

# Haier's survival strategy to compete with world giants

## Abstract:

The aim of this paper is to analyze the internationalization of Chinese companies; in particular, the very successful case - the Haier Group. This paper focuses on using a case study methodology to analyze Haier's survival strategy to compete with world giants. The following issues have been addressed to meet the respective objects: first, the Uppsala stages model and Haier's internationalization process; secondly, analysis and evaluation of Haier's strategic internationalization, using Dawar and Frost's survival strategy theory to compare with Haier's internationalization strategy; and finally, to explore the motives underlying Haier's entry strategy and development.

## Keywords:

Internationalization, Uppsala Stages Model, Exporting, Foreign Direct Investment, Joint Venture

## Introduction

Since China's WTO entry, the Chinese household electrical appliances industry, as well as other industries, is facing the reality of a globalising world economy and multi-global challenges, such as the environmental challenge, the competitive challenge, the collaborative challenge, the organisational challenge, the worldwide learning challenge and the management challenge (Bartlett and Ghoshal, 2000).

The Haier Group has set up a successful example in facing these realities and challenges. Competing with the global giants, Haier's strategy mainly concentrates on their constant efforts towards internationalisation.

In the past decades China was an insignificant player in international business. China is an underdeveloped country, a major FDI\* recipient and a late mover, with limited technological innovative capabilities. As for the Chinese internationalisation processes, little research has been conducted until now-- the so-called new era of accelerated internationalisation. This may be mainly because of China's particular history and geographical situation.

The aim of this paper is to apply a case-study approach to assess the relevance of internationalisation models and theories in analysing Haier's specific empirical evidence.

## The Uppsala stages model and Haier's internationalisation process

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\* FDI: foreign direct investment

The basic assumption of the Uppsala model is that companies are expected to follow a sequence from low to high commitment modes of operation and enter new markets with successively greater psychic distance. The stages are: No regular export activities—Export via independent representatives—Establishment of an overseas sales subsidiary—Overseas production (Andersen, 1993). Haier’s internationalisation process generally complies with this model in two distinguishing aspects: exporting and FDI.

## Exporting

QGRF\*, predecessor of the Haier Group, started to export in 1986. From the establishment of the Haier Group in 1992 till the year 2000, Haier’s total exporting revenue rose to US \$2.8 million, to over 160 countries and regions. The exported items were refrigerators, washing machines, freezers, air conditioners etc., in white, black and cream, 69 types, 10800 items. Haier exported 60% to European countries, 20% to Japan, 16% to Southeast Asia, and 4% to other places. Haier owns 56 trading centres, 11976 service centres, and 38000 sale offices abroad. Exporting helped Haier to gain their marketing share in the international market and prompt Haier’s brand to worldwide customers. The exporting records are presented in Table 1.

**Table 1: Records of Haier’s exporting**

Year	1986	1993	1994	1995	1996	1997	1998	1999	2000
Amount (US\$)	300,000	1,800,000	1,840,000	4,200,000	5,000,000	5,636,000	7,565,000	1.38bn	2.8bn

In line with the Uppsala model Haier started their internationalisation through exporting. It was sporadic and in limited quantities via agents before the establishment of the Group. Having started its exporting as indirectly (i.e. QGRF), the Group quickly moved to exporting directly. These gradually stage transition allowed Haier to gain first hand experience in internationalisation. During these primary stages Haier’s exporting was initially to Germany based on a licensing agreement. At later stages Haier intensified their exporting to not only developed countries but also developing countries through multiple channels.

## FDI overseas

Early in 1992, Haier’s refrigerators were first exported to Indonesia, and were welcomed by the distributors and customers there. In 1995, Indonesia’s Sapporo Ltd visited Haier twice to inspect their product quality and management system, as Haier was interested in Indonesia’s potential large market so it started its first step in FDI overseas in Indonesia in 1996. To date, Haier has established subsidiaries in 13 countries, 8 design centres and 10 information centres overseas. Table 2 represents Haier’s two major FDI modes.

Starting FDI overseas in Indonesia was a trial step for Haier’s internationalisation process while progressing building a plant in the Philippines was another key step used in training Haier’s multinational managers. When Haier started its Greenfield site in the U.S, those managers, who had been well trained in the Philippines, were sent to the American plant. By investing in the U.S. Haier realised their strategy of localisation through their triangular-network in design, production and marketing. In acquiring an Italian plant further helped

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\* QGRF: Qingdao General Refrigerator

Haier to build their three important windows of opportunities and two possibilities of expansions. The three windows are: window of information, window of technology, and window of purchasing. The two expansions are expanding geographically from Italy to European countries and; in products, from refrigerators to other electrical appliances.

Having been successful in exporting to a number of countries, Haier then began to engage in FDI activities thus fulfilling the stages in the Uppsala model. The FDI of Haier was initially to developing countries via the creation of JVs\* with local partners. After having established operations in LDCs\*, Haier progressed to FDI in developed countries, such as North America and Western Europe.

**Table 2: Haier’s major FDI overseas**

<b>Year</b>	<b>Country</b>	<b>Mode</b>	<b>Name</b>
08/1996	Indonesia	JV	PT. Haier Sapporo Indonesia
07/1997	Philippines	JV	Haier LKG Electrical Appliances Ltd.
08/1997	Malaysia	JV	Haier Industrial (Asia) Ltd.
10/1997	Yugoslavia	JV	Yugoslavian Haier Air Conditioner Plant
09/1999	Iran	JV	Haier Mid-East Ltd. and Haier Iran Factory
02/2000	The US	Greenfield/WOS*	Haier Industrial Park
04/ 2001	Bangladesh	JV	Hayes and Haier Appliances Company Ltd.
05/2001	Pakistan	Greenfield/WOS	Pakistan Haier Industrial Park
06/2001	Italy	Merger/WOS	Haier Italian Refrigerator

## **Analysis and evaluation of Haier’s strategic internationalisation**

When the domestic electronic appliance market became more competitive, and therefore, less profitable and foreign brands began flooding into China, it is understandable and sensible for Chinese companies to start to think globally. Competition is the key driver for Haier to be a pioneer in testing the global water.

### **Dawar and Frost’s survival strategy theory and Haier’s internationalisation strategy**

Dawar and Frost’s (1999) survival strategy theory of how local companies can compete with giants offers a profound theoretical approach to analysing and evaluating Haier’s internationalisation strategy.

### **Haier’s positioning in exporting**

Haier’s strategy when competing with world electronic giants in exporting was very creative.

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\* JV: joint venture    JV: joint venture    LDC: less developed country    WOS: wholly owned subsidiary

They did not comply with the usual stage models.

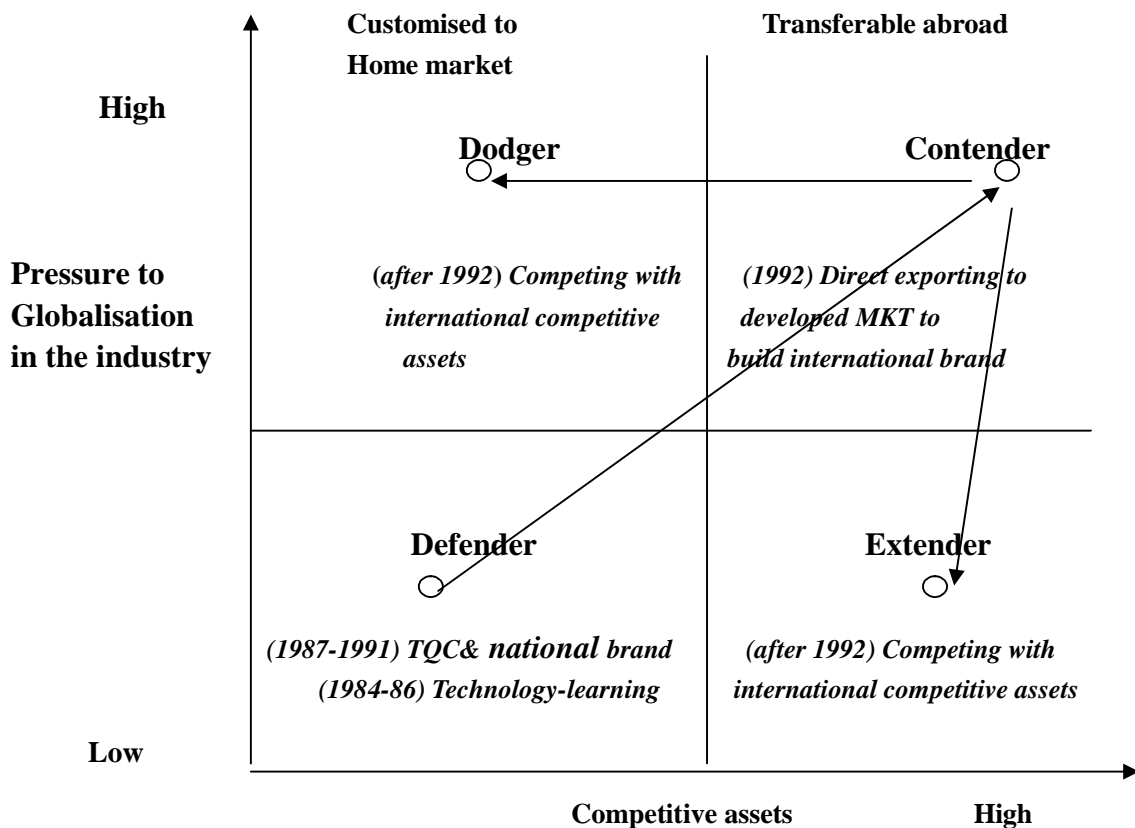
**(1) Stage One: a “defender”**

Haier was founded in 1984 as a joint venture with imported production technology from Germany based on a licensing agreement. From 1984 to 1991, globalisation pressure was relatively weak. Haier was in its initial stage as a *defender*. Haier first imported advanced technology in refrigeration from Germany and spent seven years building up a strong brand name in refrigerator production through a well-planned quality control system. The plant received the attention of the media when 76 inferior quality refrigerators were smashed just after they went off the production line, which led to implementing Japanese TQC\* system and progress to evolving its own management system but Haier’s export, however, was limited and indirect through agents.

**(2) Stage Two: a “contender”**

Haier’s competitive strategy in exporting was as a *contender*, which was different from its outward investment. It did not follow any former internationalisation models and routines. To be more specific, Haier launched its internationalisation strategy by exporting very creatively. That is their “first difficult, then easy” principle. In 1992 Haier first entered into the developed economies by directly exporting to Europe, Japan and US markets, to obtain prestige and to establish their brand. The use of contender’s strategy, having built a highly desirable industrial image for their quality products enabled the company to compete globally.

**Figure1: Haier’s positioning in exporting**



\* TQC: total quality control

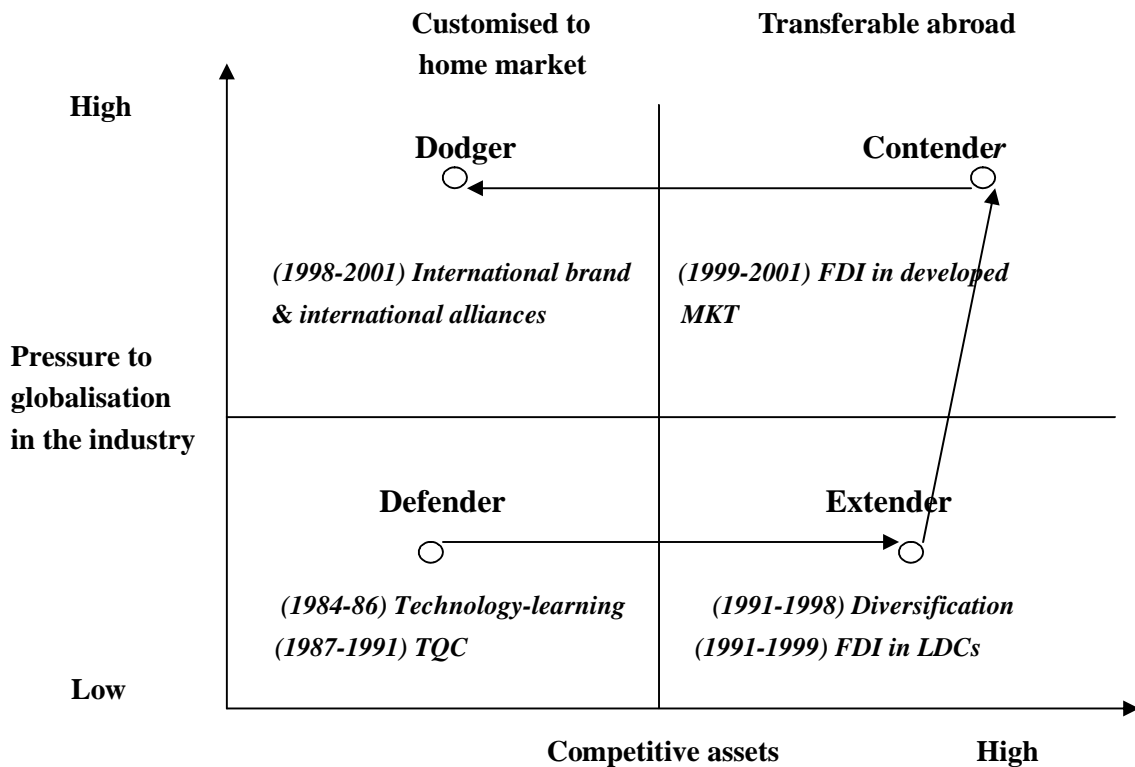
**(3) Stage Three: both a “defender” and a “dodger”**

After 1992 Haier entered into other markets within developing or less developed countries without obstacles as a strong *defender* in international markets. Enjoying the advantages of extender strategy application on the one hand, Haier, on the other hand, applied a *dodger* strategy at the domestic market to avoid price wars by using their integrated international competitive assets to reform the Chinese household electrical appliance industry fundamentally by leading it to a high standard and employing an innovative way towards internationalisation (see Figure 1).

**Haier’s position in FDI overseas**

The past 16 years have witnessed the development of Haier into a world-famous brand through the application of the internationalisation approach and its marketing strategies can be summarised as the four stages shown in Figure 2.

**Figure 2: Haier’s positioning in outward FDI**



**(1) Stage One: a “defender”**

Haier was a *defender* at the first stage and mainly customised to the home market in China. Haier diversified the product catalogue through acquiring several small Chinese enterprises to avoid having all the company’s eggs in one basket.

**(2) Stage Two: an “extender”**

With the aim of building an international brand name, Haier started its multinational strategic stage when its competitive assets (brand, TQC, etc.) were made to be transferable abroad in 1996 through FDI and started to extend to LDCs: Asian neighbours, then to countries in the Middle East and East Europe. At this stage of implementing the Uppsala

model of internationalisation, Haier followed an *extender* strategy, using competencies developed at home and starting to focus on expanding into markets similar to those of the home base. At this stage Haier avoided investment risks, and also gained experience for its further successful expansion into developed markets as a contender.

### **(3) Stage Three: a “contender”**

Haier’s giant step forward in internationalisation was from 1999 onward by establishing internationalised marketing networks, establishing Greenfield ventures and merging with factories in developed countries, creating global information centres and setting up sub-product-design sectors. They creatively implemented a local design, local production and local sales approach. When establishing marketing networks, information and design centres, Haier followed a *contender* strategy.

### **(4) Stage Four: a “dodger”**

After they had upgraded their capabilities through the above three stages, especially by integrating global resources from their overseas subsidiaries, design centres and R&D centres, Haier built up their overall network world-wide. They could now compete with the world giants in every corner in the world through an innovative and speedy response to market opportunities to obtain its own niche market resulting in establishing Haier as an international brand. At this stage, Haier conducted a *dodger* strategy at home. In the domestic market they did not transfer their assets abroad but transferred their international competitive assets back to China. It did not compete directly with its competitors. Instead Haier played a win-to-win strategy by forming technological alliances both with competitors and world players in other industries, for example, with GE, Whirlpool, Toshiba, and Microsoft.

## **Motives underlying Haier’s entry strategy and development**

Haier developed their strategy through their uniquely customised approach when entering each specific market at a specific time. The main motive underlying Haier’s internationalisation is to achieve competitive-oriented foreign market-entry and development (Young *et al*, 1989). “Only by actively taking part in global competition can we seize a chance to survive,” said Zhang Ruimin (People’s Daily, 2000).

### **(1) Building permanent market position**

Haier built their permanent market place through market entry or expansion to defend or improve its market share. Haier’s exporting or other entry modes were all focused on building a world-famous brand. They clearly declared that: “exporting to build a brand, not to earn foreign currency”, “We are not selling goods, but goodwill”, and “Whenever Haier is mentioned, the entire world will know about it”.

### **(2) Meeting or following competition**

In response to competitors’ actions, Zhang Ruimin said on the Entrepreneurs Day (Zhang, 2001) that, “When foreign companies come to China, they do not come for a benevolent purpose. They follow a very simple principle: the law of the jungle. Chinese enterprises must not fail to be fully aware of this fact. If you treat yourself as a sheep rather than a wolf, you will be a prey of a wolf; if you act as a wolf, you can compete for sheep with others (Zhang, 2001)”.

### **(3) Exchanging of threat**

Expanding abroad is a response to competition within the domestic market both from imports and local products. Haier started 'taking the fight to the enemy' by breaking into the U.S. market using a combination of quality, price and local manufacturing (Bier, 2001). When a fierce price war heated up in China among domestic manufacturers, it avoided this by shifting domestic competition overseas through implementing a strategy of "first go out to 'West Oceans' (i.e. developed countries overseas), then to the 'West Region' (i.e. China)". They levered their international competence with advanced technology and management to innovate their range of products and explore undeveloped Western China by building their production bases countrywide.

#### **(4) Following customers**

Haier chose their market-entry in response to customers' internationalisation. Their strategy of overseas expansion was that "Where there is a market, there must be a factory". They first exported their products and franchised their technology and know-how. When the product-market of their products exceeded "break-even" point, they started their Greenfield projects.

#### **(5) Shaping the competition**

"Since late last year, refrigerators rolled out of the spanking New South Carolina factory sporting the Chinese brand name Haier as well as 'Made in the U.S.A.' tag" (Biers, 2001). Haier's acquisition of an Italian factory in 2001 was a milestone in Haier's course towards internationalisation. It not only acquired a white home appliance base in Europe, but also possesses the conditions for participating in local manufacturers' organisations and for acquiring information. This has paved the way for achieving the goal of creating a world famous brand by making use of local funds, intellectual resources and culture (Asinfo, 2001). These achievements demonstrate that Haier has the technology and manufacturing capabilities to make quality products and thereby compete with world consumer appliance giants, such as GE, or Whirlpool even in the hyper-tough developed markets. Its outstanding achievements have established it as a model for other Chinese manufacturers who used to feel inferior to MNCs both in China and overseas. "In addition to a rising position and success, Haier also has an important role in that it offers insight into China's economic changes. As one of the important household appliance manufacturers in the world, Haier has established subsidiary companies in 13 countries and exports to 160 nations – marking an end of the first stage of China's economic reforms after the country's isolation to the outside world" (Flannery, 2001).

## **Conclusion**

Competition is the key driver and competitive-oriented foreign market entry is the major motive of Haier's internationalisation strategy to compete with world giants. Haier did not follow any ready-made rules but implemented its survival strategies very flexibly both in its exporting and FDI. It follows its customer timely, meets competition bravely to build a strong market position and, exchanges threat and finally shapes the competition.

Going head-to-head against experienced international companies, Chinese companies, as late-movers have to overcome a number of problems. They have neither the resources, nor advanced technology nor sophisticated domestic customer base. Chinese managers do not have the

internationalisation mentality because of their limited international exposure.

Haier is the front-runner in launching full-scale operations in participating in the internationalisation process. "Our biggest challenge is not that we are backward but we are afraid we may not be strong enough and only by actively taking part in global competition can we seize a chance to survive." (People's Daily, 2000) Mr. Zhang's words will encourage domestic enterprises to bravely join in global competition in any industry whenever they feel they have a chance to win.

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