e-commerce, customize online exclusive products and enhance online retail; strengthen the exclusive channel of air-conditioning business.

In terms of products, Haier will continue to be a leader in the field of household appliances such as refrigerators, washing machines, and water heaters by implementing product differentiation strategy, optimizing product structure, increasing the market share of high-end products and energy-saving products; strengthen the development of air-conditioning business to deepen the market competitiveness of products, complying with strategic requirements, and improve the network competitiveness of products to maintain the recovery of the air-conditioning business and enhance its business capabilities.

### 3.3. Integrated Channel Services

Create a virtual and real network platform that combines distribution, logistics, service, and the Internet and implement standardized store management methods. Meanwhile, create online and offline network solutions through physical networks to improve overall operating efficiency; continue to enhance informatization and refined management. Improve network operation and service capabilities and enhance commercial value; in the future, further build logistics and distribution capabilities to achieve end-to-end, last-mile service capabilities.

### 3.4. Overseas Markets

Build R&D centers around the world to integrate global resource technology and improve product R&D capabilities; optimize global operation efficiency to improve market operation efficiency. At the same time, seize growth opportunities in emerging markets such as India, Pakistan, Middle East Africa and South America to increase Haier Group's global market share.

### 3.5. Brand Building

In accordance with the upgrade of consumer demand and the development of home appliance integration, Haier should implement differentiated product strategies and promote multi-brand operation strategies, while paying attention to avoid investing a large amount of capital in the process of brand expansion. Because that will bring excessive capital loss and brand image damage. Rely on the competitiveness in the international market to achieve the goal of enhancing brand awareness and user stickiness. Through the interactive platform of marketing resources integrated with virtual and real networks, and the development of terminal brand image five-sense experience meetings and other activities to increase the brand awareness of high-end people and then guide them to pursue a style of life quality. In terms of the command brand, strengthen network expansion, network marketing and on-site competitiveness construction, as well as network organization reforms to enhance the competitiveness of the command brand in the international market.

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