

# Haier



## Positioned for Growth

Group members:

ABC,

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OS,

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TA



# Objectives for Today

- 1 Discuss industry and Haier current situation
- 2 Identify core problem statement
- 3 Provide sustainable recommendations
- 4 Advise financial impact of recommendations
- 5 Describe implementation plan and next steps

# Executive Summary

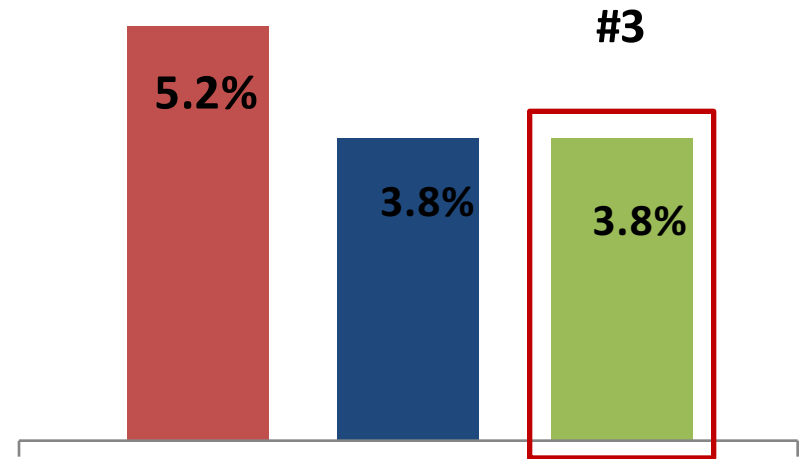
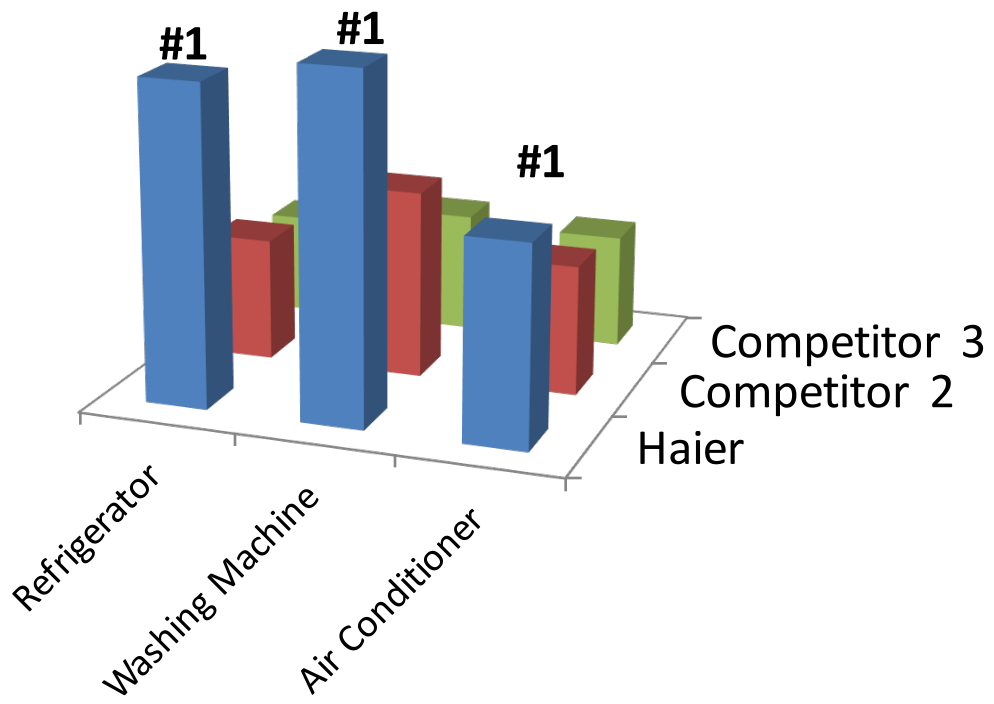
- Dominant player in China and growing internationally
- Goal to become number #1 global brand measured by volume
- Recommendations
  - Volume growth: BRICs, Africa, & Rural China
- Impact to increase global brand volume presences
- Implementation
  - Short term 2 – 3 years
  - Long term 3 – 10 years

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# Dominant player in China and growing internationally

**Domestic**  
#1 Market Share in China  
White Goods

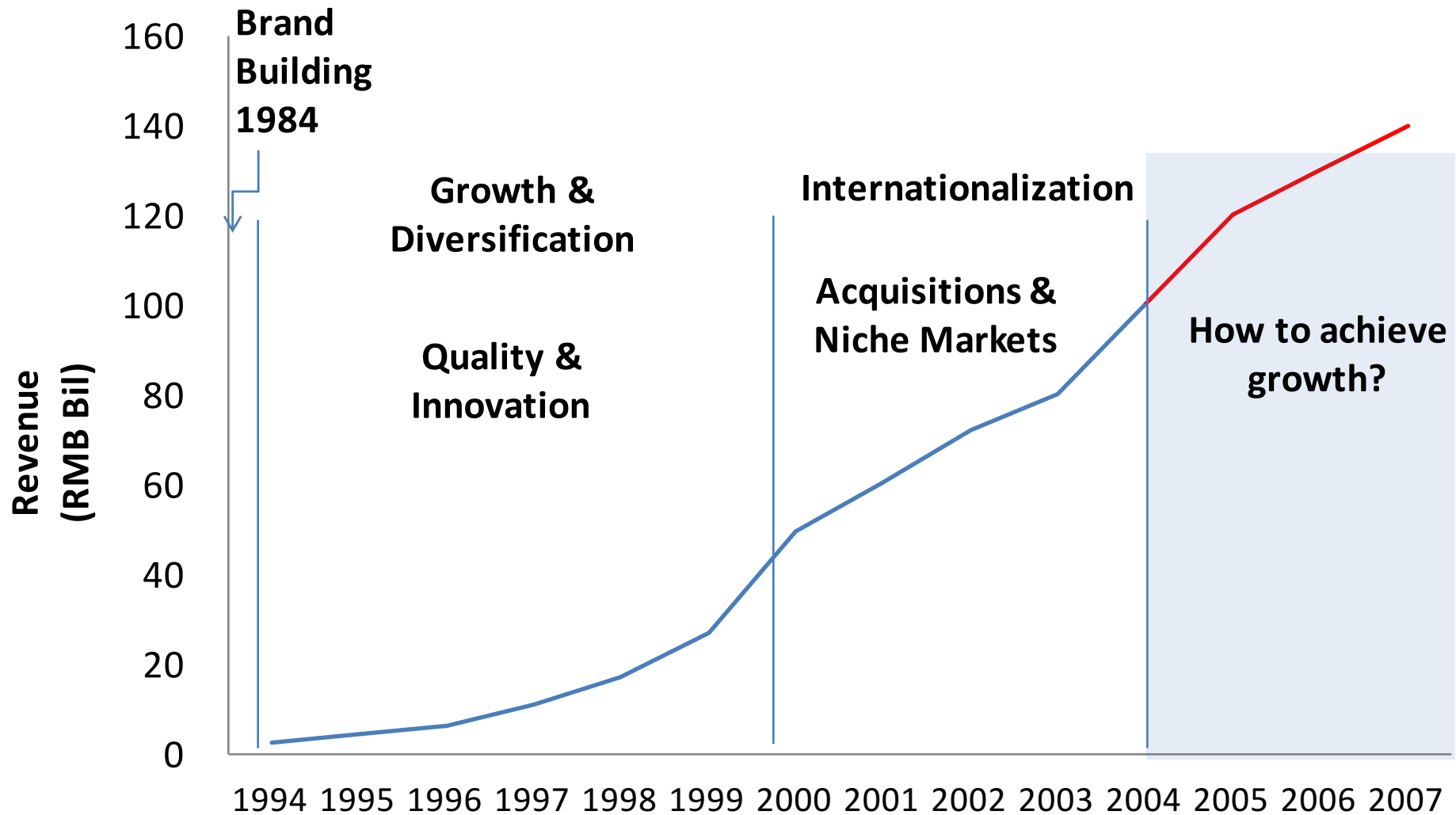
**International**  
#3 Global Brand Market Share  
White Goods



■ Whirlpool ■ GE ■ Haier



# Growth achieved through focus on quality and innovation



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# Be the global leader in white goods market share by:

VOLUME

&



Haier

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Next Steps

# Challenges facing white goods industry

## DOMESTIC

- Increased competition from local firms and foreign multinationals in China
- Overcapacity leading to price wars
- Decreasing Profit Margins

## INTERNATIONAL

- U.S Dominance -Challenge moving from Niche markets in US to Large appliances
- Low quality Image associated with Chinese Brands
- Difference preferences hard to achieved Economies of scale
- Environment, Economy, channel factors

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# Recommendations – Haier should prioritize initiatives that favor volume growth

## PRIMARY FOCUS

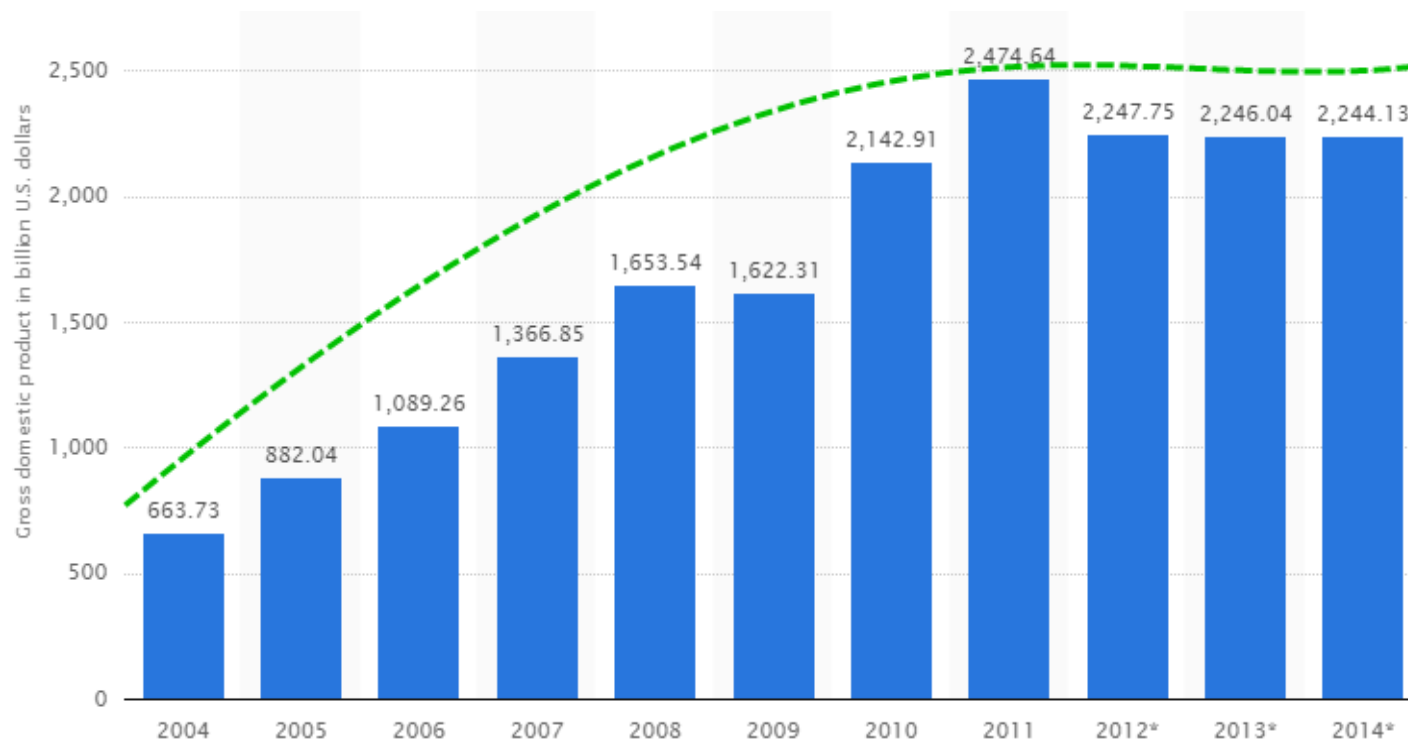
- 1 Focus on BRIC's, enter Brazil first
- 2 Penetrate African markets
- 3 Increase presence in rural China; maintain dominance in domestic market
- 4 Maintain current U.S. Niche presence
- 5 Status quo in European countries



# Take advantage of the sheer growth in the BRIC economies - starting with Brazil

***BRIC = Brazil, Russia, India, China***

Brazil GDP in current prices from 2004 to 2014 (in billions of U.S. dollars)  
BRICs to enter middle class income bracket by 2020, far surpassing the G7 (in millions)



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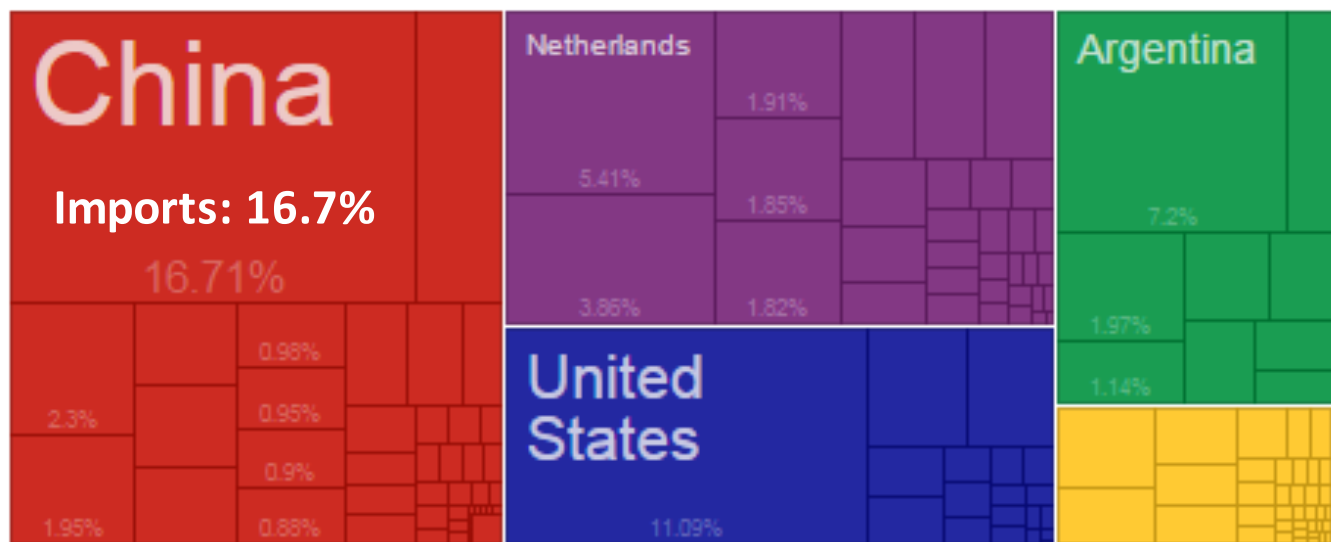
Recommendations

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Next Steps

# Utilize strong import/export relationship between Brazil and China

## Makeup of Brazilian imports

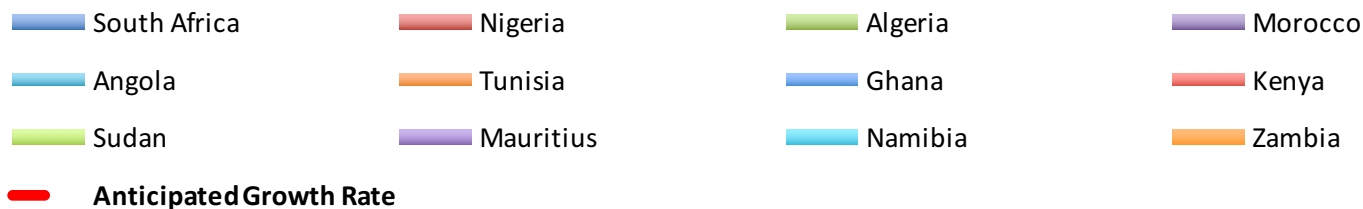
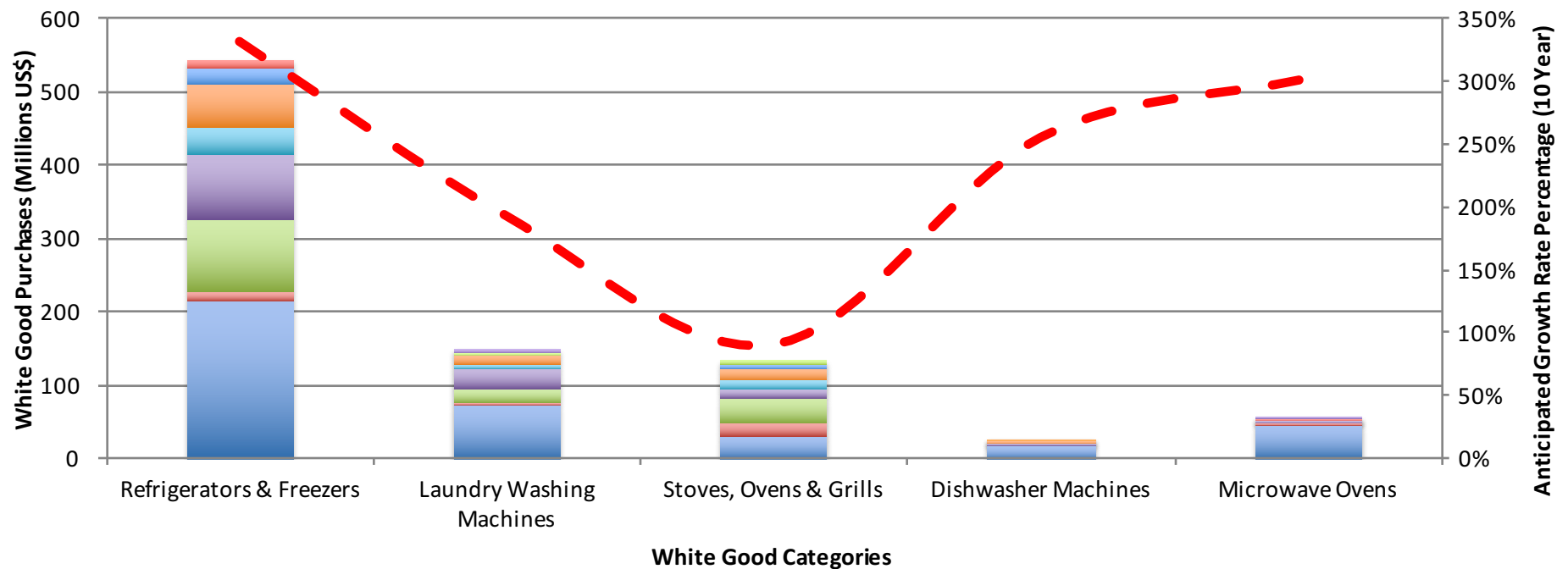


Leverage existing relationship and exporting expertise to import from China to Brazil.  
Hire 3<sup>rd</sup> party distribution & sales force for operations; with oversight by Haier

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# Focus on capturing the tremendous potential in emerging markets, such as Africa

## Retail Revenue of White Goods in Africa

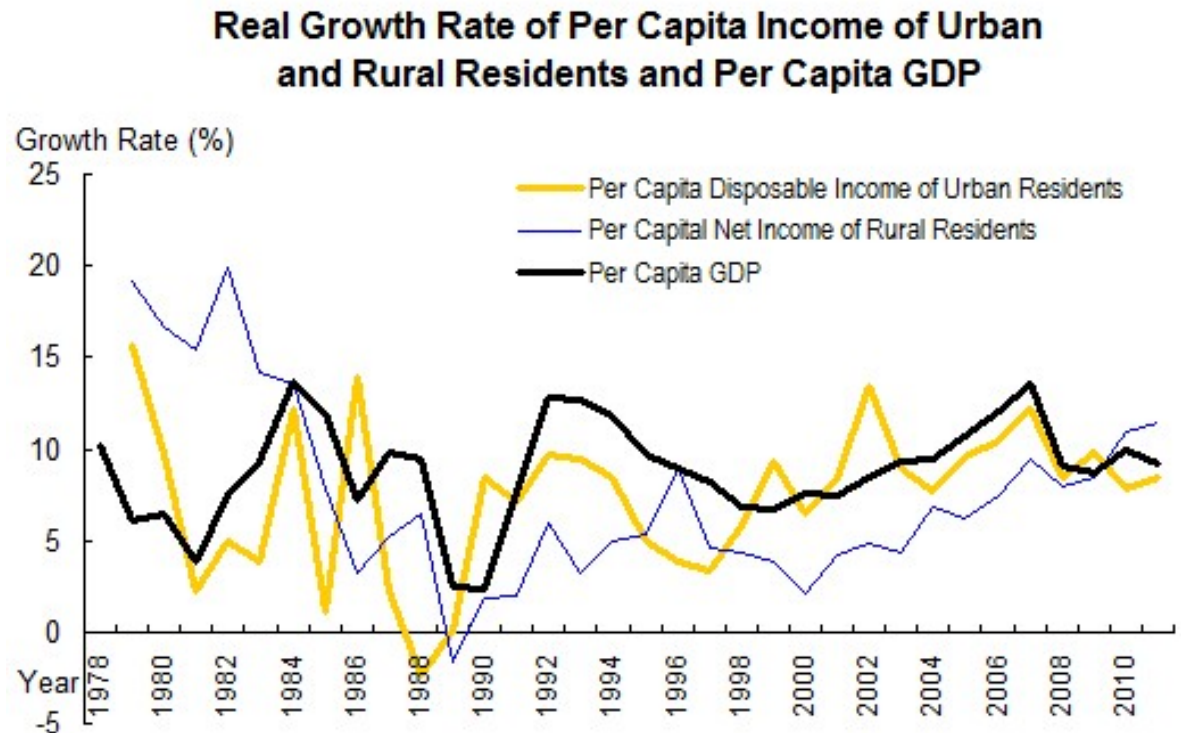


# Utilizing existing infrastructure in Africa



# Go after the rural Chinese market, where there is enormous potential for growth

- 49% of Total Population in 2004
- Strong growth of Rural GDP Per Capita

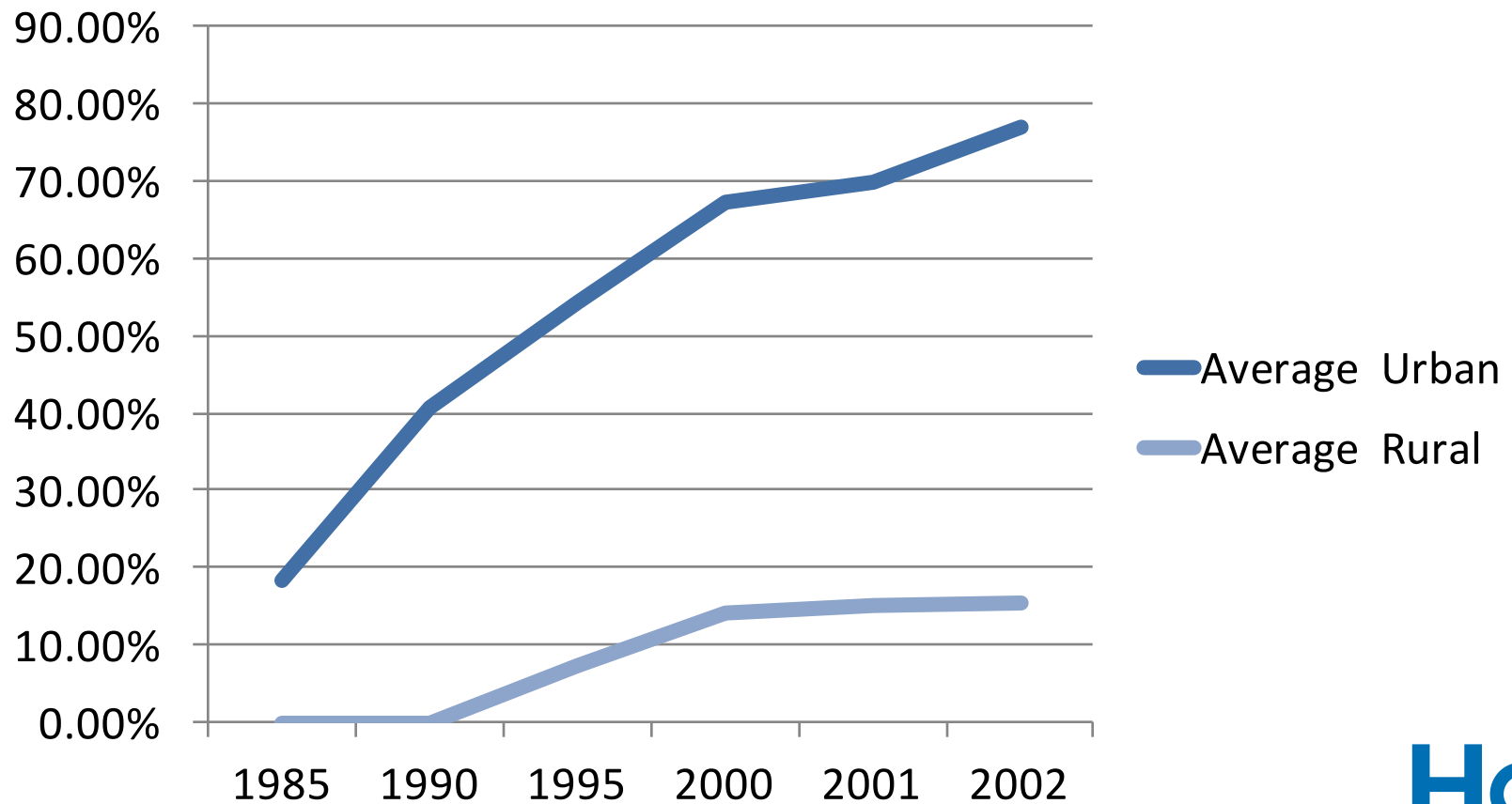


Haier is perfectly positioned to capitalize based on its understanding of Chinese customers and improving logistics and transportation Infrastructure

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# The rural Chinese market is far from saturation

Average Household Penetration Rate  
Refridgerators, ACs amd Washing Machines



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# Make franchise stores the focal point of rural market entry strategy

- **Use Franchise model to build brand equity in rural markets**
  - Bottom-up market intelligence
- **Customize products**
  - Bottom-up market intelligence
- **Higher margins**
  - Sidestep traditional multi-brand retailers



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# U.S. market saturated; significant investment in brand equity to achieve Haier long-term goals

- **Competition**

- ✓ Intense competition

- **Impact**

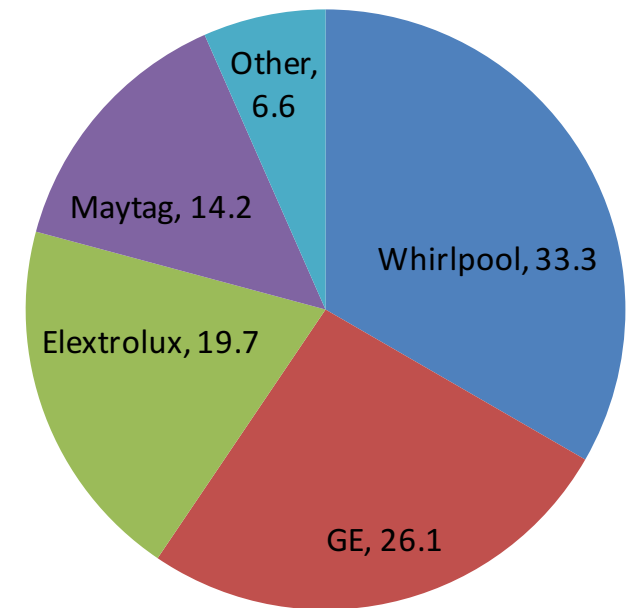
- ✓ Low impact in volume growth
- ✓ Lack of brand recognition for Haier
- ✓ No clear competitive advantage besides price

- **Implications**

- ✓ Significant investment required to build Brand Equity
- ✓ Not aligned with Haier goal



Sales



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# Significant differences made it difficult to establish scale economies

## European Markets

- Different distribution channels & consumer preferences across Europe
- National & International independent stores favor domestic manufacturers
- Local national players dominate in individual countries

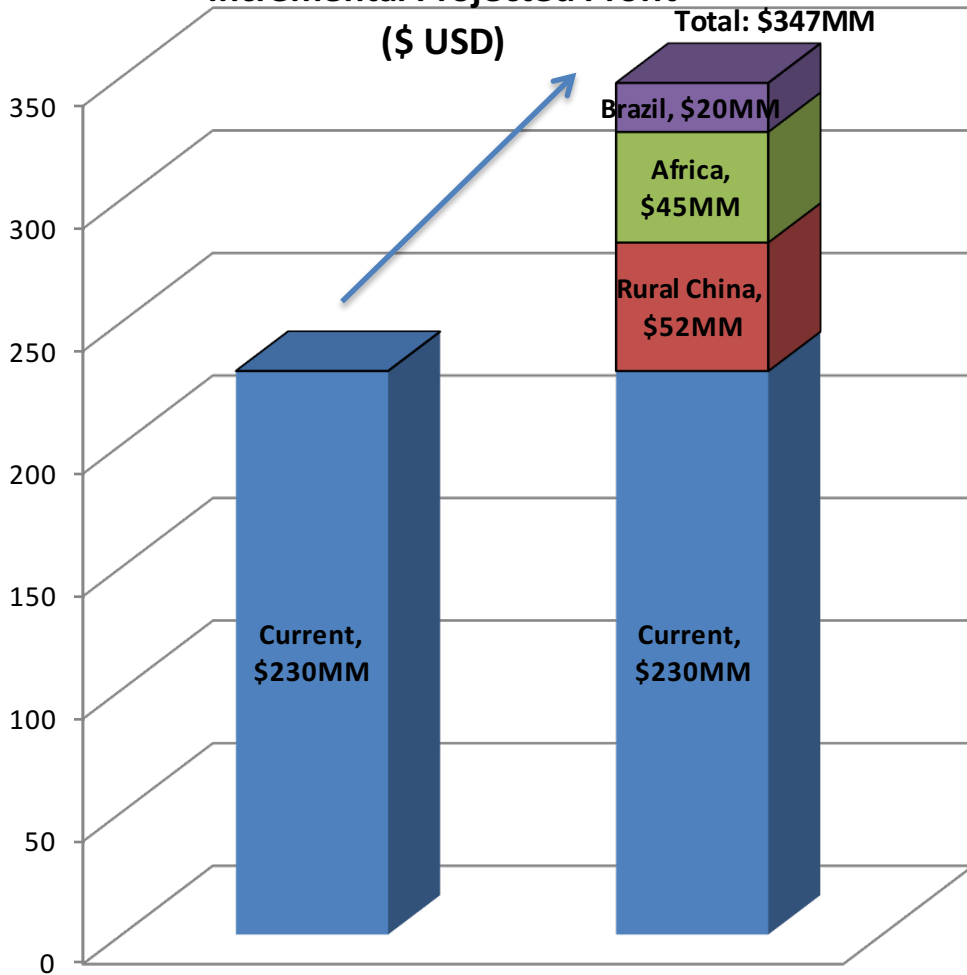


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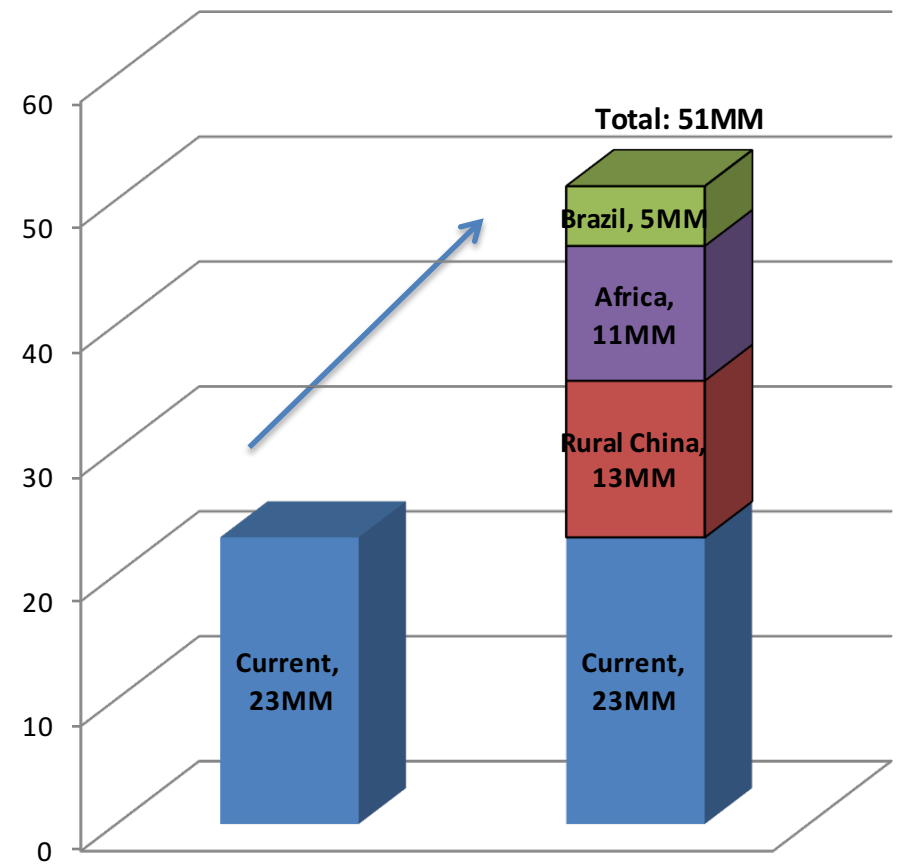
# Strategy will result in 50% increase in profits & 122% increase in market share

Incremental Projected Profit

(\$ USD)



# of Households Penetrated (millions)



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# Haier becomes the #1 global brand

- Global Brand Recognition
- Generation of profits to fuel marketing efforts in North America in the future
- Immigration of middle income group in Africa/BRIC to North America (brand knowledge diffusion)
- Enhanced experience in entering new markets

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# Risks exist, but can be mitigated

Risks	Mitigants
Insufficient knowledge of local markets	Hire local industry experts
Political obstacles	Use local experts to maneuver obstacles while ensuring Chinese oversight
Brand quality perception	Set new quality standards and control market communication

# WORLD MAP

## LEGEND

-  Growth Opportunity
-  Direct Foreign Investment & HQ
-  Joint Venture
-  Proposed Expansion



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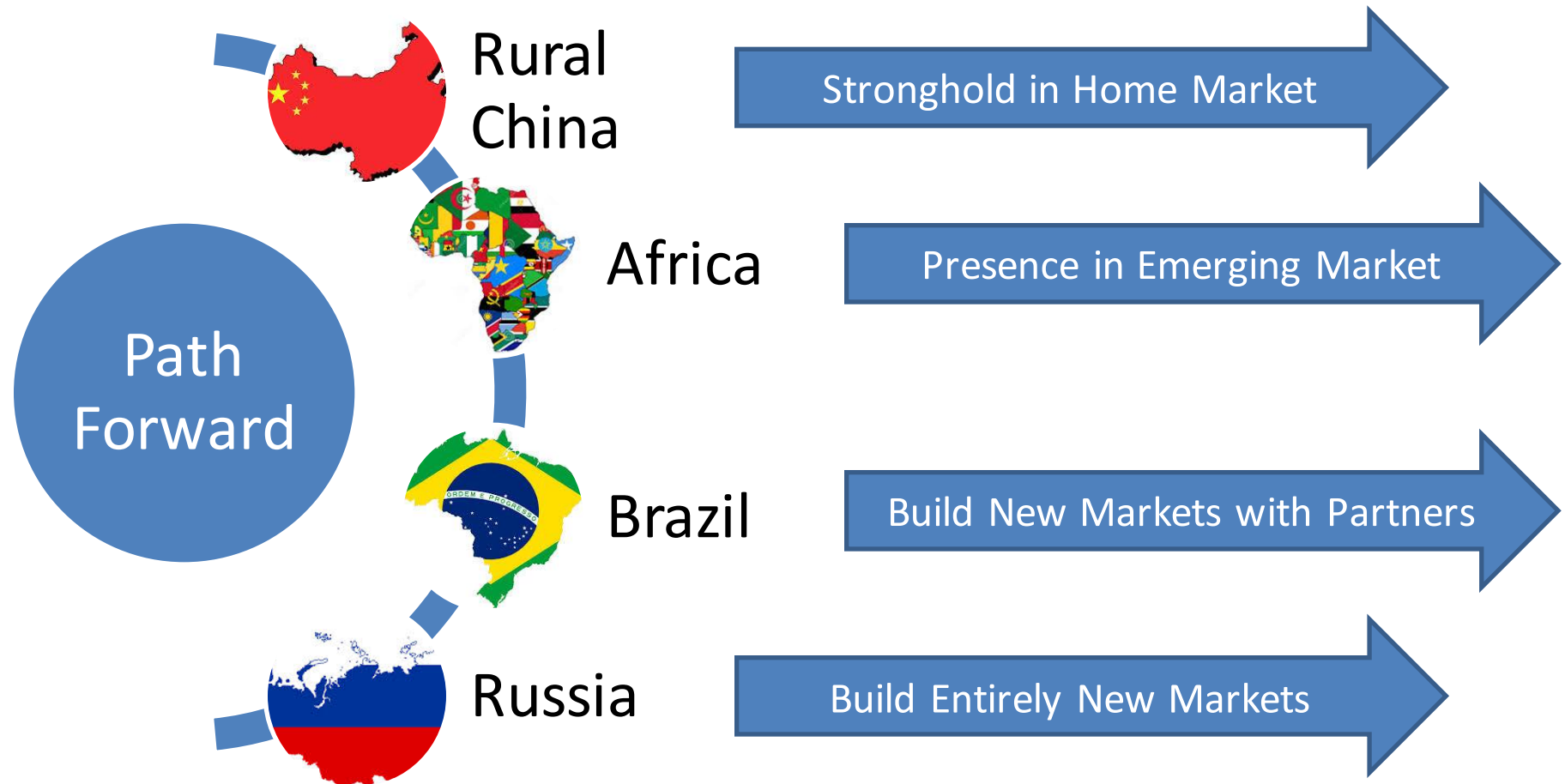
Next Steps

# \*Expansion will start by focusing on Strengths then moving towards growth markets

## International Expansion

ACTIVITY	PLAN START	PLAN DURATION	ACTUAL START	ACTUAL DURATION	PERCENT COMPLETE	PERIODS																																							
						YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5				YEAR 6				YEAR 7				YEAR 8				YEAR 9				YEAR 10			
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>CHINA</b>																																													
<b>Rural Expansion</b>																																													
Build New Affiliate Networks and Enhance Distribution Capabilities	1	4	1	4	100%	[Solid Green Bar]																																							
Develop Customer Support Infrastructure	2	3	2	3	0%	[Hatched Bar]																																							
Enhance Research and Development - Localized Needs	3	8	3	8	100%	[Solid Green Bar]																																							
Contract with Local Merchants and Distribution HUBs	5	4	5	4	0%	[Hatched Bar]																																							
Determine Requirements/Opportunity for New Facilities	11	5	11	5	100%	[Solid Green Bar]																																							
<b>AFRICAN EXPANSION (Existing Production Capabilities)</b>																																													
<b>Ghana</b>																																													
Undrestand Market, Distribution & Brand Positioning	1	2	1	2	100%	[Solid Green Bar]																																							
Determine JV or Foreign Direct Investment (Distribution)	3	3	3	3	0%	[Hatched Bar]																																							
Establish Foothold with Niche Positioning (Refrigerators)	6	8	6	8	100%	[Solid Green Bar]																																							
Expand Product Offering based on Market Needs	13	40	13	40	0%	[Hatched Bar]																																							
<b>Zambia and Angola</b>																																													
Undrestand Market, Distribution & Brand Positioning	10	2	10	2	100%	[Solid Green Bar]																																							
Determine JV or Foreign Direct Investment (Distribution)	12	3	12	3	0%	[Hatched Bar]																																							
Establish Foothold with Niche Positioning (Refrigerators)	14	8	14	8	100%	[Solid Green Bar]																																							
Expand Product Offering based on Market Needs	22	30	22	30	0%	[Hatched Bar]																																							
<b>Morocco</b>																																													
Undrestand Market, Distribution & Brand Positioning	18	2	18	2	100%	[Solid Green Bar]																																							
Determine JV or Foreign Direct Investment (Distribution)	20	3	20	3	0%	[Hatched Bar]																																							
Establish Foothold with Niche Positioning (Refrigerators)	23	8	23	8	100%	[Solid Green Bar]																																							
Expand Product Offering based on Market Needs	30	11	30	11	0%	[Hatched Bar]																																							
<b>BRAZIL - Export Plan</b>																																													
Understand Economic/Political Environment	1	3	1	3	100%	[Solid Green Bar]																																							
Understand Market, Distribution & Brand Positioning	4	4	4	4	0%	[Hatched Bar]																																							
Establish Foothold with Niche Positioning (Refrigerators)	8	8	8	8	100%	[Solid Green Bar]																																							
Expand Product Offering based on Market Needs	16	30	16	30	0%	[Hatched Bar]																																							
Evaluate Environment for Foreign Direct Investment	20	4	20	4	100%	[Solid Green Bar]																																							
Build Manufacturing Capacity	24	8	24	8	0%	[Hatched Bar]																																							
<b>RUSSIA</b>																																													
Understand Economic/Political Environment	14	3	14	3	100%	[Solid Green Bar]																																							
Undrestand Market, Distribution & Brand Positioning	17	4	17	4	0%	[Hatched Bar]																																							
Determine JV or Foreign Direct Investment Opportunity	19	2	19	2	100%	[Solid Green Bar]																																							
Establish Export Agreement with Russia	21	8	21	8	0%	[Hatched Bar]																																							
Employ Rural Strategies to Penetrate Rural Russia	27	8	27	8	100%	[Solid Green Bar]																																							
Expand Product Offering based on Market Needs	31	20	31	20	0%	[Hatched Bar]																																							
<b>AFRICA</b>																																													
<b>Uganda, Kenya and Sudan - New Facility</b>																																													
Undrestand Market, Distribution & Brand Positioning	25	2	25	2	100%	[Solid Green Bar]																																							
Evaluate Opportunity for JV and/or Partnership	27	3	27	3	0%	[Hatched Bar]																																							
Build Manufacturing Capacity in Uganda	29	6	29	6	100%	[Solid Green Bar]																																							
Reaffirm Foothold with New Product Positioning (Microwaves)	35	8	35	8	0%	[Hatched Bar]																																							
Expand Product Offering based on Market Needs	42	3	42	3	100%	[Solid Green Bar]																																							

# Haier needs to play to its strength, experience and strategic advantage



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# Appendix

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# Appendix – Financial Impact (China)

	Total	Rural	Urban
Population of China in 2004	\$1,296,075,000	\$907,252,500	\$388,822,500
Households (3.1 avg per household)	\$418,088,710	\$292,662,097	\$125,426,613
Urban Household penetration	22,953,070		
Haier China Sales in 2004 (USD)	\$10,100,000,000		*assumption Haier sales 100% urban
Haier Intl Sales in 2004 (USD)	\$2,000,000		
<b>Revenue per household (USD)</b>		<b>440.03</b>	
<b>Profit per household (USD)</b>	<b>\$0</b>	<b>8.36</b>	
	Worst Case	Expected	Best Case
Rural Penetration	5%	10%	15%
Households	6,271,331	12,542,661	18,813,992
Total revenue USD (assume half of urban per hh)	\$1,379,781,421	\$2,759,562,842	\$4,139,344,262
Profit (1.9% in 2003) - USD	\$26,215,847	\$52,431,694	\$78,647,541

# Appendix – Financial Impact (Brazil)

Population	181,586,000		
Persons per household	4		
Number of Households	47,785,789	Assuming 1/2	
Average revenue per household (USD)	\$440.03	<b>\$220.01</b>	
Profit per household (USD)	\$8.36	<b>1.90%</b>	
	Worst Case	Expected	Best Case
Penetration	5%	10%	15%
Households penetrated	2,389,289	4,778,579	7,167,868
Revenue (USD)	\$525,677,470	\$1,051,354,939	\$1,577,032,409
Profit (USD)	\$9,987,872	\$19,975,744	\$29,963,616

# Appendix – Financial Impact (Africa)

Population	885,000,000		
Persons per household	4		
Number of Households	215,853,659	Assuming 1/2	
Average revenue per household (USD)	\$440.03	<b>\$220.01</b>	
Profit per household (USD)	\$8.36	<b>1.90%</b>	
	Worst Case	Expected	Best Case
Penetration	2%	5%	10%
Households penetrated	4,317,073	10,792,683	21,585,366
Revenue (USD)	\$949,817,142	\$2,374,542,856	\$4,749,085,712
Profit (USD)	\$18,046,526	\$45,116,314	\$90,232,629

# Appendix – Financial Impact (Africa)

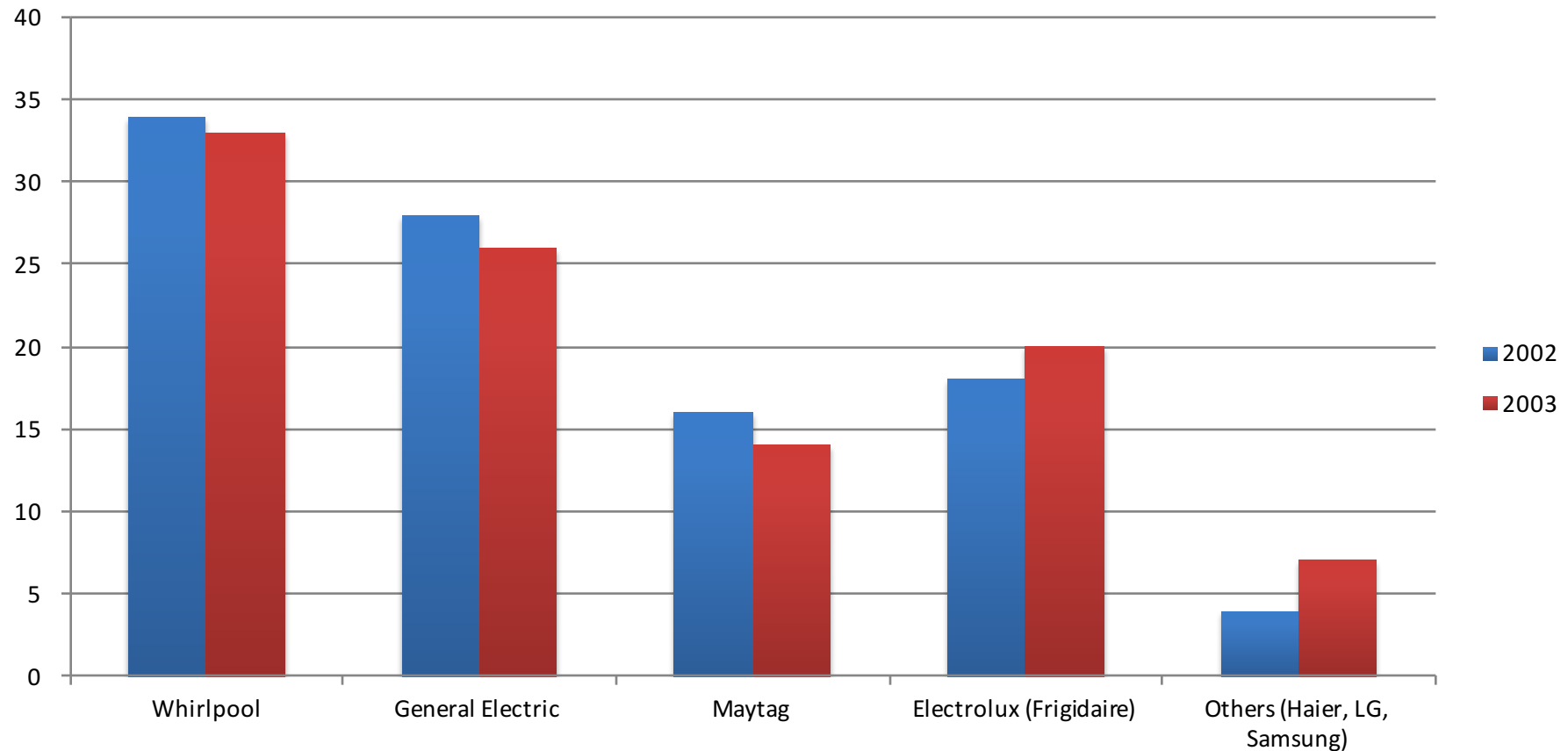
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# Appendix – Financial Impact (Combined)

Incremental Profit	Revenue (USD - millions)	Profit (USD - millions)
Current	\$12,100	230
Rural China	\$2,760	52
Africa	\$2,375	45
Brazil	\$1,051	20
Global households penetrated	Households	Households in millions
Current	22,957,615	23
Rural China	12,542,661	13
Africa	10,792,683	11
Brazil	4,778,579	5

# Less focus on US market in the short term , continue niche strategy

U.S. Large Appliance Market Shares (%)



# Speed and differentiation have provided a competitive advantage and are key strengths to leverage

- **Product Differentiation**

- Customer Focused Strategy – Listen , adjust, Implement
- Innovation & Design – Meeting localized demand market



- **Rapid Market Response**

- Built infrastructure to execute Ideas to prototypes quickly
  - 18 design centers ,13 overseas factories, 11 industrial complexes
  - 42 distribution centers throughout China
- Firm organized to achieve goals, flat structure to facilitate speed



- **Superior after-sales service and efficient distribution**

- Domestically: House calls, warranty, temporary free replacement
- Not sustainable and easy to replicate with local knowledge

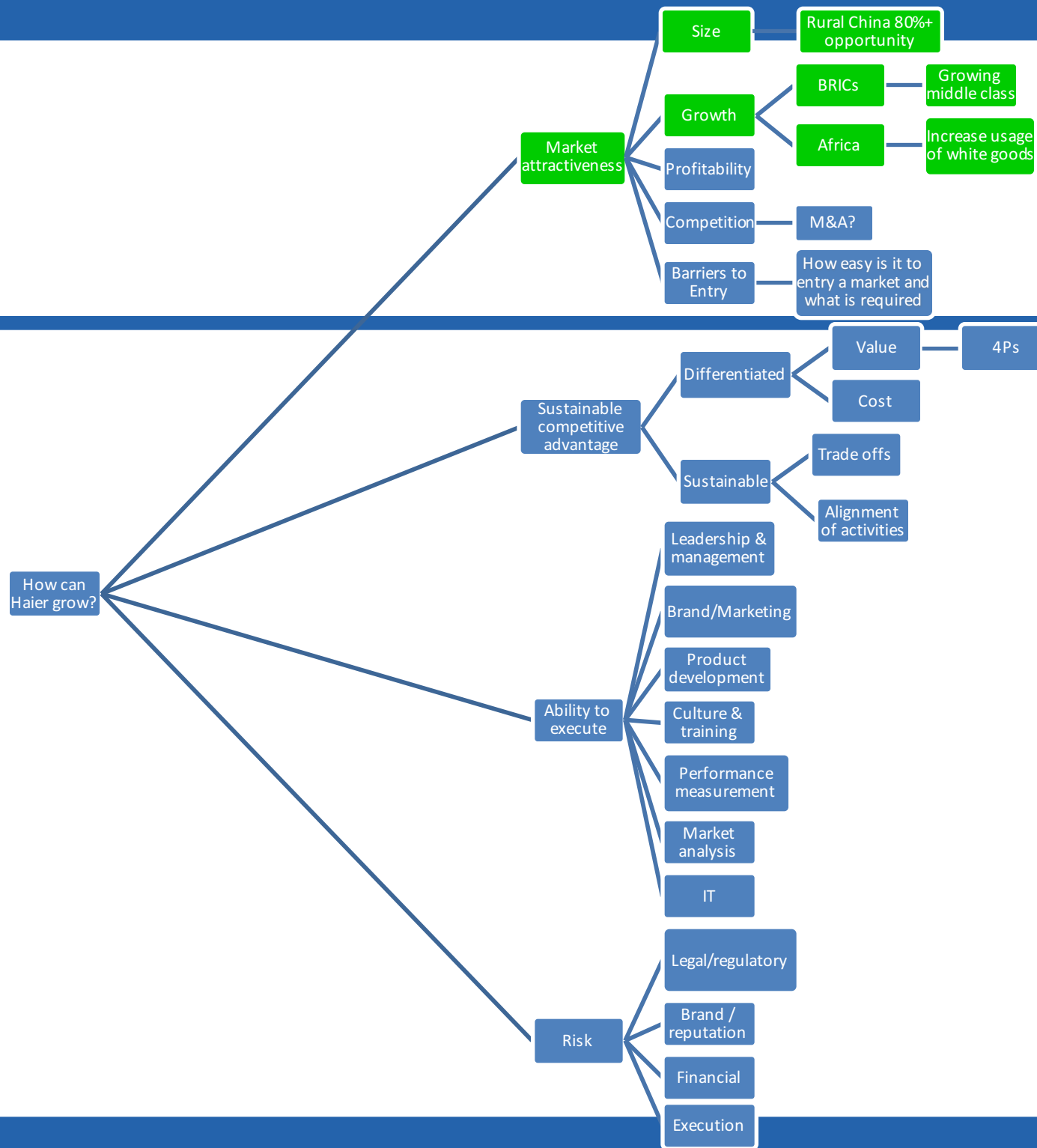


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# For discussion with the team

- If Haier chooses to pursue U.S. as a strategy, significant marketing \$\$ will be required
- Cost advantage in the U.S. will be negated due to marketing efforts
- High risk of failure in displacing well recognized brands







Worksheet