

An Analytical Study on Strategic Management of *Haier*

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Abstract: Qingdao Haier has been the world's largest white goods manufacturer since 2010. Haier has built a portfolio of unrelated diversification through mergers and acquisitions and had decentralizing its operational risks. Haier is confronting few strategic issues which might be more rational and effective in its logistics structure, competitiveness, and the challenges of technological innovation when the unrelated diversification of its business units are into greater expansion.

In this study, the models like PEST, SWOT, Porter five forces, Boston Consulting Group (BCG) Matrix, Value Chain Analysis shall be utilized as tools to identify the strategic management issues of Haier, and through financial analysis to examine the challenges of Haier's strategy.

The aim of this research is to analyse and address Strategic Management of Haier from 2010 to 2012 through strategic analysis. Some recommendations improve various strategies of Haier based on the conclusion.

The significance of this study on Haier's strategic analysis is to reveal the strategic issues of the Chinese Multinational Corporation (MNC) in providing the global investors an accuracy of investment decision making.

JEL Classifications: M21, M16, O16

Keywords: China MNC; Strategic analysis; PEST (Political, Economic, Social and Technological); SWOT (Strengths, Weaknesses, Opportunities, and Threats)

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1. Introduction

1.1 Company Profile

Haier is one of the major home appliances brands (Euro Monitor, 2012) in the world and China (Haier, 2012b). Qingdao Haier Co., Ltd. (600690: SH) has been listed on the Shanghai Stock Exchange since 1999.

By the end of 2012, Haier's global turnovers has reached RMB 79 billion in selling products over more than 100 countries (Haier, 2013) in the world with more than 80,000 employees over 17 countries.

1.2 Company History

Qingdao Haier Co., Ltd. is located in Qingdao, Shandong Province, China, which was established in 1984. According to the Euro Monitor's report, global demand for home appliances continued to decline due to the financial crisis and the European debt crisis (Euro Monitor, 2012). However, Haier won the favour of consumers worldwide, and its differentiated products is increasing its global market share. The report noted that Haier brand in the global market share increases by 0.8% from 2011 to 2012 (China Daily, 2012).

1.3 Research Objective

This research study's objective is to find out the strategic issues of an experiment of Chinese MNC (Liming Wang, 2012) for benefiting the stakeholders globally to provide an accuracy of investment decision-making.

1.4 Market Segments by Products

Haier segmented the business units as related business diversification, which was subdivided as Air conditioning, Refrigerator, Freezer and Washing machine. The unrelated business diversification which was subdivided as Water Heater, Equipment Parts, Services and other channels and Small appliances (Haier, 2012a).

2. Haier's Business Strategies

2.1 Haier's Strategies:

Generally Haier's Product-Market Strategy is divided into three phases:

1. 1984-1992, brand development strategy period

Haier refrigerator is the unique product line at this time. The brand of Haier established strong credibility (Sun Deliang, 2011) and reputation with building brand value for making the foundation of the related diversification.

2. 1991-1998, related diversification strategy development period

During this period Haier developed the white goods to the black appliances (Sun Deliang, 2011). Since the first phase Haier had established a popular brand image, therefore related diversification strategy became more successful followed a number of well-functioning home appliance products turned out to be China's well-known brands.

3. 1998-2013, unrelated diversification development period

Haier established a huge network of overseas sales, and participate in IT, food, finance, mobile phone manufacturing, and insurance, pharmaceutical (Yu Bo, 2010) and other non-related diversification strategy.

2.2 Haier's Generic Strategy

Haier has been building an open innovation system to support the brand and market development. At the end of 2012, 13,952 patents had been declared based (Haier, 2013) on which Haier is growing to become the industry leader and the rule-makers (PRNEWS, 2011) in the field of Chinese white goods.

The generic strategy of Haier is a spectrum between differentiation and focused differentiation rather than low price (Sun Deliang, 2011), for example, Haier's "Prodigy" washing machine is produced for the single people.

3. Strategic Issues

3.1 Unrelated Diversification

Accordingly to the above description it can be known that Haier's related diversification strategy has been very successful by which Haier is converting from a Chinese refrigerator manufacturer to the world's platinum appliance manufacturer (Sun Linyan, 2008). However such dramatic exaggeration didn't make the unrelated diversification strategy successfully.

Haier initial business was the development of white goods as a manufacturer of refrigerators. Haier had expanded its business to IT, mobile communications and other industries since the beginning of this century, after that Haier dabbled in medicine, food and finance (Tian Wen, 2010). These industries are unrelated with the home appliances essentially.

The unrelated diversification strategy has got its failures through the analysis as Table 1.

Table 1. BCG Matrix of Haier

Business Growth Rate	High	Star: Air conditioning & Washing Machine	Question Mark: Water Heater & Service and other channels
	Low	Cash Cow: Refrigerator & Freezer	Dog: Equipment Parts & Others: IT computer, Pharmaceutical
		High	Low
		Market Share	

Data Source: (Appendix 2; Carl W. Stern & Michael S. Deimler, 2006)

In other words, the unrelated diversification strategy jeopardized (Appendix 2) the core competitive- ness (Usha C.V. Haley & George T. Haley, 2013) of Haier.

3.2 The Flaws of Value Chain

Haier's marketing focused on both China and international market. However global market has been stunt (refers to Table 2: sales of segments) for few

Table 2. Sales of Segments of Haier (Data Source: Haier, 2012a)

	Year 2010	Year 2011	Year 2012
China Segment	90.09%	89.38%	89.48%
International Segment	9.91%	10.62%	10.52%

years based on the segment reports.

Haier's logistics system is supporting the huge sales in normal operation with some flaws in it due to the logistic system is too rigid to be efficient.

The procurement of Haier is confronting a huge risk that the refrigeration compressors, which are the major components of Haier's products, are all imported from Japanese suppliers such as Mitsubishi and NEC. Haier doesn't have strong bargain power with the main suppliers.

3.3 Product Life Cycle

The traditional products of Haier is heading the declining stage (Zhang Lei & Zhao Xin, 2011) such as TV and air conditions, unless Haier has the ability to add more technology elements in these out-dated productions.

3.4 Pricing Strategy

It's no doubt that Haier's differentiation and focused differentiation increased the revenues, but Haier lost the budgeted consumers due to Haier abandoned low price strategy.

4. External Analysis

4.1 PEST Analysis

Based on PEST Analysis, Haier was required by the Chinese government to use recycling materials or new technology either to reduce the costs or protect the environment even Haier didn't choose to participate in the price war.

To Haier, innovation is becoming a task which is not only the quantity of patents but also developing the core technique under such circumstance that number of miniaturized family³ is increasing in China and the needs of intelligent home appliances are booming.

4.2 Porter Five Forces Analysis

(A) The threat of potential entrants

The financial barrier of TV industry is unimpeded (Qu Jianguo & Long Xiaobao, 2009) in China. Enterprises can credit bank loans to quickly complete the initial capital raising.

Lower technical barriers: Domestic enterprises are basically manufacturing TV by assembly processing (CVIA, 2012). Core technology and raw materials are in the hands of overseas suppliers such as Mitsubishi, Toshiba and Samsung; hence, technical barriers are also low.

TV industry is becoming a less product differentiation (Ying Zhu & Christopher Berry, 2009), which is prone to lead to potential entrants, because product differentiation is too minute to build brand barriers for industrial protection. Overall judgment, the TV industry in China is prone to potential entrants.

(B) The threat of existing competitors

Price war is the most common marketing tool in Chinese colour TV industry. The leading enterprises such as Changhong, Skyworth⁴ and other companies often pick up this price weapon (Gao Hui, 2012) in pursuit of sales to increase its market share. Furthermore the differentiation of

³ Miniaturized family means small scale family, normally a single individual family or a pair of couple family.

⁴ Changhong & Skyworth are the popular brands of TV industry in China.

TV products is trivial (Ying Zhu, 2012) so that consumer brand switching costs are lower.

According to "Chinese urban consumers demand for flat-panel TVs Investigation Report" summary, the domestic flat-panel TV is experiencing a wave of rapid growth from 2008 to 2013 (Qianinfo, 2013); consumer demand is growing rapidly, which to some extent have eased the TV industry competition.

In short, the threat of existing competitors is the prices of TV and the other household electrical appliances. In the other word, Haier doesn't have any advantage on the image of low-price.

(C) Threat of substitute product

Internet is an alternative for TV, because the attractiveness, timeliness and interesting of the traditional television cannot be compared with the resources and information internet. Many younger consumers purchase high quality computers instead of TV (Keith Willetts, 2012). Besides, the contribution margin generated by a computer has gone beyond the traditional TV. Mobile TV, handheld TV With 3G technology is booming, it turned out that the traditional TV market feels a shock.

In order to cope with the threat of substitute products, many companies have launched TV embedded web content, in order to resist the threat of the computer. To Haier, it seems a challenge due to TV technique is not a core competence at all.

(D) Suppliers bargaining power

The main part of the flat-panel TV sales for the LCD category products, and processing costs accounted for 70% of the core components of TV LCD screen, which are being offered by the main suppliers in Korea (Shaun Rein, 2012), such as Samsung. In particular, for the large size screens, the suppliers have a strong voice.

Flat-panel TVs many patents are in the hands of occidental, such as China's flat-panel digital TV exports to the United States to meet U.S. standards (John Jagerson & S. Wade Hansen, 2011). For each TV set the producer must pay hundreds of dollars (Paul Midler, 2011) in patent for the costly user fees. In terms of patents in this field, suppliers have a strong position.

(E) Buyer bargaining power

By increasing the customer's choice, the cheapest form of entertainment has not become a strong persuaded reason for consumers buying television, so customers are in enhancing the right to bargain. The overcapacity of flat-panel television (Qianinfo, 2013) is making consumers enrich the bargaining power. Haier's TV product line development is far from ideal. As said sum above, the closed-related diversification of TV is on the wane.

5. Internal Analysis

5.1 SWOT Analysis

Strengths:

Technical advantages: Haier is a world leader in white goods areas of technology level, innovation-driven (Li Shuaida, 2011) to global consumers. Haier Group is committed to providing solutions that meet the needs and achieve win-win situation between enterprise and users.

Innovation Advantage: Haier water heater electric wall technology as well as Haier washing machine double engine technology is also included in the International Electro technical Commission (IEC) international standard (Li Shuaida, 2011) proposal.

Weaknesses:

Ownership is not shareholding system: The ultimate controlling shareholder of Qingdao Haier is a Haier Group, which is socialist collective owner instead of a state-owned company (Yan Jianjun, Hu Yong, 2001), which shows a gap between MNC and Haier in the section of capital, technology, management and so on.

Asymmetry of Information disclosure: Haier have been developing speedily so that people have no doubt its internationalization. However, external information technology system especially with domestic suppliers, distributors of electronic data interchange (EDI) has been in a dilemma (Wu, 2007) which led to the reductions of procurement and distribution costs are still difficult to completely achieve. The external environment is leading to an unsuccessful information structure.

Opportunities:

Consumer preferences have been converted to eco-friendly productions, which will lead to Haier's products to the trend of energy-saving and environmental (Xu Liang, 2012) protection. To the personalized consumer, "Distinctive" has been pursued by the consumer purchase criteria with that the appliance design style is able to meet the fashion trends, while coordinating with the entire home-style mix.

Threats:

The prices of raw material are generally rising for increasing the cost of production of Haier. The high inflation in China (Kenneth Rapoza, 2012) may result in Haier's commodity exports shrinking to affect Haier overseas markets.

5.2 BCG Matrix

(Calculation of marketing share and revenue growth refers to Appendix 2 & Table 1, respectively.)

5.2.1 Qualitative Supporting

Yu Bo (2010) in his study demonstrated the reasons for the failure of unrelated diversification of Haier. Zheng Huyang (2012) revealed that Haier's unrelated diversification didn't spread business risk; on the contrary, the risk of unrelated units such as pharmaceutical and insurance were greater than the risk of household appliances industries. Besides, Haier does not have any relevant management experience, so unrelated diversification is not successful.

5.2.2 Quantitative Supporting

According to the Table 8 (Appendix 2), we can find the core of Haier products are the white goods such as refrigerators, washing machines that own a high market share and sales growing. Definitely these products are stars. Obviously Haier's white goods meet long-term development objectives, which can bring remarkable cash flows and enhance the core competitiveness of Haier.

However, colour TV, microwave, IT, telecommunications, pharmaceutical, food and insurance industry as the representative of unrelated diversification strategy has shown weakness. Other Income shown on Profit & Loss (P&L) includes IT, telecommunications, pharmaceutical, food and insurance, of which the gross margin was 140.38% then it decreased to 26.82% from 2010 to 2012; gross margin of Equipment Parts was 52.91% down to -13.66% from 2010 to 2012 (Table 9: Appendix 2). In this period the profitability from unrelated diversification was being weakened.

Secondly there is no any report of market share of other income of Haier, which is indicating that in these areas Haier didn't occupied market shares due to unrelated areas of the market share is growing slowly or moving downward gradually, regardless of what kind of situation, the strategy of unrelated diversification may have failed in the market. Coupled with declining gross margins or even negative margins, we can conclude that Haier's unrelated diversification unit has turned to "Dogs". To conclude, Haier's unrelated diversification strategy did not achieve the expected success neither the market share nor the gross profit that is eroding Haier's core competitiveness.

5.3 Porter's Value Chain

5.3.1 Inbound & Outbound Logistics

For logistics infrastructure, Haier owns a warehouse in city of Qingdao where it's the headquarters of Haier (Ren Xiyuan, 2007). However for those leased warehouses around China, which cannot be invested in the Haier shelves, pallets, forklifts and warehouse transformed the face of logistics information system, satellite positioning systems in transit, electronic maps and standardized electronic data (iHaier, 2012).

Haier is challenged for large-scale investment in the logistics system in the country. Generally Haier's logistics is not consistent with its remarkable productivity.

5.3.2 Marketing & Sales

Haier's overseas market is not optimistic. Definitely Haier is the leading brand of white goods in the world; in fact it relies on huge Chinese consumer population supported not the global market share (Chengxiu Suo, 2012). Furthermore the appreciation of RMB to U.S. dollar and high inflation in China made Haier's global branding strategy become very unrealistic due to Haier's international sales were only 10% of total revenue from 2010 to 2012.

5.3.3 Procurement

Haier's main components of production raw materials, such as compressors, are imported from Japanese suppliers, such as Panasonic, Mitsubishi. Such a purchasing model would take some advantages for maintaining the stability of the final product quality. But on the other hand, it would bring foreign currency exchange risk due to the fluctuation of exchange rate.

5.3.4 Service

Haier's service overall shows good quality, especially Haier offers a protocol of after sales service. But in recent years the complaints for Haier's service are increasing year over year (Financeun, 2012) to jeopardize the Haier's reputation.

5.4 Financial Analysis

5.4.1 The limitation of Ratio Analysis

i: Main sources of data occurred in the past

Ratio analysis is based on accounting data, which is recorded by enterprises in the past and summarize the results of economic activities to predict the future enabling enterprises to make decisions for financial analysis based on reference value.

ii: Data does not reflect the true situation

Financial statements are prepared in accordance with the accounting standards and assumptions, which maybe not necessarily & fully reflect the objective reality.

5.4.2 Ratio Analysis

Table 3 shows us international segment only contributed almost 10% sales from 2010 to 2012; the rest 90% of sales came from China segment. Haier tends to build a global brand, but it turns out the overseas market is still stunt. The extent to which Haier is still a Chinese enterprise and its global branding strategy may not be unsuccessful.

Through Table 3 we can find out that the gross margin is increasing of slow, under such circumstance, the Return on Equity (ROE) and Return on Capital Employed (ROCE) are dropping steeply that ROE decreased by 14.54%, and that of ROCE was from 48.45% to 30.22% during this period.

Table 3. Profitability of Haier (Data Source: Haier, 2012a)

	Year 2010	Year 2011	Year 2012
Gross Margin	23.39%	23.41%	25.08%
ROE	42.80%	31.57%	28.26%
ROCE	48.45%	32.36%	30.22%

It means that using loans to support the operation including white goods and the unrelated diversification business made the company afford interests, but according to the BCG analysis as above, unrelated diversification business is losing the margin or made negative profit that eating up the margin by white goods such as refrigeration appliances which led to ROCE was down. Logically unrelated diversification strategy is failed.

Table 4. Efficiency of Haier (Data Source: Haier, 2012a)

	Year 2010	Year 2011	Year 2012
Working capital turnover(days)	29.88	27.06	38.55
Inventory turnover(days)	28.32	38.95	43.70
Net Receivables turnover(days)	47.74	60.45	73.41

Through Table 4 we can easily realize that the working capital turnover, inventory turnover and receivable turnover are becoming inefficient. In the other word, the working capital is minified which may result in a risk of liquidation.

5.5 Scenario Analysis

If we assume Haier is not willing to cut off the unrelated diversification units and maintain the average sales growth in the past three years, we can conduct the profitability forecast from 2013 to 2017. This scenario based on the assumption that without any unpredictable factors such as haze, accident, typhoon. The assumption is that the sales growth will be 8% and the cost growth will be 6% year over year.

Table 5. Scenario Analysis of Haier
(Currency: RMB 100k Yuan; Data Source: Haier, 2012a)

Haier	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Total Revenue	85,621	92,618	100,187	108,375	117,232
Cost of Revenue	62,742	66,388	70,245	74,326	78,644
Gross Profit	22,879	26,230	29,942	34,049	38,588

The gross profit will be increasing slightly through Table 5. It's not optimistic under such high inflation in China.

5.6 Benchmarking

To take air-conditioning for an example, Haier air conditioning is expensive compared than the other brands 20% (Appendix 1). Also Haier didn't produce low-power air-conditioning relative to other competitors. Haier's strategy is unwise to abandon the low-power air-conditioning market.

5.7 Gap Analysis

Haier worked out a set of after sales protocol, but service delivery gap would occur when the after-sales service network throughout China or the world. Furthermore commitments of services and customer perception of the service would lead to gap. Negative gap will affect customer satisfaction.

6. Strategy Formulation

Given the above analysis, Haier could consider the strategic choices:

- i: Building new product lines to produce compressors instead of using the Japanese components
- ii: Starting up strategic alliance with overseas manufacturers or retailers to expand international segment
- iii: Disposal of unrelated diversification units such as IT, computer, pharmaceutical
- iv: Re-engineering the inbound & outbound logistic process
- v: Pursuing the low price strategy
- vi: Development of intelligent TV.

7. Strategy Evaluation and Implementation

The result of evaluation of strategic choices is that five strategic choices are presented and the suggestions about the selected choices refer to Table 6:

Table 6. Strategic choices

No.	Strategic Choices	Suggestion of Process
i	Starting up strategic alliance with overseas manufacturers or retailers to expand international segment.	Making alliances with Europe Brands such as Electrolux, Siemens, the partners can share the markets each other
ii	Disposal of unrelated diversification units such as IT, computer, pharmaceutical	Disposal of these business units will bring cash inflow and prevent the loss of these diversification
iii	Re-engineering the inbound & outbound logistic process	Building Haier's own local logistic centres in China and making the local centres autonomous accounting system
iv	Pursuing the low price strategy	Producing the simple functional appliances to reduce both the costs and prices
v	Development of intelligent TV	Purchasing patents from the outside researchers to produce the intelligent TV

Although Haier encouraged innovation technically, Haier is still holding a rational, top-down process by the leadership of Mr Zhang Ruimin, who has been the Chairman and CEO since 1984 (Li Shuaida, 2011).

8. Conclusions & Recommendations

8.1 Conclusions

Haier is confronting some strategic issues. Firstly China's domestic market is saturated. Major electronics manufacturers are in the price war while Haier insisted of not using low-cost strategy, which causes part of China known to frugal people turned to more affordable brands. In addition, consumers are quick update appliances because of new technology, so they do not mind buying low quality low price products. Haier's strategy therefore is not getting any advantage comparing to the rivals.

Secondly Haier has been pursuing unrelated diversification strategy for a decade with investment in non-electrical industries, such as IT, insurance, food and others. We learned that the unrelated strategy may have failed if BCG and financial ratios analysis are used. For now, those unrelated product lines also eating up the profits of Haier's core product white goods as "Dogs" loss of unrelated business units are encroaching Cash Cows and Stars (refers to Appendix 2 & Table 1 : BCG Matrix Analysis).

Furthermore Haier colour TV industry is also now worrying, as Chinese famous brand, Haier is losing to enter the ranks of the top ten best-selling TV brand, and accordingly it means TV of Haier didn't gain the decent market share. Haier's value chain is futile which is not matched with its huge production capacity showing a weak link of the value chain that resulting in Haier's logistics rising up, which will eventually be passed on to consumers' high prices and further weakening Haier's core competitiveness.

8.2 Recommendations

1. Disposal of unrelated diversification business unit

In the BCG matrix analysis, unrelated diversification in terms of market share and sales growth are moving towards a down trend due to the unrelated diversification has generated negative profit being eroded its profit of core product line of white goods step by step resulting to the reduction of ROE eroding shareholders' wealth. In this case, the viable strategy is to completely cut off the related diversification including IT, medicine, food and others. It's better that manpower and funds will be able to concentrate on its core product lines. After all, the core product lines have showed very strong profitability as well as ROE shows a trend of rising up.

2. Input Research & Development (R&D) on intelligent TV

The life cycle of colour TV is getting shorter in China currently. The consumers renewed their previous TV frequently. Smart TV technology updates and to promote colour TV on the home appliance market.

Frankly Haier is not included in the ranks of best-selling brands that the fundamental reason is that the technical elements of Haier TV are not enough. Now consumers are satisfied in using not only the TV dramas and news but also internet functions such as playing network games or connecting the computer to achieve data exchange. Therefore Haier must increase its R&D on the TV product line.

3. Improve the logistics system

Haier's logistics system needs to be enhanced, which is inseparable from an experienced

logistics professional. Hiring the professions to deal with the defective part of the logistics system based on which managers will redesign the logistic structure taking into account the efficiency and effectiveness of logistics and transportation quality assurance.

4. Strengthen working capital and inventory management

According to Efficiency Ratio Analysis from 2010 to 2012, days of Accounts Receivable Turnover and the days of Working Capital Turnover increased year by year, which indicated that the cost of capital went up followed by operational risks were brought in. Finally, operating cash inflow may be shortage due to the increase of the number of days, which might lead to postpone the payment of Accounts Payable inducing a reputation risk.

Haier may strengthen the management of accounts receivable aging to speed up recovery time. It's necessary to conduct a special investigation to clarify the reason of inventory turnover rate decreased by the needs for any software to help running inventory or concerning about whether there will be the introduction of (Just in Time) JIT inventory management system (Yasuhiro Monden, 2011) to control budgets and procurement of raw materials efficiently.

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Appendix 1. Benchmarking

Table 7. Comparison of Air-Conditioning in China (Currency: RMB Yuan)

Power	Brands of Air-Conditioning				
	Haier	Chang hong	Meidi	Kelong	Panasonic
less than 1000 Watt	NA	1,699	2,299	2,099	NA
1000 Watt	2,799	1,899	2,399	2,299	2,678
1500 Watt	3,999	2,299	3,399	2,399	3,560
2000 Watt	5,999	3,999	4,999	3,899	6,158

Data Source: (Suning, 2013)

Appendix 2. BCG Matrix Analysis

Table 8. Global Market Share of Haier (from year 2010 to 2012)

Relative market share	Year 2010	Year 2011	Year 2012
RELATED BUSINESS DIVERSIFICATION			
Air-conditioning and refrigerator	10.80%	13.70%	14.80%
Freezer	14.80%	16.70%	18.60%
Washing machine	9.10%	10.90%	11.80%
UNRELATED BUSINESS DIVERSIFICATION			
Others	Too tiny to record		

Data Source: (Haier, 2012b)

Table 9. Sales Growth Analysis of Haier (from year 2010 to 2012)

Year 2012				
RMB 100k Yuan	Revenue	Cost	Growth rate of revenue	Gross Margin
RELATED BUSINESS DIVERSIFICATION				
Air conditioning	14,769	10,736	22.05%	27.31%
Refrigerator and Freezer	25,170	17,452	0.48%	30.66%
Washing machine	13,273	9,358	8.66%	29.50%
UNRELATED BUSINESS DIVERSIFICATION				
Water Heater	4,486	2,475	17.19%	44.83%
Equipment Parts	7,172	6,394	-13.66%	10.85%
Services and other channels	12,596	11,636	26.82%	7.62%
Others: IT computer, pharmaceutical	1,686	1,246	-3.10%	26.10%
Year 2011				
RMB 100k Yuan	Revenue	Cost	Growth rate of revenue	Gross Margin
RELATED BUSINESS DIVERSIFICATION				
Air conditioning	12,101	9,481	6.19%	21.65%
Refrigerator and Freezer	25,049	17,731	9.81%	29.21%
Washing machine	12,215	8,689	5.90%	28.87%
UNRELATED BUSINESS DIVERSIFICATION				
Water Heater	3,828	2,166	22.50%	43.42%
Equipment Parts	8,307	7,512	2774.39%	9.57%
Services and other channels	9,932	9,209	5.81%	7.28%
Others: IT computer, pharmaceutical	1,740	1,253	34.57%	27.99%
Year 2010				
RMB 100k Yuan	Revenue	Cost	Growth rate of revenue	Gross Margin
RELATED BUSINESS DIVERSIFICATION				
Air conditioning	11,396	9,368	31.21%	17.80%
Refrigerator and Freezer	22,811	16,840	20.68%	26.18%
Washing machine	11,535	8,114	25.56%	29.66%
UNRELATED BUSINESS DIVERSIFICATION				
Water Heater	3,125	1,714	33.32%	45.15%
Equipment Parts	289	267	52.91%	7.61%
Services and other channels	9,387	8,617	140.38%	8.20%
Others: IT computer, pharmaceutical	1,293	923	48.11%	28.62%

Data Source: (Haier, 2012a)