

Enlightenment from the Internationalization Strategy Models of Haier Group of China

Yi Yan¹, Yao Guanli²

1 School of Humanities and Law, Wuhan University of Technology, Wuhan, P.R.China, 430070

2 School of Management, Wuhan University of Technology, Wuhan, P.R.China, 430070

(E-mail: yiyan_027@163.com, yaoguanlimail@163.com)

Abstract: The classic theoretical internationalization approach from developed countries was applied in this paper, and the success and weakness of the internationalization strategy model of Haier were analyzed and pointed out. The author argues that Haier Group must upgrade its internationalization strategy to overcome the bottleneck in the strategy implementation. Thus, new methods for the internationalization strategy model were established and its enlightenment to the internationalization of other Chinese household appliance companies was analyzed.

Key words: Internationalization strategy model; Haier Group; Internationalization; Chinese household appliance companies; Enlightenment

1 Introduction

Haier Group is a Chinese company which was founded in 1984 and has kept a high-speed, sustainable and steady growth for more than 20 years. Now, it has already developed into the most successful company in management in China and kept the fastest growth among Chinese large household appliances companies. With China's entry to WTO, internationalization has become an urgent problem companies have to face. Therefore, research on internationalization strategy has become a hotspot. Haier group is a Chinese company which started internationalization comparatively early and has made many achievements. Internationalization strategy refers to the development strategy for the products and services of the company overseas. As early as 2005, Haier publicized outside its notion --"100 billion, the world's Haier". They planned that the global sales should reach 1,000 billion yuan in which overseas sales should cover 10% to reach about 100 billion yuan. Miraculous performance has made Haier become a leader company not only in China but also worldwide. Why could Haier be so successful in addition to its absorption of multinational management theories of American, European, Japanese and Korean companies? What is the enlightenment from Haier's success for the internationalization of other Chinese household appliance companies? This paper explored these questions.

2 Haier's Internationalization Process

(1) The famous brand strategy stage

Haier was in the famous brand strategy stage from 1984 to 1991. During this period, facing various temptations, Haier aimed at creating famous domestic brands. Without the quality assurance system for production expansion, they would rather limit output to only 100000 to ensure quality in the days when products were in short supply and sold quite well. Those who produced millions of refrigerators to meet the demands of customers but didn't pay attention to quality of products ultimately became short-lived "shooting star" enterprises. Haier spent as long as 7 years focusing on the only product of refrigerator. It won China's first gold medal of quality and became the leading domestic refrigerators brand.

(2) The diversification strategy stage

1991-1998 is the diversification strategy stage. During that time, Haier built the largest household appliances industrial park and set a clear goal, "Be the first brand of Chinese household appliances". Haier began to get involved in the production of freezers, washing machines, air conditioners and other appliances. At the same time, it began to enter the market of TVs and other black appliances and beige appliances such as computers. In order to obtain the ticket of expanding into new product areas, Haier used the unique concept of "shock the fish to eat". It merged 18 companies in succession and formed the product system which contained 96 categories, more than 15,000 kinds of products. At this stage, in accordance with the principle of making east to be bright and then the west, Haier expanded to the whole white goods field on the basis of the famous and high quality refrigerator and formed the size and strength of the top 500 enterprises. Enterprises need internationalization to win in the competition and internationalization requires diversification to increase strength. Haier had done perfectly in that.

(3) The internationalization strategy stage

Starting from 1998, Haier entered the internationalization stage. With the growing strength of the company and the gradual saturation of the domestic market, Haier began to expand its sights to the worldwide overseas markets outside China. At this stage, the products of Haier were sold to the major global markets, and it began to build its own network of overseas distributors and after-sales service system. Taking the ground-breaking of Haier Industrial Park of America as the starting point, Haier started its exploration and practice of entering the international market and cultivating a world famous brand. Correspondingly, Haier's management has undergone major changes. The modes such as "market chain", "the combination of employee and order" were established through process reengineering to produce innovative products which have great market prosperity to meet customer needs.

(4) The global brand strategy stage

Since 2005 until now, Haier has been in the stage of its global brand strategy. The brand internationalization refers to the process that the companies launch global brand to occupy global market in the multinational production and operation activities. In this process, the company must not only make use of native resources and market conditions but also the foreign ones in the multinational operation. In order to explore overseas markets, protect their brands and intellectual property, Haier registered the trademark "Haier" firstly in 102 countries. At the same time, Haier has received quality certification in 8 countries and regions. The refrigerator, freezer, air conditioner have passed ISO9001 international certification in succession. In overseas markets, with the strong strength in brand, Haier's products have already entered 12 of the 15 large European chains and 8 of the 10 large chains in America.

3 The Main Strategy Model of Haier in the Process of Internationalization

(1) The goal of Haier's internationalization

The strategic goal of Haier's internationalization is to become internationally competitive brand operators and create the famous brand of China in the world. To cultivate famous brand, high quality is necessary and essential but far from enough. Local consumer demand must be closely integrated and Haier must be quick to meet local consumer's demand. Haier super energy-saving fluorine-free refrigerator is a typical example which has not only met the environmental requirements from the international community, but also taken the vital interests of consumers into account. Haier achieved the target of saving energy by 50% in the development of fluorine-free refrigerators which were not only advanced in the world but also sold quite well in the market. The international Haier is the integration of the many local Haier around the world, that is, Haier in China, America, the Middle East, and the European world and so on. Its ultimate goal is to make Haier a famous brand worldwide. Its international target is that the domestic sales of domestic production account for 1 / 3. The overseas sales of domestic production account for 1 / 3 and overseas sales of overseas production account for 1 / 3 in the group's whole sales.

(2) The internationalization strategy of "difficult first then easy issues"

Generally speaking, there are two modes in the process of internationalization of enterprises. One is the progressive mode, that is, the easier issues first mode. The other is a global startup mode, that is, the difficult issues first mode. Haier used the "the difficult issues first" strategy when entering the international market. Firstly, it entered the countries and regions like Europe which play an extremely important role in the international economic arena. After achieving the famous brand status in developed countries, Haier then used this strength to enter the developing countries and set the rules of using the Haier brand as the most important precondition for export.

(3) The strategy of localization

The two basic strategic decisions faced by the company when carrying out internationalization strategy is the choice between globalization and localization. Haier applied the localization strategy in foreign markets. It established 10 overseas information stations, 6 design divisions and 2 industrial parks to specially develop household appliances suitable for local consumption characteristics. The overseas marketing companies were also established. Although it cost a lot to invest and build factories in the United States, Haier can get the required technology and talent, design products for U.S. consumers and get the latest industry information. Meanwhile, establishing overseas factories can not only avoid the non-tariff barriers in international trade effectively, but also solve the anti-dumping to Chinese companies from foreign companies.

(4) The trinity strategy

In order to realize the goals of three "1/3" in the exploration of international market, Haier set up 10 information stations, 6 design divisions overseas which specially developed household appliances suitable for local consumption characteristics to improve the competitiveness of products. Haier has established overseas manufacturing plants in the Philippines, Indonesia, Malaysia, the United States and some other countries since 1996. In April 1999, the foundation stone laying of Haier manufacturing base in South Carolina in the U.S. marked the first overseas "trinity localization" of Haier group, that is, design center in Los Angeles, marketing center in New York, the manufacturing center in South Carolina. Starting from the acquisition of Italian local refrigerator factory in June 2001, Haier also realized the goal of trinity localization in Europe.

(5) The strategy of finding chinks

The basic idea of the strategy is that finding chinks are to find those market segments from a large number of international markets which have been neglected or are unavailable for the large companies to enter, and then to enter these market segments on the basis of firstly analyzing what products and service are needed in this market segment, and then capture the market. The core of creating market opportunities is to inspire new consumer demand with new products. The key to implement the strategy is to determine which international markets are in the corner and neglected the intensity of competition and whether the comparative advantage can be useful in this market. Harvard University professor Lewis said that using small-scale technology to capture the small-scale market which the multinational corporations of developed countries are unwilling to occupy is one of the three major competitive advantages of developing countries' foreign direct investment in developed countries. Although these models have their advantages, there exist many problems such as low profit margin, the difficulty of gripping the very core of cultural management and the trouble caused by diversification. In order to change this situation to improve profit growth force, investment and expansion in the European market and the asset restructuring are especially important.

4 The Enlightenment from the Internationalization Strategies of Haier

(1) Practical and objective strategic goals

Chinese enterprises have a common dream - to be one of the world's top 500 companies, but the world's top 500 only represent the size of the company; the big does not mean strong. Many Chinese household appliance enterprises don't have strategic goals or only have unrealistic ones. They are immersed in the extensive business model and are only in pursuit of scale. They hope to rely on the production scale and sales volume to compete in the market and improve the competitiveness of the company. But to consider on the strategic level, obviously, this model is lack of strategic objectives. Haier also has the "Fortune 500" dream which Haier's CEO Zhang Ruimin has mentioned several times on different occasions. However, unlike some other companies who only have the dream, Haier have many pragmatic strategies which are of great operability such as "three 1/3", "trinity", "integration of capital, talent, culture and cultivate world famous brand". It is quite worthy of study for other Chinese household appliance enterprises - the company should develop internationalization strategy based on changes in the international market environment, the company size and development plans, and apply suitable operation modes and methods to promote the implementation of internationalization strategy.

(2) Attaching great importance to enterprise culture construction

The most important factor in managing small company is entrepreneurship; medium companies rely on the system, while large companies, especially those multinational ones depend on enterprise culture. The enterprise culture should be integrated into the world culture. The constant adjustment of the organizational structure of Haier Group in response to its international strategy is on the basis of the Haier culture. 50,000 employees' cultural identity of Haier is the foundation of and guarantee for the successful implementation of its international strategy.

(3) Strengthening technological innovation

The America magazine "Fortune" summed up three experiences of success after analyzing the world's most competitive enterprises: the first is innovation; second innovation; the third is still innovation. Innovation is the soul of national progress. The most fundamental reason why Chinese household appliance companies stumbled on the road of internationalization is the lack of core technology. Many household appliance manufacturers purchased products prototype from abroad, and then through anatomy and analysis study the technology, which they considered as R&D. The idea of technological innovation has been raised for many years, but in many companies the tools of R&D are still only screwdriver. The Haier Group allocates 5% of the annual sales revenue as the technical input

and the success of its high-quality positioning in foreign countries demonstrates that only through increasing investment in technical innovation can Chinese household appliance companies become truly international companies.

(4) Acceleration of the talent team construction

People are the most active and important factor of all the resources in the company. Multinational operations need high-quality personnel who can master technology, management, law system, financial and marketing knowledge and so on. Haier has established an excellent talents team engaged in foreign direct investment, which is characterized by the combination of local talent and qualified personnel from China. Through hiring excellent local talent familiar with foreign markets, many multinational operation risks can be reduced. It is the enterprise culture that "manage and challenge oneself" and the painstaking effort of the Haier staff that have contributed to the accomplishment of Haier today.

In addition, the staff is always the top priority in Haier. It pays special attention to coordinating the problems about the interests of employees caused by the continuous adjustment in the process of internationalization. The most important way Haier used in the coordination of staff interests is to create an internal competition to select and recruit personnel, train and create talents. The talented employees will be promoted, while the untalented ones will be eliminated through competition. Competition tells more than selection in the company. The personnel arrangements for all the positions are based on fair competition. Meanwhile, Haier Group always thinks in the interest of employees and help them solve practical difficulties in work and life. In this way, the employees of Haier repay the company with greater loyalty and much higher enthusiasm, which no doubt will greatly reduce the resistance to organizational restructuring.

(5) Management system establishment in accordance with international standard

The operation of multinational corporations must follow requirements of international standard and practice. It requires managers to be proficient in international practice and familiar with the relevant national laws, learn advanced management experience from successful multinational companies and use them creatively in accordance with national conditions to improve the level of multinational operations effectively and strengthen risk prevention. Chinese multinational companies should develop complete internal management system combined with the actual situation in China, strengthen local management of foreign enterprises and create appropriate corporate culture.

Many Chinese household appliance enterprises have the characteristics of large size organization and overstaff which lead to slow decision-making, serious information loss, low economic efficiency and weak competitiveness in the market. Haier Group successfully avoided these problems in the process of their organization adjustment which is a good inspiration for other groups to adjust organization structure.

The change and innovation of management system in Haier in the process of internationalization is worth learning. Firstly, change large organizations into small ones. It is the common practice in the organizational structure adjustment in the world. The organizations in the company which have decision-making authority should be adjusted into small ones to achieve efficient and flexible organizational structure. Secondly, simplify the organizational structure. It is beneficial for the rapid transmission of information and the reducing of information distortion, thus it can help make right judgments and decisions timely. The organizational restructuring of Haier Group is on the basis of learning experience from GE and other companies, which is to make enterprise organizational structure as simple as possible through continuous innovation. Thirdly, establish flexible organization structure. Enterprise group must establish flexible organization structure so as to adapt to the changing internal and external environment. Now, Haier Group develop a new type of product every 115 days on average to lay a good foundation for expanding and creating market. According to its own strategic changes and the shift in the external environment, Haier Group changed its linear functional organization structure which was applied when the company was newly founded into the organization structure formed after the business process reengineering which is adapt to the new economic conditions and current international strategy. Fourthly, take both speed and efficiency into consideration. The fastest speed to meet the individual needs of consumers is the winning weapon in the market for companies in the new economic era. To achieve this goal, Haier proposed the synchronous mode, accompanied by the introduction of the logistics process reengineering and then to successfully solve the problem of speed and efficiency.

(6) Making efforts to cultivate international brands

Haier attached great importance to the cultivation of its own international brand when it firstly entered the international market. The Haier's strategy to refuse to do OEM has great reference meaning

for the majority of Chinese home appliance enterprises. The main reason why Chinese home appliance industry can't play an active role in the internationalization process is the lack of famous international brand.

At present, many Chinese appliances enterprises haven't understood what brand management really is. The brand management is in fact confined to the customer relationship management in these companies. The legally survival right of overseas brand hasn't been planned and they just take remedial measures when troubles really happen, which indicates that our brand managers are lack of international vision that they should have. Many newly grown up Chinese national brand received great impact because of the lack of international vision that some national brands which is a little famous suffered rush registration to trademark by other companies or be acquired, making China the world's manufacturing power, but is lack of global brands. Haier's success tells us: cultivating an international brand is neither giving the product a name full of foreign flavor nor exporting the products through OEM.

5 Conclusion

In conclusion, the process of Haier Group's internationalization is successful. Haier has developed into a multinational group whose annual sales have reached hundreds of billions through strategic innovation. Through the analysis of its internationalization strategy, we can discover that Haier is always changing with the times. Haier is good at learning from developed countries, the domestic peer companies and the advanced management ideas of others. The courage to innovate and the braveness to attempt and fearlessness toward failure is worthy of learning for other household appliance companies to conduct internationalization. Of course, the successful companies also have their problems, and Haier is no exception. Especially in recent years, with the large invest in overseas markets, Haier have to face the problem of the increased costs and quality and service troubles. However, Haier is able to face and solve these problems through the T model to promote every employees' classification, upgrade, and the increase of human capital value. Haier's globalization strategy still has a long way to go. It is hoped that Haier can continue to explore the fundamental management idea which is suitable for the company and combine the strategy management with the execution in order to be prosperous in the competitive market environment forever.

References

- [1] Li Li, Li Dongdong, Liu Xiaowei. Haier: The Strategy Costs and Benefits of Overseas Investment [J]. Journal of Qingdao University (Social Science Edition), 2007, 23(1):21-26 (in Chinese)
- [2] Wang Yuliang. Invest Overseas [M]. Financial and Economic Publishing House of China, 2005: 217-219 (In Chinese)
- [3] Han Zhonghe. Brand Internationalization Strategy [M]. Fudan University Press, 2003:242-246 (In Chinese)
- [4] The culture center of Haier. The Brand Cultivation Journey of Haier [M]. Qingdao Press, 2006:70-78 (In Chinese)
- [5] Chi Shuangming. Activate Shocked Fish[M]. Yanshi Press of China, 2003:160-177 (In Chinese)
- [6] He Zhiyi. The Best Chinese Business Case[M].Shanxi Normal University Press,2003:38-42 (In Chinese)
- [7] Ge Cungen. Cross-cultural Strategic Thinking of Chinese Companies and Cultural Fusion[M]. Economy and Management Press, 2003:73-78 (In Chinese)
- [8] Shao Xingdong. The Organizational Structure Challenges of Enterprise Groups in the Process of Implementation of Internationalization Strategy after China Joined the WTO - Experience and Enlightenment from Haier Group [J]. Economic Issues Research, 2005(3): 63-64 (in Chinese)
- [9] Liu Renhuai. Strategy Management Case Collection for MBA Students[M]. Science Press, 2011:421-423 (In Chinese)