Haier: From a Struggling Chinese Manufacturer of Refrigerators to a Global Brand

John Kraft, University of Florida
Arthur Kraft, Chapman University

INTRODUCTION

Through astute management, strategic acquisitions, focusing on quality and the customer, and innovation, Haier became a global brand and the world's number one seller of white goods surpassing Electrolux, Whirlpool, Bosch, Lg, Samsung, and GE. While globalization has benefitted the rise of the growth of the Chinese economy, Chinese companies' performance in Europe and North America has been less than average.

Branding versus Size

While developing-country firms are swiftly learning the art of branding, few emerging-market brands have already gone global: Haier of China (white goods), Concha y Toro of Chile (wine), and Natura of Brazil (beauty products). On the other hand, China has been less successful in developing global brands in automobiles, airlines, and manufacturing.

The approaches to global brand recognition faced obstacles but each offered a route to the global heights. One path previously trodden by Japanese firms such as Toyota and Sony, and then South Koreans such as Samsung and Hyundai: first, establish a beachhead in the West by selling a good-enough product cheaply; then relentlessly raise your price and quality. Haier, as the world's biggest white-goods maker, is out-innovating Western rivals with ideas.

The obstacles in emerging-market companies' path to global prominence are of their own making. An obsession with market share at all costs can fatally undermine their finances. A habit of pilfering foreigners' ideas can discourage them from developing distinctive products and brand identities. A reluctance to employ foreigners as managers may make it hard to understand other cultures, and thus to crack new markets.

However, the fat margins enjoyed by global brands are a powerful incentive for emerging-market firms to shift from quantity to quality, and to venture outside their comfort zones in the search of universal appeal (Economist 2013).

Recognition and Acceptance in the West

China corporate expansion appears to have slowed. In America President Joe Biden has picked up where President Donald Trump left off, placing restrictions on Chinese companies. Last year Congress passed a bill that may eventually force Chinese firms to delist from American stock exchanges, which would affect $2trn in market value.

When commodity giants such as CNOOC, an oil firm, began buying foreign reserves, and rivals, in the 1990s, it stoked fears of resource colonialism. In the 2010's Chinese industrial groups' aggressive pursuit of Western rivals ramped up and gave rise to a series of western roadblocks Figure 1.

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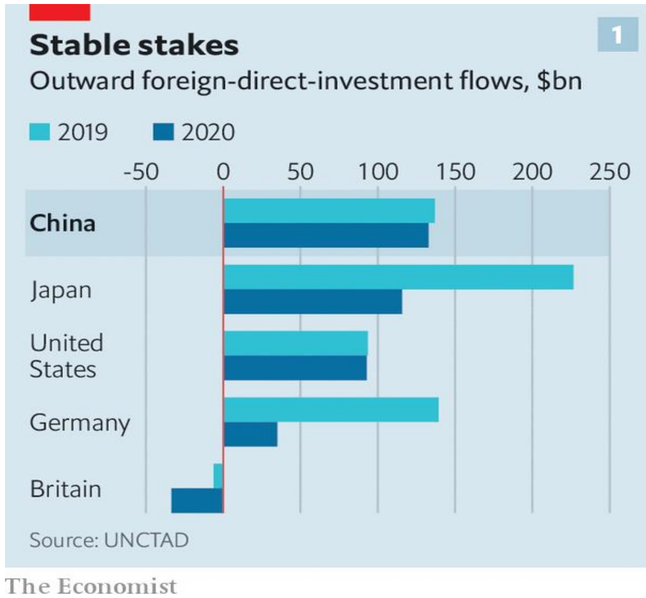

Figure 1
STABLE STAKES

The China has 3,400 multinational companies, more than America and Western Europe combined. Around 360 big listed Chinese groups report foreign revenues. These amounted to around $700bn in 2020, compared with the 250 largest firms earning a total of $400bn in 2012.

The first step of China Inc's new global strategy is astute localization.

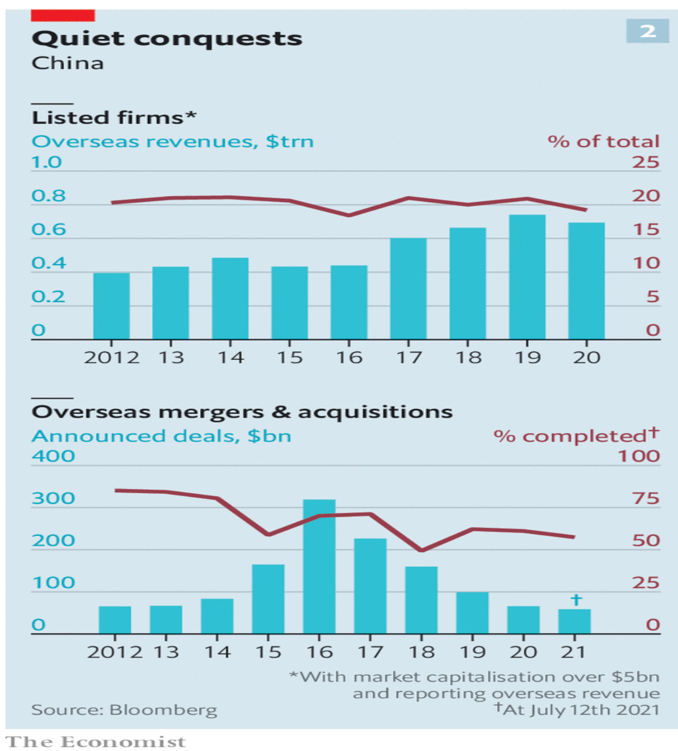

Figure 2
QUIET CONQUESTS

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The second pillar of China Inc's new globalization strategy is to shun mega-deals in favor of smaller ones. The speculative wave of outbound investments between 2015 and 2017 swallowed up $425bn in assets and raised eyebrows among foreign and Chinese regulators alike.

Trouble could come from the heavy hand of China's Communist rulers or America and the European Union, which were bound to keep an ever-beadier eye on Chinese commercial incursions. The go-getting Chinese multinationals would then need to adapt once again, if they are to gain recognition, acceptance and achieve status as global brands. (Economist 2021).

Poor Strategic Decision Making

Given the size of China's economy, it seems inevitable that its firms will eventually play a huge role on the world stage. Yet China Inc's adventures abroad in the past 15 years have been a mixed bag. of the mergers and acquisitions that have been worth $1bn or more, it is a different story.

The experience of Britain, and then America, in the 20th century suggests that economic hegemons control a disproportionate share of the world's stock of cross-border corporate investment. Today China's slice is only 4%, below its 15% share of global GDP and its 13% share of total stock market value. Its leaders want firms to go faster. If companies do not globalize, China will not achieve the status associated with a global player.

In their hurry, Chinese firms have made mistakes. Deals worth $1bn or more account for two-thirds of activity by value since 2005. Of these about half fall into three problematic categories. First, acquisitions by state-controlled groups of natural-resources firms. The aim was to secure access to raw materials, but deals were badly timed, with soaring prices paid at the peak of the commodity cycle between 2010 and 2014.

Other countries have been on foreign M&A benders: in 1989-90 Japanese companies bought a Hollywood studio and the Rockefeller Centre and in 2005-15 Indian firms splurged overseas.

For China's private firms the focus has been on deals that contain industrial logic Last year Haier, which makes white goods, bought General Electric's appliances business. Yet, over the long term they have a better chance of succeeding, than especially state-owned enterprises (Economist 2017).

Lack of Management Talent

China wants to shift from its position as the world's sweatshop to become a powerhouse of creativity and invention. In fact, a better bet would be to concentrate on the details of management.

Chinese companies are not going to turn into Google or Apple overnight. Those controlled by the state will continue to plod on in unsexy industries, such as steel or cement. The central problem is how to get better at what they do.

China's best are indeed world-beaters (think of Huawei, a telecoms-equipment giant, or Haier, an innovative white-goods goliath). Export-oriented manufacturers (mostly private) have sharpened up dramatically. Geely gained recognition with the acquisitions of western brands and their management. Thanks to their efforts, productivity in China rose sharply between 1990 and 2010.

But that growth rate should not distract from the absolute levels of productivity, which are still abysmal. Across a variety of industries, in services and manufacturing, Chinese labor productivity is still just 15-30% of the OECD average despite those two decades of improvement. Productivity lags badly at firms across the economy.

The gap in returns between firms was the performance of individual companies, not merely the mix of businesses in the Chinese economy. If local firms could improve performance by enough to match the average return on equity of American firms, it would lift the economy-wide return on invested capital in China from 7.4% to 10.2%.

Rather than wait for liberal reforms that may never come, however, managers in China must crack on with their own productivity efforts. The country has extraordinarily efficient factories run by contract manufacturers

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such as Taiwan's Foxconn and America's Flex (formerly Flextronics). But it has a far greater number of poor performers. Globally proven management techniques like Six Sigma, a data-driven approach to running a company, and "lean manufacturing" existed only in name.

Technology need not be innovative to help corporate officers do the basics. More automation would boost productivity. Although China is the world's biggest buyer of industrial robots, it still has only thirty-six per 10,000 manufacturing workers—half the global level and less than a tenth of the proportion in South Korea.

In the end, the most important thing managers in China need to change is their outlook. After an extended period of double-digit growth, firms are still on an expansionist course. But with the economy now slowing, bosses must shift away from the strategy of growing at all costs to an approach that emphasizes the boring stuff: cost cutting, restructuring and operational efficiencies (Economist 2016).

Haier in the Beginning and Below the Radar

A new name has found its way onto the billboards that decorate the world's most expensive cities. On the face of it, China's leading maker of fridges, washing machines and air-conditioners looks like a global success. Haier has factories and offices in more than one hundred countries, and a cult following among American college students who chill their beer in its mini-fridges, sold at Wal-Mart. Haier is gearing up to become even more global and to gain traction as a global brand.

Initially, Haier was a bankrupt and poorly run manufacturer of refrigerators. By1991 it was the white goods market leader in China and had expanded beyond fridges into a range of white goods by taking over other moribund state enterprises. Haier was the leading seller in China of most home appliances. From such a powerful base, international expansion seemed logical and inevitable. But while the big oil and commodity producers are buying resources overseas and most mainland manufacturers are content to sell their goods under foreign firms' labels, Haier was trying something much harder: to create a genuine global brand.

Haier's drive into markets abroad mirrors a push into new markets at home. Plunging returns in its core white goods business drove Haier abroad.

Haier has so far concentrated on niches. But to continue to grow globally it will have to compete with the likes of Whirlpool, General Electric and Electrolux in their main markets. Yet Haier lacked such a firms' R&D, and design skills.

Nor was Haier careful to keep costs low. Haier produced outside China to be responsive to customers.

Yet, at a stroke, which deprives Haier of its greatest advantage: China's vast pool of low-cost labor. Meanwhile, Haier's attempt to reward creativity—allowing every engineer the freedom to design and build his own products—has worked too well, leaving it with a bewildering ninety-six categories of goods in 15,100 specifications. These variants add more to production costs and complexity than they will ever add to sales.

This attitude was widespread in China. Rather than focusing on a core business or dominating a market, as western, Japanese, and South Korean managers have slowly learned to do, their Chinese counterparts quit any market where competition is rising, as so many other profitable opportunities beckon (Economist 2004).

Haier History

The origins of Haier actual founding, as a refrigerator factory in Qingdao. By the 1980's the factory was heavily in debt, and lacked quality controls. The Qingdao government hired Rumin Zhang to fix the problems.

International Expansion

Haier entered the US market in compact refrigerators and electric wine cellars. Haier began to manufacture full-sized refrigerators for North American market and came into direct competition with established American companies GE, Whirlpool, Frigidaire, and Maytag. Haier built a production facility in South Carolina, which opened in 2000.

Production facilities operated in Pakistan and Jordan. In Africa, Haier managed plants in Algeria, Egypt,

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Tunisia, and South Africa.. In January 2004. Haier Appliances (India) P. Ltd initiated its commercial operations.

Haier made a bid to acquire Maytag Corporation, the bid was for US$1.28 billion, or $16 per share, topping a previous offer of $14.26 per share made by Ripplewood Holdings. In the end, however, Whirlpool Corporation purchased Maytag for $1.7 billion in cash and stock, or $21 per share, plus assumed debt.

In 2009, Haier surpassed Whirlpool to become the fourth largest global refrigerator producer in terms of sales with a global market share of 6.3%.

Haier Group acquired New Zealand-based Fisher & Paykel.

In June 2016 Haier Group, after a failed bid by Electrolux, acquired General Electric's appliance division for $5.4 billion. ~~GE~~

Haier had acquired Italy based Candy group.

By 2020, Haier had been the world's number one home appliance brand for twelve consecutive years (Wikipedia 2022).

Leadership

In 1984 the municipal government of the Chinese city appointed a young employee, Ruimin Zhang, as the firm's boss. The gamble worked. Haier turned into the world's biggest appliance-maker.

In contrast, Haier was known for reliability and marketing knowledge. Mr. Zhang had spent time in quality-obsessed Germany. It made a deep impression.

His un-Chinese obsession with quality and branding helped, earning his products a premium even during periodic price wars. He also emphasized top-flight service,

By listening closely to demanding consumers, his firm's fast and frugal engineers came up with clever products like mini-fridges built into computer tables (for students), freezers with a slightly warmer compartment (for keeping ice cream soft) and horizontal deep freezers with two tiers of drawers (for Americans too lazy to dig to the bottom). Haier also developed new niches, such as affordable wine fridges, ignored by Western rivals obsessed with economies of scale. It is now pioneering wireless charging of appliances (Economist 2013)

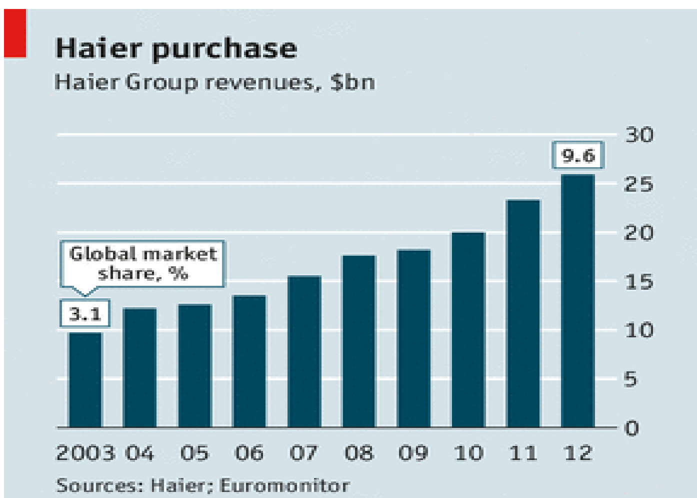

Figure 3
HAIER PURCHASE

General Electric

General Electric was the pioneer of the gadgets that would now as indispensable in the modern home on September 8, 2014, the venerable firm announced it had agreed to sell its appliances business to Electrolux, a much smaller Swedish competitor, for $3.3 billion.

GE had tried to sell the appliances business before, in 2008, but the global financial collapse got in the

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way. The reason it has tried again, this time successfully, is clear from the company's financial statements: over the past three years the division that groups together appliances and lighting produced 5% of GE's turnover, but just 1% of its profits.

The aqquisition is more important for Electrolux than GE. The Swedish appliance-maker aimed to use the takeover to double its share of the American market, as well as to build up scale to compete with the likes of Beko of Turkey and LG of South Korea. Curiously, the successful bidder was neither Haier nor Whirlpool, two manufacturers that had already stated that they want to add capacity to stay competitive (Economist 2014).

In 2015 General Electric (GE) abandoned the $3.3 billion agreement to sell its appliances business to Electrolux AB of Sweden, walking away from the deal in the middle of a courtroom fight with U.S. antitrust regulators.

The merged Electrolux-GE business would have had about one-quarter of the U.S. market in 2014, compared with 30% for Whirlpool, and 13% and 11%, respectively, for South Korean rivals LG Corp. and Samsung Electronics Co. (Mann Wall Street Journal 2015)

In June 2016 Haier Group acquired General Electric's appliance division for $5.4 billion (Wikipedia 2022).

The Benefits

The recently concluded Haier-GE partnership was not just another acquisition.
The acquisition of these two brands was certainly "big."

Haier and GE have entered into an agreement "to cooperate globally and jointly pursue growth projects in focus areas where both companies increased business competitiveness such as Industrial Internet, healthcare, and advanced manufacturing." Haier has had big global aspirations.

Haier's acquisition of GE's appliances was about reinvention.

Beginning as a small, struggling, collective refrigerator manufacturer in Qingdao, Haier had reinvented itself repeatedly to the point where it was a branded symbol for product quality, not merely an exemplary service provider, closer to the customer than ever imaginable, and now, most recently, an exploration in what it means to be a platform organization to deliver cutting-edge ideas in an internet-age. Haier had arrived (Economist 2021).

Balance Sheet All numbers in thousands

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Breakdown	12/31/2021	12/31/2020	12/31/2019
> Total Assets	217,459,494	203,459,496	187,454,236
> Total Liabilities Net Minority Int...	136,376,533	135,348,489	122,464,376
> Total Equity Gross Minority Inte...	81,082,961	68,111,007	64,989,860
Total Capitalization	83,184,231	85,351,340	68,169,358
Common Stock Equity	79,810,927	66,816,423	47,888,320
Capital Lease Obligations	1,960,895	2,072,702	1,980,272
Net Tangible Assets	48,206,324	34,112,348	13,656,232
Working Capital	-1,189,178	4,854,740	4,937,407
Invested Capital	94,410,443	93,039,248	76,754,408
Tangible Book Value	48,206,324	34,112,348	13,656,232
Total Debt	26,183,426	35,818,253	38,163,499
Share Issued	9,127,691	8,756,832	6,308,553
Ordinary Shares Number	9,127,691	8,756,832	6,308,553

Figure 4
BALANCE SHEET

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Income Statement All numbers in thousands

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Breakdown	TTM	12/31/2021	12/31/2020	12/31/2019
Total Revenue	242,674,367	227,556,144	209,725,821	200,761,983
Operating Revenue	242,674,367	227,556,144	209,725,821	200,761,983
Cost of Revenue	166,666,011	156,482,657	147,475,181	140,868,399
Gross Profit	76,008,356	71,073,486	62,250,640	59,893,585
Operating Expense	57,878,941	55,204,954	50,064,377	49,582,158
Selling General and Administr...	48,536,621	46,998,143	43,694,357	43,795,390
General & Administrative Exp...	10,593,676	10,444,476	10,052,645	10,113,263
Selling & Marketing Expense	37,942,945	36,553,667	33,641,711	33,682,126
Research & Development	9,607,282	8,357,333	6,860,162	6,266,937
Other Operating Expenses	830,131	806,979	660,507	802,045
Operating Income	18,129,415	15,868,533	12,186,263	10,311,426
Net Non Operating Interest Inc...	815,502	-108,905	-811,203	-1,165,420
Interest Income Non Operating	380,726	564,585	486,180	550,225
Interest Expense Non Operating	778,694	712,448	1,327,091	1,747,108
Total Other Finance Cost	-1,213,469	-38,958	-29,709	-31,463
Pretax Income	18,053,688	15,916,031	13,554,480	14,630,609
Tax Provision	3,205,461	2,698,963	2,231,864	2,296,216
Net Income Common Stockhold...	14,783,884	13,067,038	8,876,593	8,206,247
Net Income	14,783,884	13,067,038	8,876,593	8,206,247
Net Income Including Non...	14,848,228	13,217,067	11,322,616	12,334,393
Net Income Continuous Op...	14,848,228	13,217,067	11,322,616	12,334,393

Figure 5
INCOME STATEMENT

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