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Executive Summary

As one of the most well-known brands in China, Haier has been hailed for many years in the Chinese history of enterprise development as a legendary story, which achieved a grand turnaround by transforming a factory producing only one model of refrigerator in 1984 and on the verge of going bankrupt into one of the world beaters and innovators in the household appliances industry. Its success stories have been written into the case studies of Harvard Business School.

The growth and expansion of Haier was attributed partly to China’s massive economic take-off since late 1970s after the inception of the reform and opening up policy, which helped to create an environment that is conducive to the growth of enterprise, the strengthening of enterprise’s competitiveness, and ultimately, an enormous consumer market. What is equally, if not more important, is the strategy designed and implemented by Haier Group in the course of its development and expansion, which has enabled the company to identify, build, and uplift its comparative advantages in the fierce market competition against its competitors both at home and abroad.

After some 20 years of growth, Haier has secured a strong foothold in the Chinese market and accounted for around 1/3 of market shares in terms of refrigerators, air-conditioners, washers, amongst others. However, the battle to win global recognition and consumers is still going on, and there is still a long way to go in terms of internationalization and building a global brand, though considerable progress and stride have been made in the right direction.

This paper attempts to examine and propose by applying such modalities as PESTEL, Porter Five Forces, and SWOT, strategies that Haier should adopt in winning market share on the EU market. Recommendations are provided at the end of the paper on how the company can take advantage of the new opportunities and become a genuine shaper and mover in the world’s household appliances industry.
1). Introduction

“As large emerging markets such as China, India and Brazil are playing an increasingly important role in the world economy, entrepreneurs and corporate CEOs in these countries are aspiring to build world class companies.”

Among these “Emerging Giants”, Haier, China’s most valued household appliance brand and one of the world’s leading home appliance manufacturers is determined to compete with other world-famous multinational companies in the world markets and exploit new globalization opportunities.

Will consumers who are familiar with popular brands such as Siemens, Bosch, Electrolux, Merloni and Whirlpool, etc be attracted to Haier, a brand that they may have never heard of?

Table: Haier Milestone

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1984</td>
<td>Founded as Qingdao General Refrigerator Factory under new CEO Zhang Ruminin</td>
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<tr>
<td>1991</td>
<td>Haier is China’s leading refrigerator producer; Qingdao Refrigerator Factory merged with Qingdao Air Conditioner General Factory</td>
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<tr>
<td>1992</td>
<td>Haier Industrial complex established, Qingdao</td>
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<tr>
<td>1993</td>
<td>Haier begins to produce for foreign MNEs under OEM contracts. JV with Mitsubishi Heavy Industries to produce air-conditioners in China.</td>
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<tr>
<td>1995</td>
<td>JV in Indonesia with local producer of refrigerators and air conditioners</td>
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<tr>
<td>1996</td>
<td>Haier starts manufacturing in Malaysia</td>
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<tr>
<td>1997</td>
<td>JVs in the Philippines, with local company LG, and Yugoslavia for manufacturing air conditioners; sales of own brand products launched in Germany</td>
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<tr>
<td>1998</td>
<td>JV with Philips of the Netherlands</td>
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<tr>
<td>1999</td>
<td>Establishes manufacturing facility in USA (Cumberland, North Carolina)</td>
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<tr>
<td>2001</td>
<td>JVs in Pakistan and India (Bengali); Meneghetti acquisition in Italy; establishment of Haier Middle East Trading Company in Jordan (JV with Syrian and Lebanese partners)</td>
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<tr>
<td>2002</td>
<td>Haier-Sanyo created in Japan; manufacturing JVs in Iran and Algeria</td>
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<tr>
<td>2004</td>
<td>Haier recognized as one of world’s Top 100 brands (only one from China)</td>
</tr>
<tr>
<td>2005</td>
<td>Industrial complex established in Jordan; plants opened in Algeria, Egypt, Nigeria and South Africa</td>
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From the beginning of its globalization, in 1995, Haier was active in more than five countries within five years (including USA). According to company sources, by 2005 it had set up 10 industrial parks worldwide and 22 plants overseas.

Founded in 1984 on the basis of a joint venture between China and Germany, Haier has developed from a factory that only produced one type of refrigerator over a course of 20 years into a conglomerate that manufactures 96 clusters and more than 15,100 models of products, ranging from refrigerators, air-conditioners, to mobile phones, TVs, computers and mp3. Haier succeeded in building up not only its capacity but more importantly a brand that wins nationwide recognition through its quality products and first-class services. Haier’s refrigerators, air-conditioners, washing machines, heaters, as well as vacuum cleaners are all top sellers in the Chinese market, ranking either No. 1 or amongst the top three in terms of market shares.

Continuous innovation is the soul of Haier’s corporate culture and on average Haier develops 1.3 new products per day through its 18 Research & Development and design centers across the world. By April 2006, the Haier Group has obtained 6,189 patented technology certificates and 589 software intellectual property rights. Employing more than 50,000 people worldwide, growing 68% annually between 1984 and 2005, and with an annual sales volume of around USD 12 billion in 2005, Haier is now the world’s fourth biggest maker of home appliances and has built strong brand awareness both in China and some overseas markets.

2 Merloni – company name changed into Indesit in 2005.
In 2005, the Haier Brand was valued at RMB 70.2 billion Yuan. For 4 consecutive years since 2002, Haier has achieved the highest brand value in China. On 30th August 2005, the UK Financial Times\(^3\) ranked Haier as the No. 1 Brand amongst China’s Top 10 World Class Brands. Alongside its expansion into the global market, Haier’s market influence has been rising rapidly.

With a reputation for excellent quality, innovation capacity and customer service, Haier sells its products now in 166 counties and owns 13 factories outside China, including the US, Philippines, Malaysia, Italy, India, and some Eastern European countries. Haier is keen on extending its strong brand reputation into the global market and creating a truly international brand. After having established a beachhead by selling niche Haier products in the United States at the Home Depot, Sears, and Wal-mart, Haier has decided to make European market, home to Haier’s largest global competitors, as its strategic choice in terms of building a global brand with sustained innovations. The idea behind this strategy is to build an international brand by competing in the markets that are the hardest to enter and benefiting from the brand assets which will gradually help Haier to expand to other markets in the world.

1.1) Mission

The mission of Haier is to innovate and become a leader in the industry. Under this umbrella, Haier has further designed a series of strategies to address the following two issues:

1. Lead by building a strong brand, centered on product quality and best of breed services.
2. Build a strong research and development capacity to boost innovation to capture and meet the needs of customers,

Another important dimension of Haier’s mission and strategies is to build Haier into a global brand by internationalizing its R&D, manufacturing, distribution, services, etc.

1.2) Objectives

Given the fact that Europe is one of the most mature and developed markets in the world and having a foothold in the European market will mean not only a global recognition of the quality of Haier products and services, but also and more importantly, the brand recognition of Haier in one of the most fiercely contested markets.

Another advantage of establishing strong presence in the European market is that Europe has historical links with other important markets, such as Africa, and Latin America, and European presence will enable Haier to project more easily to these emerging markets. Along that line, Haier has decided to make European market as its strategic choice in terms of building a global brand that sustains on its quality products, first-class services, as much as on its strong innovation capacity.

We will examine, by applying such modalities as PESTEL, Porter Five Forces and SWOT Analysis, the strength and weakness of Haier, its competitors, as well as the evolving industry landscape and political environment in Europe in which Haier will develop and navigate. We will also try to come up with some recommendations as to how Haier should implement its strategy of building a global brand vis-à-vis its competitors in Europe (hereinafter referred to as EU).

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\(^3\) http://www.ft.com/home/europe
2). Strategic Positioning

2.1) External Environment Analysis:

In order to analyse the European environment and ensure that the decision of investing in Europe is well thought through, we will make an external analysis by applying PESTEL, Porter Five Forces and SWOT Analysis.

2.1.1) PESTEL Analysis

A good fit between the environment and the company will allow the company to be viable in the market. Therefore, we will first perform a PESTEL analysis by examining the following factors: politics, economics, social, technological, environment and legal.

a) Politics:

- Europe, EU notably, is a common market and shares same or similar set of values and political systems. It is fair to say that Europe is a highly homogenous market.
- Europe has enjoyed security and political stability for a very long time, since the end of the Second World War.
- Governance is one of the catchy words used to describe the European governments.
- Europe, as an important polar in the world today, adopts a comparatively more pragmatic approach towards relations with China, hence, Chinese companies and products, though from time to time, the two bark at each other on trade related issues, mostly exportation of products from China to EU.

b) Economics:

- Technically, Europe (hereinafter we refer to European Union as Europe) is the largest economic entity in the world, with 25 members coming together.
- European economy has been growing slowly but steadily in the past years, and the 2.7% GDP growth in 2006 (13 EU countries) beat the expectations of many economists and observers.
- The interest rate within EU is 3.25%, the inflation is kept around 2%, and the unemployment has been going down as well, currently around 8%.
- European economic growth is driven by increased fixed assets investment, innovation as well as increasing consumption, which bodes well for companies that produce consumer products.
- Germany and UK as growth engines within the Euro zone perform well in the past several years and other up and coming nations, like Spain, are also delivering better
than expected growth results, showing a stronger than usual growth momentum in Europe.

- European market for household appliances is estimated to be around 147.7 billion US dollars, one of the largest markets in the world, and the consumers are of premier type.

- Europe is one of the most investment friendly economies in the world, taking in an annual amount of USD 70 billion Foreign Direct Investment.

c) Social:

- As mature and developed market, Europeans have a strong preference for quality and big brand products,

- The level of income distribution in Europe is relatively even and the average education is also at a high level.

- More and more families become dual income earning and women are increasing inclined to work, hence, more disposal income for consumption on per capita basis,

- The society is greying steadily, and the ageing population has more to spend on consumer products,

- Europeans, compared to Americans and Asians, pay more attention to the quality of life, and the pace of work is slower, and enjoying life is probably more appreciated than anywhere else,

- EU as a common market allows relatively free movement of people (though there are some restrictions on newly acceded EU members), which is a plus for consumer products as when people move from one country to another, they are more likely to buy new consumer products than bringing with them the used ones.

d) Technological:

- Europe is one of the innovation centres in the world and has been leading in the design and manufacture of household appliances, home to many multinationals in this area, e.g., Siemens, Bosch,

- Europe is amongst the economies that spends heavily on R&D,

- Technology transfer in Europe is not a politically sensitive issue, but transfer to outside parties, still meet with difficulties and resistance.

e) Environmental:

- Europe is one of the most environmentally conscious parties in the world today and has introduced very stringent environmental regulations,

- Europe has imposed very high standards on the environmental friendliness of electric appliances (WEEE and ROHS), effective as of August 13, 2005, posing challenges and opportunities for household appliances makers around the world,
- Europe’s energy is very dependent on external supplies, most notably, Russia. It is, however, keen on diversifying its energy supply as well as exploring alternative energies, such as wind, solar, amongst others.

**f) Legal:**

- Europe has one of the most developed legal frameworks in the world, including competition law, employment law, product safety regulations and others, and the enforcement is also one of the best and strictest.

The PESTEL analysis has clearly shown that the EU boasts of premier consumers, political stability, sound economic performance, and favourable investment climate and environment. The renewed growth momentum led by Germany and UK recently will also contribute to the increase of the consumption of household appliances in Europe, an advantage for Haier’s expansion into Europe and implementation of its strategy of building a global brand.

### 2.1.2) Porter Five Forces Analysis

![Porter Five Forces Diagram](image)

**a) Threat of New Entrants:**

The barriers to new entrants in home appliance industry are pretty high not only because this sector is a typically capital intensive one but also due to the high customer loyalty with brand preferences, therefore, the threat of entry is quite low. Given that there are already multiple global brand products wrestling with local products in Europe's household appliances market, the entry of a new brand such as Haier into this market can prove to be extremely difficult. However, Haier’s strength, as will be discussed later in this paper, in quality products, innovation, first-class services, and environmental protection feature will turn out to be advantages that help the company to crack into the European market.
b) Bargaining Power of Suppliers:

Most of the suppliers of household appliances are either located in Asia or some central European countries. Considering that more and more companies tend to find overseas suppliers to lower the production cost, the bargaining power of suppliers is also quite low since their products are not unique and the switching cost is quite low.

As one of the largest home appliance producers in Asia, Haier has quite some control over suppliers which enables them to further lower down the bargaining power of suppliers. A vertically integrated company which engages in the design, manufacture, marketing, distribution, and after sales services of its own products, Haier is able to exercise strict control over the quality of the supplies and services provided.

c) Bargaining Power of Consumers:

Although Europeans are mature customers and have plenty brand products on the markets at not so high switching cost, the actual bargaining power of consumers are low to medium for the following reasons:

- **Customers focus less on price, more on quality and the services associated with the products:** though the quality of most of the brand products on the European markets is satisfactory, the lack of service-oriented attitude of the large multinational home appliance producers leaving consumers not many choices.

- **Value the application of cutting-edge technologies and state-of-the-art design:** most of the multinationals including those big European and US names are often reluctant to tailor their products to each country as it is too costly and cumbersome to modify and improve their products to suit local customer needs since they already have successful business in these markets.

- **Strong consciousness of environmental protection elements when purchasing household appliances:** Most of the home appliance producers on the European markets are well aware of this and have made a lot of efforts to produce environmental friendly products. Given that the switching costs of home appliance are not high, consumers have quite high bargaining power in this aspect.

To sum up, although in theory the bargaining power of consumers in Europe should not be low, in reality, the lack of product variety, innovation and the slow responsiveness for customer service on the European market leave consumers not too many choices, therefore, their bargaining power is low to medium.

d) Rivalry among Existing Competitors

There are two types of competitors for Haier in the European market, i.e. manufacturers of global brand such as (Electrolux, Siemens, GE, Merloni, Whirlpool, etc) and local brand companies (Brandt, Candy, Miele, etc). Both of them have their targeted clients and well-established reputation, though at different levels. The two dominant parties have been in the market place for very long time, and developed their own loyal customers, therefore, the rivalry among existing
competitors are high. It would be very difficult for Haier to win the market share from these competitors unless Haier can identify unique positioning in the market and appeal to the clients.

e) Threats of Substitutes:

There is basically no substitute to household appliances as people by any means need to cook, store fresh food or use the fridge functions. There are certain products which have begun to have substitutes, such as computer and internet TV becomes more and more popular among the young generation, however, it won’t happen overnight that computer and internet can replace TV as it requires high technological development in these areas which will take at least some years.

To sum up, by applying Porter Five Forces Model, we can arrive at the conclusion that EU is one of the top markets for household appliances companies and customers exhibit a clear pattern of assumption that is more focused on quality, experience, and environmental protection. Haier has some clear advantages to enter into this market and great potentials to develop, given its prior experience inside China and in other markets, such as the US. However, it also faces some new challenges vis-à-vis competitors. A good positioning strategy will be of great importance for Haier’s success in the European market.

2.1.3) SWOT Analysis (External)

Before crafting business strategies for Haier, we should also probe assessment of its external environment and internal situation:

a) Opportunities:

➢ EU is a homogenous market, with 25 nations and many of which are amongst the largest and most competitive economies in the world, hence, large consumption market.

➢ EU economy is resurging and one of the driving forces is the pickup of internal consumption. EU economy has been growing steadily in the past 5 years, and delivered stronger than expected results in 2006, led by Germany and UK.

➢ EU unemployment rate has been dropping, and currently at around 8%, the lowest in a number of years.

➢ EU currency, Euro has appreciated significantly in the past 5 years, and is still on the upward track, leading to an increasing consumption capacity in the EU market.

➢ EU governments have been keen on improving its investment environment and encouraging investment both from within and outside. EU member states have long enjoyed political stability and the threat of grave social unrest is very low

➢ EU has entered into extensive cooperation with China in various areas, ranging from investment, science and technology, to agriculture, and education, creating sound bilateral ties
• EU boasts advanced infrastructure, well established and tested legal system, and attractive soft and hardware for investment. A leader in science and technology, EU is one of the main sources of latest and advanced technologies.

• Germany and Italy have big demand for Haier Air-conditioners and there is big demand for Haier cylinder washer on the EU market

• EU governments have introduced policies to encourage the development and consumption of energy saving and environmentally friendly household appliance. EU consumers are keen on household appliances that feature energy conservation and environmental protection

b) Threats:

• According to China’s WTO accessions commitments, EU can consider China as a non-market economy, which is what EU has been doing. EU is one of the most frequent users of Anti-dumping charging against Chinese household appliances; this discriminatory practice will put Haier into a disadvantageous position compared to its competitors unless Haier invests directly in EU.

• Technical barriers to trade imposed by EU is one of effective checks to foreign products aspiring to enter into EU market,

• Increasing international competitions in the EU market from global brands:
  - Siemens is one of the longest and most competitive household appliances makers in the world, and claims the lion’s share in the EU market;
  - Philips and Whirlpool is also a leading player in the EU market, offering full range of white goods, with strong brand;
  - Merloni (Renamed Indesit since 2005), one of the biggest household appliances producers in Europe, has a market share of more than 10%, with a strong brand, Ariston and Indesit.
  - Toshiba, Sony, Hitachi of Japan and Samsung and LG of Korea are also strong contenders in the EU market, with their leading design and high technology content.

• Increasing competitions in the EU market from local brands:
  - Local brands are also very popular due to their relatively low price and proximity with customers
  - Major European groups (Siemens, Electrolux, Philips) as well as Japanese and Korean household appliances manufacturers have claimed the lion’s share in the EU market

• The labour cost in EU is on the high side
2.1.4) Industry Analysis

EU household appliances market has robust and diversified demands. The competition has been moving beyond one-factor stage into all-round ones that involves price, quality, brand, and services. Technological innovation is becoming a new and distinctive feature in the competition. The production and sales continue to exhibit the pattern of concentration, i.e. big brand household appliances companies are leading and crowding out the smaller players. Major European groups (Siemens, Electrolux, and Philips) as well as Japanese and Korean household appliances manufacturers have claimed the lion’s share in the EU market:

- Siemens. It has been maintaining its dominant position, ranking No. 1 in terms of market shares, in the past years in the EU market.

- Philips-Whirlpool Group. Whirlpool Group of the US has been ranking number 1 in terms of sales in the world market for a number of years in a row. The combination of Whirlpool and Philips has enabled the company to move into the top three in the EU market, operating 9 series of white goods, ranging from washing machines, microwave oven, refrigerators, to dish washers, air-conditioners, to kitchen utensils.

- Merloni (renamed as INDESIT in 2005) Group from Italy is known for its Ariston and Indesit brand. As one of the biggest household appliances companies, it accounts for some 10% of the market shares in EU. It has also entered into cooperation with Haier, Little Swan, Midea, Chunlan, etc in China.

Alongside the globalization, competitions amongst the multinationals are becoming fiercer. Take the EU market as an example, in addition to the incumbent home-grown household giants, competitors from outside, such as Toshiba, Sony, and Hitachi from Japan, Samsung and LG from Korea have also stepped up their efforts to capture shares in the EU market, with their comparative advantages in technology application, and design.

Market entry opportunities:

- EU has a large market size and strong consumption capacity, which is still growing. There are also increasing number of dual income families and high per capita income.
The EU household appliances market is in a mature stage, and majority of the consumers are upgrading their appliances. The market is increasingly finer segmented.

**Market entry barriers:**

- Strong competition from local and home-grown household appliances companies, which have comparative advantages in branding and technologies. The competitions amongst the potential new entrants will also be very fierce.

- Existing and potential industry policies exercised by the local government, such as unilateral quota limitation, technical barriers, taxation barriers, and granting taxation preferential treatment only to home-grown companies, all constitute potential barriers to entry.

**Overall assessment**

- EU is one of the economically most developed regions in the world, with a huge market and favourable investment environment, and entry into the EU market will bring geographical and comparative advantages to Haier both in terms technology, management expertise, and capital and other resources that will be key to the growth of the company.

- Haier is close to the overall level in EU in the area of household appliance technology and has obtained multiple international accreditations, which will play a decisive role in its entry into the EU market.

- Strengthening direct investment in France, Germany, and UK, particularly Germany, will given Haier an additional advantage in the sense that its products exported to members of commonwealth states, such as Canada, Australian, South Africa, and New Zealand, will be able to enjoy duty-free treatment. This will also enable Haier to project its products to other continents, hence, strategically important to its branding efforts.

- EU member states have strict regulations and requirements on the environmental protection and energy saving features of equipment, and Haier Group is a leader in the application of such technologies, and this is a distinctive advantage of Haier to enter into the EU market.

- EU market is finer segmented, hence, easier to find niche market and consumer groups.

**2.2) Internal Analysis:**

**2.2.1) SWOT Analysis (Internal)**

Haier’s internal analysis in terms of building a well-recognized brand in the EU market:
c) **Strength:**

- Zero defect of Haier products which enjoys high reputation not only in China and other developing countries but also in some developed countries such as US, Germany and Italy.

- High quality Haier services

- Strong capacity in innovation and development of new products which tailor to customer needs

- Comprehensive ranges of products (refrigerator, washing machines, air-conditioners, microwave oven, TV, water heater, computers, mobile phone, mp3, etc) to meet customers’ demands.

- Long history of collaborating with European partners by exporting Haier products into the EU markets

- Vertical integration is one of the unique strength of Haier. The company integrates design, manufacture, marketing, distribution, and after sales services, and by doing this, Haier will be able to capture the needs of customers, design, manufacture, and deliver customized products to clients faster than its competitors.

d) **Weakness:**

Haier has been successful in the Chinese market and some other markets, including the US market. However, it also faces unprecedented challenges in the following areas:

- Lack of strong brand recognition. Haier, though a household known brand in China, is almost nobody in EU and what is more challenging to Haier is the poor overall product image of Chinese products that is often being labelled as poor in quality and low in price. Addressing such an issue requires out-of-box thinking.

- Lack of adequate understanding of the consumer behaviours and patterns in EU. Haier’s success both in China and some other countries and regions has been very much modelled on what has been done by Japanese and Korean companies. Serving EU customers, who are more demanding, requires deeper understanding of the culture, value, and consumption patterns and trends in Europe.

- Lack of experience in operating overseas and managing globalized operations and lack of top talents to manage globalized operations. As one of the late Chinese senior leader stated, once the strategies and policies are settled, what determines the success or failure of a project will be people that are involved in the implementation. Haier does not have many of the talents that both understands the corporate cultures of the company and are at the same time well versed of the market realities and challenges, in this instance, European market.
2.2.2) Critical Success Factors (CSF)

After having analysed both the external and internal environment Haier is facing, we understand that the critical success factors (CSF) that will enable Haier to be competitive in the EU markets are:

- **Brand image**: Most of the customers have brand preferences and are loyal customers to certain brands. This is a factor that Haier needs to further address, given its relatively low level of brand recognition in EU.

- **High quality products**: Given that EU is a mature market where quality far overweight prices and home appliances are considered as durable goods, EU customers focus more on the quality of home appliances and are willing to pay more for good quality products.

- **Good services**: EU customers care very much the services provided in association with products, and particularly the way how services are offered. The ability to provide services that cater to the particular needs of customers in EU will define much of the success or failures of companies operating in EU.

- **Innovative design**: Customers on the EU markets prefers to buy products with innovative design which suit their specific needs. However, this is very costly for many multinationals as it is too cumbersome to modify and improve their products.

- **Strong consciousness of environmental protection elements** when purchasing household appliances.

2.2.3) Resources and Capabilities

- **Zero defect of Haier products**:
  
  - Accreditation with ISO9001, GS and EMC of Germany, UL, ETL, and DOE of the US, CSA and EEV of Canada, NRTL/C of America, SAA of Australia, S-MARK of Japan, CE of Europe, SASO of Saudi Arabia, GOST of Russia, International GB, SABS of South Africa, CCEE of China, amongst others.
  
  - The accreditation by UL CTDP of the US, CSA of Canada, and EN45001 of Europe has allowed Haier’s products to be exported directly to 87 countries and regions in the world).
  
  - Haier accounted for 98% of exported household appliances from China to Germany, and the figures for the US and EU, are 53% and 33.42% respectively.
  
  - Blind test done in Germany prove that the quality of Haier products are higher than those of their competitors.
➢ Excellent customer services:

- Gaining recognition and market share with excellent customer services is the core competence of Haier. As early as in mid 1990s, Haier’s management team proposed the strategic positioning of Services Weigh Heavier than Profits. Haier has worked out its star services standards that feature High Standard, Fine Division, and Zero Defect.

- Haier has designed a competitive package of services, integrating the pre-sales, sales, with after sales services. By doing this, customers will be provided with detailed explanation of the functions and features of the products, and are invited to experience that before they make up their minds to purchase the products. When the products are delivered to the buyers, Haier services team will provide customer-hands-free services, which is composed of delivery to the indicated address, on-the-spot installation, show-and-tell on how to use, and follow-up visit within one month after the sales. The after sales services team is well positioned to respond to any inquiries from customers and ensure that every tiny complaint will be taken good care of and in a timely manner. It offers around the clock free services delivered on the doorstep. Haier’s best of the breed services has won itself Five Star Diamond Award issued by the American Quality Services Association, the only one from Asia.

- Building on what it has achieve, Haier has introduced the concept of Haier Services, which integrates products with its services, and enable the most effective communications between Haier and its customers.

➢ Strong capacity in innovation and development of new products.

- Haier is one of the most innovative household appliances manufacturers in China and the No. 1 patent holder in this area, with R&D spending accounting for over 4% of its total sales value. By April 2006, the Haier Group has obtained 6,189 patented technology certificates and 589 software intellectual property rights. Haier has been pioneering in the design and manufacturing of environmentally friendly products, such as washing machines free from using detergents, which have been received warmly by consumers.

- Haier has entered into cooperation with many renowned universities and research institutions inside China and the R&D input accounts for 4% of its annual sales incomes. In 1997, it was around RMB 480 million, some 4% of the total sales of the year, and in 1999, it went up to RMB 1.03 billion Yuan, 4.8% of the total sales value of the year. Haier’s test center has also been granted a national testing center status and the results of the tests are recognized nationwide.

- To tap into the global talent pool, Haier joined hands with 28 world class companies around the globe and set up a Haier Central Research Institute, which has 10 world leading laboratories and 11 cutting edge institutes. The application of the new and latest technologies and collaboration with leading
R&D agencies in the world has enabled Haier to marry the latest technologies with its products faster than its competitors.

- Commercializing the R&D results lies at the heart of Haier’s corporate development strategy. The newly established capacity development center and assembly research center have been equipped with the world leading software of UGII from the US, providing not only a boost to the commercialisation and fine-tuning of products, but also significantly increasing the success rate of R&D.

The above analysis has revealed that Haier is faced with good opportunities and serious challenges in its entry and management of operations in EU. Having said that, we should also be cognisant of the fact that Haier’s past success has already enabled Haier to stand at a fairly high ground. It may still be a long way to go for Haier to establish itself as a leader in the EU market, however, by building onto some of its particular strength, such as long-cherished best of breed services, newly gained innovation capacity in relation to environment protection, and vertical integration, Haier could emerge as a strong player in the market, provided it employs good business strategies in capturing and meeting the needs of some particular group of EU customers.
3). Critical Strategic Issues

As analysed above, Haier, though a household known brand in China, is almost nobody in EU even though it established its European headquarters in Italy in 2000. The biggest challenge for Haier now is to combat the overall product image of Chinese products, which are often labelled as poor in quality and low in price. Therefore, we consider that the most critical strategic issue that Haier is facing on the EU market is: **Lack of strong brand recognition**.

As we know and discussed earlier in this paper, it takes several critical factors to make a strong brand, i.e. quality of products, level of services, innovation capacity, and corporate social responsibility (with a special focus on environmental friendliness). Along this line, Haier needs to work on the 4 fronts concurrently in order to build a strong brand image in EU.

4). Strategic Options (or alternatives)

4.1) Business strategy – Added Value Differentiation

As we understand from the strategic positioning analysis, both the external environment and internal environment are good for Haier to enter the EU market if appropriate business strategies are adopted.

Given the customer preferences and Haier’s capacities, we propose the following strategies for Haier to rebrand itself as a new champion in the following four areas:

4.1.1) Innovative Product Differentiation for Niche market

As Multinationals of the home appliance industry on the EU market are well established and have the benefits of strong brand recognition, organizational capabilities, and advanced technologies. They can better leverage their access to vast resources – finances, talent, and supplier and distribution networks. Therefore, we suggest Haier adopts a strategy of not competing directly in the main stream products but to start by differentiating its products for niche markets thus to better suit customers’ needs and enjoy higher profit margins. This requires Haier to be more customer-oriented in order to better understand customers’ needs and be more flexible in their designs at a higher speed.

In fact, Haier has already accumulated quite some similar experiences while tapping the US refrigerator market. Instead of competing with the main stream models, Haier made an innovation of its compact refrigerators after having done a thorough market analysis: they put onto the market a compact refrigerator with two wooden flaps on the sides that can be folded out to make a computer table. This model has soon acquired huge popularity among college students.
who usually have little space in the apartment. The result? Among 1,500,000 units of compact refrigerators sold in the US last year, 670,000 were Haier!!

4.1.2) Differentiation through Superior Customer Services

As most of the Multinationals on the EU market are not very much service-oriented or their services provided are short of the expectations of customers, typically slow in speed and high in cost. The ability to provide best of breed services and good experience to EU customers will give full play to the comparative advantage of Haier in the European context and will help Haier gradually win customer loyalty.

Haier boasts strong capacity to offer different and premier experiences to customers with its integrated solution of products and services. Haier’s service system runs throughout the production process from product design, production, manufacturing, to pre-sale, under sales and after sales service.

With the competitive Haier Service Package, which integrates the pre-sales, sales and after-sales service, Haier will make a difference on the EU market.

➤ Pre-sale service:

  o Online animated illustration and free hotline to provide customers with detailed explanation of the functions and features of the products or to guide customers to make their choice.
  o Set up a Haier-Experience day to invite customers to use and try Haier products themselves
  o On site sales person to explain in details of Haier products to customers
  o 30-day non-satisfaction returns policy to assure customers that they can return the Haier product within 30 days of purchase if they are not satisfied with it.

➤ Customer-hands-Free After-Sale Service:

  o Free product delivery service to customers
  o Free-installation service
  o Professional demonstration of how to use all functions of products
  o Follow-up phone call within one month after the sales to see whether customers are satisfied or not and what else Haier can do for better customer satisfaction.
4.1.3) Enhanced Innovation Capacity

In some of the product areas where Haier still lacks the technological advantages compared with their multinational competitors such as Mobile phone industry, Haier should further enhance its ability to innovate on product design in response to the changing of customers. For example, while tapping the EU mobile phone industry, Samsung, though much less competitive than Nokia, is able to attract customers by their unique design and innovative functions. In this regard, Haier should also learn from Samsung and try to understand and capture the emerging needs of customers and design products that meet their demands. For example, introduce Haier cell phones which as be used as a laser pen for presentations on the EU market. (Haier Mobile Phone – Model p7)

4.1.4) Nurture Corporate Social Responsibility, with a special focus on environment friendly product development

Corporate social responsibility is a key element that makes a brand strong and sustainable. As we analyzed in the previous chapters, EU customers pay particular attention to environment friendly products when making a purchase decision. Therefore, Haier could potentially have a distinctive advantage as it has made heavy investment in the environmental friendly technologies and commercialized these technologies in its products.

For example, Haier has recently introduced in the Asian market the world's first natural washing machine which uses electrolysis to break down water into negative and positive ions. The ions act as natural detergents to clean clothes, so there's no need to use chemical detergents. Since its launch, the eco-friendly washing machine has become popular with retailers from many countries and will for sure attract EU consumers in the near future.

Being an Official 2008 Olympic Games Sponsor that promotes the “Green Olympic Theme”, Haier has also adopted ozone-friendly approach in its refrigerator production. It has also developed new air-conditioning systems using solar energy. Environmental protection is also at the center of Haier’s corporate and product development strategies.

- Haier’s proposal for safe care water heater technology initiative was accepted at the 66th IEC Conference in 2002 and Haier dual drive washing machine technology was included in the 2006 IEC standard proposal.

- Haier is the first company to make breakthroughs in integrating fluorine-free, energy-saving technologies with large freezing capacity, and solve technological problems related to sterilization. Haier has also rolled out the world’s first variable-frequency refrigerator, which is made of heat insulating material designed for aerospace.
Haier, with a mission of “customer-oriented design”, pays great attention to safety, health, and the environmental concerns of consumers in designing its products. Haier has introduced a series of new hi-tech environmentally-friendly washing machines, staying ahead of the market trend and demonstrating the technological innovation capability of the company.

Haier is also China’s first freezer maker to receive TUV International Safety Certification, and was the first to receive a no-fluorine certificate from the United Nations Development Programme.

By branding itself as a leader and champion in green technology, Haier will appeal to the heart of many EU customers, who value environmental protection dearly at the bottom of their heart.

4.2) Methods and development

4.2.1) Market Penetration with Product Development:

For products that are already in the EU market, such as washing machines, air-conditioners, and refrigerators, the company should focus its energy on market penetration, which can be done through the following ways:

- Enhancing PR and advertisement in EU to present the Haier Image
- Increase the number of servicing and after sales outlets in EU member states
- Setup of distribution center in EU member states that are most conveniently located, such as Germany, and increase sales outlets,
- Teaming up with large household appliances dealers in EU
- Local sourcing of design, parts and services,

For products that have not yet entered the EU market, for example, HD TV and cell phone, Haier should apply the strategy of product development. This can be done through the following ways:

- Understand the local and distinctive demands and tastes of local customers through hiring of local staff
- Apply innovative approaches in the design of products to make them appeal to EU consumers, for example, by improving the functionalities and easy to use features. Haier has a type of cell phone that can hold two SIM cards, therefore, enabling the user to switch freely from one network to another which will be very attractive to customers who live in bordering cities such as Geneva as they can have one Swiss card and one France card functioning together inside one mobile phone.
- Avail itself of the existing distribution network as much as possible, and preferably stay with one distribution network in several member states, to build trust and consistence. Add Haier touch to the distribution network as much as possible.

- Sponsor popular sports in EU, such as Euro Cup, Champions League, or big clubs that fit well with the product image of Haier, on the occasion of introducing new Haier products into the EU market.

4.2.2) Methods:

Haier is advised to adopt an aggressive and optimistic two-pronged strategy on the EU market:

- **Acquisition:** acquiring the talent, credibility and equity of established brands when the right moment comes

  Acquisition of an existing and well established brand is always an option on the table, as a much easier and faster way to grow and gain brand recognition in EU. However, the use of acquisition should be carefully thought through and the acquisition should result in bigger synergy and more effective operations. Haier had some prior experience in acquiring other brands in Italy, Europe. Nevertheless, as the company that was bought by Haier did not bring much added value to its branding campaign, Haier finally still have to resort to its own efforts of branding itself. Given the current challenges Haier faces in the EU market, it can only make sense, if Haier wishes to engage in acquisition or merger, for the company to buy a brand that is much better established and known amongst EU consumers. However, as analysed above, the established brands in EU are perhaps far better positioned to buy Haier instead of being bought. Moreover, the anti-trust regulations and enforcement in EU is much stronger than anywhere else in the world. Therefore, it would be unrealistic, at least in the short run, for Haier to adopt the strategy of buying its competitors. We should also bear in mind that majority of acquisitions and mergers, however happily as described, ended in divorce or tears, due to such reasons as difficulty to build synergy of products, cultural and management conflicts, etc.

- **Organic growth or internal development:** organically grow its brands that are imbued with new meaning reflecting positive image of Haier.

  Given the uncertainty of acquisition, organic growth or internal development will be a good option for Haier to enter the EU market. In view of Haier’s growth track record in China, the US, and other markets, it has the ability to grow itself. This is of course hinges upon very much on the company’s ability to foster a better and more in-depth understanding of the market realities in EU and the formulation and implementation of effective design and marketing strategies. As a vertically integrated company which engages in the design, manufacture, marketing, distribution, and after sales services of its own products, Haier is well positioned to capitalize on these advantages to make up its lack of experience on the EU market.
5) Strategic Implementation

5.1) Marketing Strategy

The objective of Haier is to enter into the European market, have a strong foothold, develop into a market leader, and eventually project to other markets that have historical or close economic ties with Europe, such as Latin America, Middle East, and Africa. What is required to realize this is a sound business strategy and plan to execute it. Given what we have analyzed above, Haier needs to find a unique positioning by focusing on its comparative advantages. This will, however, depend very much on the branding and marketing strategies of Haier.

“Since household appliances are experience goods and reputation matters, brand loyalty is a very important competitive factor in this market (Paba 1986).”

Given that it is not easy to convince customers of that Haier products are of high quality, the most important marketing strategy that Haier should focus on is to promote the quality of Haier products. For example, Haier established, in Germany, its local reputation for quality through encouraging the “blind” testing of its products against those of the world-famous ones.

Build a sales and distribution network covering the EU market: Haier should consider setting up more sales outlets and exclusive stores in most of the EU countries to enhance its coverage and ensure the services provided (before, during and post sales) are Haier standard.

Associating with popular sports or events or international personalities is always an effective way to build the brand image and market products. This is probably particularly true for companies from developing countries that are pursuing strategies that enable them to catch-up with established players, through leveraging off their latecomer advantages. Haier, in this regard, has had some successful experience. In 2006 it entered into a marketing partnership with the US National Basketball Association (NBA), which significantly improved Haier’s exposure to American consumers and potential clients elsewhere as a result of popularity of NBA. This marketing strategy is perceived as quicker and more effective channel in overcoming cultural barriers and adding a bit of passion to the company’s image, for at least three reasons. Sponsorship offers them a quick and easy way to raise brand awareness and enhance brand recall. Moreover, the exclusive partnership approach provided by sports governing bodies and other commercial partners confers upon them “image transfer” (i.e. acquiring the values of the commercial partners) and other benefits of association (e.g. access to distribution channels). Success in bidding for international sponsorship contracts can also signal competence, availability of resources and market power. Success in clinching deals or partnership with major sports events, clubs, or personalities will also enhance the ability of companies like Haier to treat global competition as an opportunity to build capabilities, move into more profitable industry segments, and adopt strategies
that turn latecomer status into a source of competitive advantage. Haier’s success in this regard in the US can be replicated in the EU by means of sponsoring top soccer clubs and football stars.

5.2) Operations Strategy

In addition the current Haier refrigerator plant in Italy, we propose Haier adopt the following operations strategies coupled with the increasing PR and advertisement efforts to improve the brand recognition of Haier in EU:

- Partnering with major household appliances dealers in EU, and enhancing servicing capacity and outlets
- Set up a R&D Institute in Germany to introduce new products constantly and enhance the technology content of products
- Increase Haier servicing centers in EU to provide better customer services
- Setup refrigerator plant, air-conditioner plant, and cylinder washer plant in Germany, Northern Ireland and Spain to meet the high demands in the neighbouring countries.
6) Conclusion and Recommendations

Haier as a latecomer in the household appliance sector in the world needs to make tremendous efforts in the area of building a strong brand through focusing on quality of products, provision of best of breed services, enhancing innovation capacity, and nurturing a strong sense of social responsibility. All these will further elevate the Haier brand into a global one and win worldwide recognition requires Haier not only to build on what it has achieved but also more importantly to identify and apply innovative approaches to capture and serve the customers needs more effectively. Only by doing this can Haier build its own distinctive advantage and a strong brand image, a step crucial for its entry into the EU market.

On the strategy level, this requires Haier to re-brand itself and focus on key elements and aspects that appeal to the emerging demands of customers in EU.

This can be concretely translated into the following recommendations on the operational level:

- Rebrand itself into a new champion in green technology that caters to such issues as energy efficiency, environmental protection and climate change.

- Fully utilize big events that could lend Haier the spotlight and center stage, such as 2008 Beijing Olympics, European Cup, etc.

- Establish commercial presence by means of direct investment in European countries.
  - This will enable Haier to be closer to its market and customers, and capture their needs, and respond faster.
  - This will also allow Haier to escape the potential trade rows between China and EU, within which household appliances are easy targets and victims.
  - Central European countries as well as some southern European countries will be better choices given their relatively low cost, openness to foreign investment, etc.

- Recruit local management to manage the local presence
  - The local management team will serve as a bridge between Haier and the local markets and customers
  - This will ensure a smooth migration of Haier from a Chinese company to a local company

- Differentiate itself from competitors by focusing more on services, innovation, and application of cutting edge technologies
  - Haier should make full use of its best of breed services to lure European customers
  - Take full advantage of its strong R&D capacity to design products that caters to the needs of particular groups (age) of people, not in direct competition with its main rivals from the very beginning
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