

## **A SWOT Study of the Development Strategy of Haier Group as One of the Most Successful Chinese Enterprises**

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### **Abstract**

*This paper puts forward a complete and comprehensive SWOT development strategy model on the basis of the previous SWOT analysis model and the case study of Haier Group. After a general review of both SWOT and Haier, this paper focuses on how Haier can make appropriate SO ST WO and WT strategies by analyzing and allocating its internal factors (strengths and weaknesses) as well as external environments (opportunities and threats). The aim is to provide an applicable Haier model which combines SWOT analysis with strategy formulation to set an example of how SWOT assists business in developing feasible strategies, and simultaneously provides an in-depth understanding of the “glocal” strategy of Haier as one of the most successful enterprises in current China.*

**Key words:** SWOT analysis; Haier Group; development strategy model; internal factors; external environments

### **1. Introduction**

In today's hyper-competitive global market, any company should have a clear understanding about itself as well as the external conditions in order to make effective decisions and strategic corporate planning. Therefore, many economists and scholars have researched into this field and proposed some useful tools and models to help analyze and develop business strategies. SWOT analysis is one of the most well-known and frequently used models created in the 1980s. Despite its high popularity and wide application, I found that few researches have combined it with the business's development strategies to further work out a more integrated model to guide the business practices. In view of this, this paper attempts to set an example of how to incorporate SWOT analysis into a company or business's strategy-formulating process. Moreover, the reason why Haier is chosen as the analyzing subject should be explained here. Recently, it is reported that Haier was ranked 27th in the 2010 Top 50 World's Most Innovative Companies, becoming the first Chinese household electrical appliances firm in the list, which aroused great public interest. Actually, as the most internationally distinguished Chinese appliance brand, Haier always attracts great attention from economics and researchers. Therefore, a more comprehensive examination of Haier, especially the internal and external factors which greatly affect its strategies and contribute to its success, can hopefully offer some useful guidance for other business.

Therefore, it is of great theoretical and practical significance to conduct a thorough SWOT analysis of Haier and work out an integrated model to see how SWOT can help a business to make successful strategies. The primary purpose of this paper is to provide a good framework for understanding and applying the SWOT model in real business practices and to advance such a concrete development strategy model based on the case study of Haier. The paper mainly consists of 6 parts: 1) the above introduction part which describes the background and significance of the research 2) a brief introduction of Haier 3) an overall review of the origin and the previous studies related to SWOT analysis 4) a SWOT development strategy model of Haier created by the author in accordance with the previous theories 5) the detailed SWOT analysis composing both the internal, external analyses and allocated strategy analyses to elaborate on the above model. 6) The conclusion part that draws a general summary of this paper.

### **2. A Glimpse of Haier**

In order to better understand the following analysis, a brief and overall glimpse of Haier's development is presented here in this part. Haier Group, founded in 1984 with its headquarters in Qingdao, China, is the leading brand of white goods globally and the most valuable brand in China. With considerable awards and achievements, Haier has involved into a giant multinational corporation. The development of Haier can be divided into four phases. 1) First is the brand building phase (1984-1991). By only focusing on refrigerators, Haier was able to accumulate valuable business and management experience.

It transformed itself from a small factory operating at big loss into the number one refrigerator brand in China. 2) Second is diversification development phase (1991-1998). In this phase, it moved from a single-product company to a manufacturer with multiple product lines and expanded its brand to include both brown goods as well as white goods. Internally, the company restructured operations, using intangible assets to get the most out of existing tangible assets. 3) Third is the globalization phase (1998-2005). It gradually entered international mainstream markets, and opened foreign sales channels to deepen market penetration. 4) And it is now undergoing the fourth phase- global brand building phase (2005--). At this critical stage, Haier aims to build a local Haier brand in each geographic area all around the world. It is on the way to integrate global resources to satisfy consumers' needs all over the globe.

### 3. A General Review of SWOT

According to Wikipedia, SWOT analysis is a basic strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture so as to make feasible strategies. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective (Hill and Westbrook, 1997). The technique is credited to Albert Humphrey, the founding father of SWOT analysis, who led a convention at Stanford University in the 1960s and 1970s using data from Fortune 500 companies. The background to SWOT stemmed from the need to find out why corporate planning failed. The application of SWOT analysis is not limited to profit-seeking organizations. Usually, it is “an effective way of gathering and classifying information, illustrating particular matters, and generating strategic planning ideas for a business” (Zhu Wenzhong, 2010:31). It can be used for business planning, strategic planning, competitor evaluation, marketing, business and product development and research reports. And it may also be used in any decision-making situation when a desired end-state (objective) has been defined. Examples include: non-profit organizations, governmental units, and individuals.

Specifically speaking, strengths refer to characteristics of the business or team that give it an advantage over others in the industry. Weaknesses are characteristics that place the firm at a disadvantage relative to others. Opportunities are external chances to make greater sales or profits in the environment. Threats are external elements in the environment that could cause trouble for the business. Generally, SWOT is carried out in the following steps. First, analyze business’s external environments to find out opportunities and threats a business faces. Second, analyze business’s internal factors to find out strengths and weaknesses a business possesses. Third, allocate external opportunities and threats with internal strengths and weaknesses. Based on the 3 steps, we can draw the following matrix diagram.

Ex-	In-	strengths	weaknesses
opportunities		SO	WO
threats		ST	WT

Table 1 SWOT Matrix Diagram

According to this diagram, business can make corresponding plans or strategies. The usual practice is to make best use of strengths while overcoming weaknesses, and to take good advantage of opportunities while removing threats. As a result, business can get a variety of alternative strategies. They are as follows. First, SO is a leverage strategy means to utilize all possible opportunities based on its internal strengths and resources. Second, concerning ST when business is quite vulnerable to external threats, it should take advantage of internal strengths to cope with threats from external environments. Third, with regard to WO, a business is provided with external opportunities that may be constrained by its internal weaknesses. Under such circumstances, business should use external resources to offset its internal weaknesses. Otherwise, opportunities will be the prey of its competitors.

The last but not least is WT which is used when business is driven into a problematic situation. It aims to reduce the negative influences casted both by external threats and internal weaknesses, striving hard to get rid of this dilemma, or it would be forced to go bankrupt. In a word, SWOT analysis can be extremely beneficial to those who objectively and comprehensively analyze their business. It is not simply enough to identify the four factors; instead, it is necessary to minimize or avoid weakness as well as threats and at the same time match strengths with opportunities to optimize the potential of a business to obtain leverage. Theoretically, SO is the perfect combination, which is adopted when business is in a smooth situation. In practice, however, a company usually carries out several strategies simultaneously. The decision-makers therefore must prioritize all factors and develop specific goals and objectives for the strategic planning at different stages.

4. SWOT Development Strategy Model for Haier

Base on the theoretical framework of SWOT and my research on Haier, I created the following model by incorporating SWOT analysis into Haier’s strategy-formulating process aiming to show an overall development direction of Haier and provide some guidance for Haier as well as other business. Then in part five, I will have a detailed SWOT analysis of Haier including both the internal, external analyses and allocated strategy analysis in accordance with the following model.

A Graphical Representation of This Paper

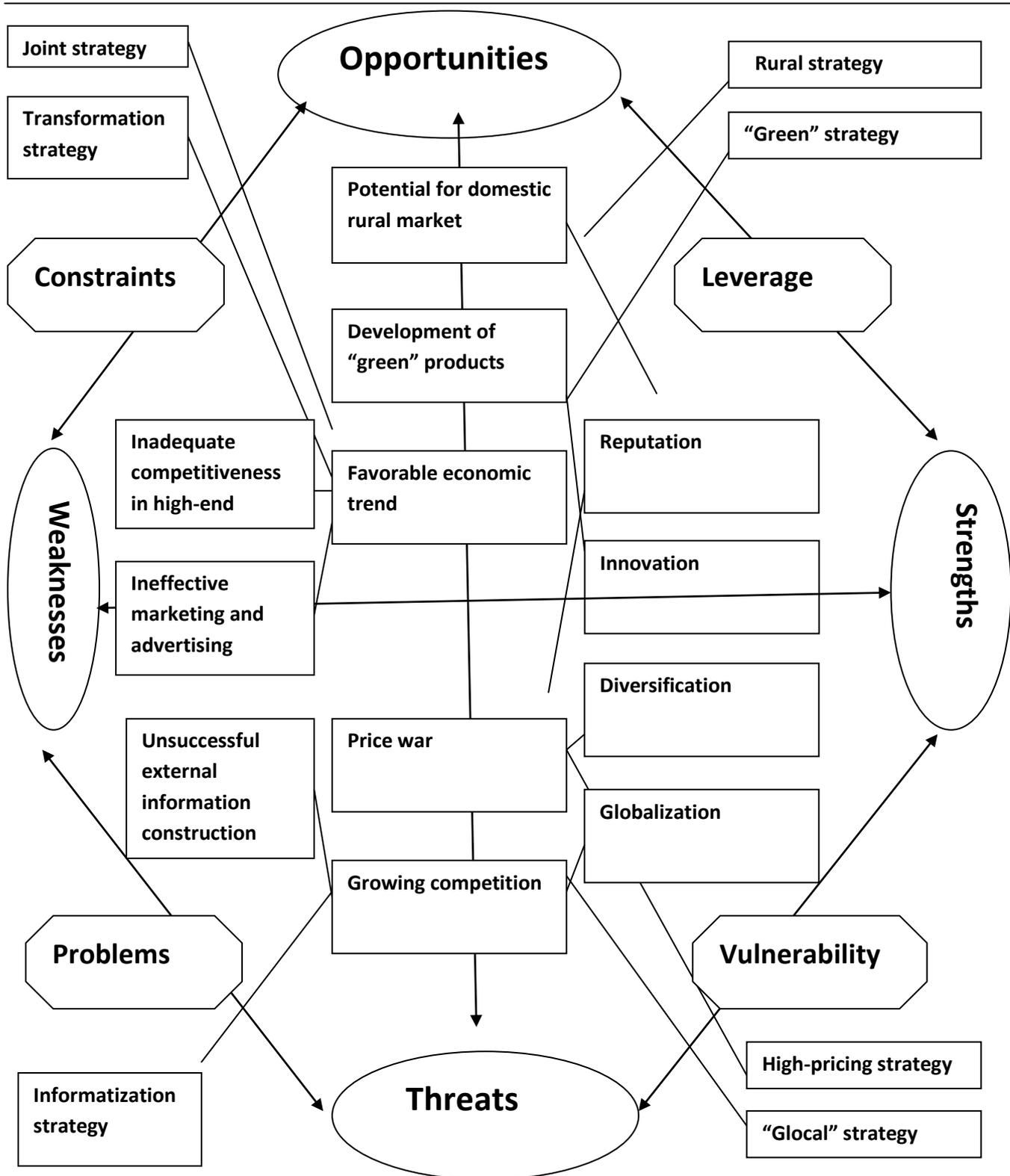


Figure 1 A SWOT Development Strategy Model

## **5. The SWOT Analysis of Haier**

### **5.1 Internal Analysis**

#### **5.1.1 Internal Strengths**

First of all, Haier enjoys a well-known brand name and high reputation for reliable quality and first-rate customer service. Pursuing the service policy that “customer is always right” and “build good impression”, it wins high recognition and customer satisfaction. In June 2008, Haier ranked 13th and 1st among Chinese companies on the list of the world's "600 Most Reputable Companies”.

Secondly, its strength also lies in its innovation in both production and management practice. Up to the end of 2009, “Innovation driven” Haier had applied for 9738 patents, ranking first among Chinese appliance enterprises. On the base of its independent intellectual property, Haier has participated in the setting of 23 international standards. Moreover, as for management, Haier's exploration and implementation of Overall Every Control and Clear management mode, market chain management and individual-order combination development pattern has proved to be highly successful and attracted world-wide attention. (Du Guanglin, 1999)

Thirdly, the Haier Group has successfully carried out product diversification to expand its brand beyond refrigerators, adding washing machines, air conditioners, and other items to its product line. Consequently, Haier has quickly grown the scope of its business while enhancing the company's overall strength and position.

Lastly, Haier has conducted international expansion to go global with its own intellectual property and brand identity. It has gone through a three-step globalization process and gradually established a tripartite (design/production/marketing) operational framework in six key regional markets such as Europe and North America. As a result, Haier now sells products in over 160 countries around the world.

#### **5.1.2 Internal Weaknesses**

The first to be noted is that, despite Haier's dominant role in domestic market, it comparatively lacks core competitiveness in international market, especially the high-end market. Still focusing on traditional electrical products, it lags behind in capital, technology and management when compared with multinational companies such as Whirlpool Corporation. Moreover, Haier is struggling with its unsuccessful external information constructions. There is a great difficulty for Haier to exchange the electronic information and data effectively with its suppliers and distributors thus leaving the purchasing and distribution costs relatively high. The unsynchronized external information environment should be the main factor to blame for the dilemma. Another failing of Haier is its relative neglect of the importance of an effective global marketing and advertising promotion. Generally, the selling points to be promoted change continuously and therefore there is a lack of distinctive and attractive advertising appeals to the target global consumers for each of its product range.

### **5.2 External Analysis**

#### **5.2.1 External Opportunities**

With the dramatic increase in average Chinese's living standards and favorable government policies to improve rural people's lives, rural China where a growing number of people longing for more advanced home appliances implies great domestic opportunities for Haier's further development. There is also a huge market potential for “green” electrical appliance which is more environment-friendly and energy-efficient. The explosive growth in household appliances in China is leading to a rapid increase in carbon dioxide output, which seriously contaminated the air. It is urgent and profitable for China, now being the world's largest energy consumer (reported by IEA) and the world's largest refrigerator manufacturer, to exploit the “green” market. Moreover, Governments and organizations all around the world are beginning to advocate and support this trend. For instance, recently US launched a \$40 million project which introduced innovative market incentives designed to encourage Chinese refrigerator manufacturers to promote green refrigerators and to advocate customers to purchase them. Considering the market and social environment, it is wise for Haier to develop more green products to maintain a sustainable development.

Moreover, with the advancement of the economic globalization, there is a growing interdependence between businesses all around the world. An increasing number of foreign appliance companies enter China which is the world's largest and fastest-growing market, and it is also possible for Chinese companies to step into new foreign markets and have business partners worldwide. Therefore, this economic trend provides Haier with more opportunities for mergers or joint-development with other business partners to strengthen itself.

It also inspires Haier to conduct innovative reform and strategic transformation to adapt itself to the changing market.

### **5.2.1 External Threats**

The noticeable threat that Haier faces now is the fierce competition in the domestic and international market. According to statistics, Haier ranked as the third most favored refrigerator brand by Chinese consumers, lagging behind two toughest competitors – Gree and Midea. And the global market competition is even more cut-throat with such strong multinational corporations as Electrolux, and Whirlpool Corporation. After acquiring the Maytag, Whirlpool Corporation became the largest home appliance maker in the world and it has a prestigious global brand name and unmatched level of customer loyalty. Electrolux, which is another international rival for Haier, is highly-competitive in hi-tech products that first launched talking washing machine and Robot Vacuum Cleaner in the world market.

Price war also poses great threat to Haier. With the numerous new entrants into the home appliance market and the excessive supply over demand, many companies lower their price for sales turnover, which further threatens Haier's leading position. For example, during the 2010 national holiday, Gome and Suning Appliance launched large-scale sales promotions such as giving out rebate coupons and premiums and providing limited special offer such as 50 ¥ television to attract customers.

## **5.3 Development Strategies**

### **5.3.1 SO Strategy-“Green” Strategy and Rural Strategy**

After the exhaustive internal and external analyses, this part concentrates on how Haier can develop proper strategies accordingly. It is thought that SO strategy is to make the best use of the internal strengths while grasping the external opportunities so as to obtain leverage. As far as Haier is concerned, it can take advantage of its strength innovation to fully exploit the newly-developed “green” market of electrical appliance. In other words, it can establish itself as an energy-efficient and environment-oriented “green” brand image. As what has been mentioned above, Haier is both creative in new management ideas and innovative in production practice which makes it stands out and gives competitive edge to its business. And concerning its external environment, the “green” products with less energy consumption and less waste emission have found growing popularity and acceptance among both consumers and organizations. So it is sensible for Haier to advance its technology and design creative products that are both environmentally friendly and attractive to its consumers.

Actually, Haier has already devoted great efforts to this area and gained some achievements such as winning the 2010 Energy-saving China Contribution Prize. And recently, it is going to launch a new product of water heater that can recycle waste heat which was displayed in its new product release conference in November, 2010 and received high praise from potential customers. It is expected that Haier will produce more “green” home appliances such as CFC-free refrigerator, hybrid solar oven, and integrated environment-protecting gas-cooker. Therefore, Haier could predictably enjoy the prosperity of this promising market if it could continue making technological innovation in developing new “green” products.

Apart from the “green” strategy, Haier still has another greet choice, i.e., rural strategy, which means to occupy the market of countryside based on its existing strength of celebrated brand name and high reputation in China. Rural China has 2,812 counties, 35,000 towns and 640,000 villages, which implies huge domestic opportunities for Haier's development. Considering this, Haier has already taken measures to penetrate into the alluring rural market. It is reported that Haier has the biggest market share in China's “Home Appliances for Rural Families” program introduced in 2009, because it has built up a huge network in rural China. This is a great start which laid a solid foundation for its further exploration and development. And it is suggested that before it make bigger investment on the rural area, it should carry out a more comprehensive research of rural market in order to fit in with its distinctive features. For example in the countryside, electricity is expensive and the village head has a big impact on the rest of the villagers. Therefore, the home appliance with low consumption of electricity will enjoy more popularity and the villagers may share the same product preferences with the village head.

### **5.3.2 ST Strategy- High Pricing Strategy and “Glocal” Strategy**

Concerning ST strategy, Haier can fully display its internal strengths to cope with threats from the external environment such as the competition and price war. Seen from the above discussion, we know that Haier enjoys superiority over its competitors in many aspects. Its prestigious brand name and reputation help it distinguishes itself among numerous appliance companies. And its diverse product range also contributes to the widening of its business scope.

Therefore, in face of the keen competition, Haier has implemented the high pricing strategy by continuing to improve the product quality as well as customer service and to diversify its product range while not lowering the price despite the pressures put on by other competitors. With the firm belief that customer satisfaction and reputation are more important than sales volume, Haier's high quality & high pricing strategy can strength its customer loyalty and attract more potential customers without a loss in profits, which in turn will help it has final say in the current ferocious price war.

In addition to the above high pricing strategy, Haier can also carry out the "glocal" strategy to undermine the threats from international competitors. "Glocal" strategy means "the company should 'think globally but act locally', i.e., it seeks a balance between standardization and adaptation during the global marketing and managing process" (Kotler and Armstrong, 2007:604). As what has been noted above, one of its strength lies in its products' global availability and company's multinational presence. However, Haier are still not very successful in competing with some giant native brands in certain target foreign markets. Taking all these into consideration, it should further carry out the strategy of "glocalization" which requires that the corporate level still gives global strategic direction while local units focus on the individual consumer differences across global markets.

To put it more specific, it should adapt their prices, products, and promotions to meet the unique needs of each area's targeted customers considering their spending power, product references and shopping patterns. For example, it is wise for Haier to hire local managers in each European market to improve overall flexibility and efficiency. Haier is strongly convinced that the essence of globalization is localization and it tries to establish a "Three-in-One" operational framework: localization of design, manufacture, and marketing. In fact, some programs, like the PC Ordering Department in Macedonia, demonstrate its ability to internationalize its business culture and adapt to conditions in a global marketplace. It is foreseeable that utilizing the "glocal" strategy, Haier can further use local financing and employees to become a part of the local community while creating a global brand.

### **5.3.3 WO Strategy- Joint strategy and Transformation strategy**

With regard to WO strategy, Haier tries to reduce the negative influence of internal weaknesses by adding some external resources so as to make good use of external opportunities. Concerning the favorable economic trend brought about by the globalization, Haier should consider some mergers or joint-developments with other competent foreign or domestic companies in hopes of overcoming its internal weaknesses in capital, technology and management. Hopefully, it can form strategic alliance with some multinational corporations that are more competitive and experienced in international hi-end market such as Whirlpool Corporation and Matsushita Electric so that it can minimize its shortcomings in hi-tech products and enhance its overall strength. Actually, Haier has formed a strategic partnership with US-based NComputing in 2009 which enables Haier Computing to expand in the US market for the first time and will also increase the company's presence in more than 30 countries. We can see from the example that the establishment of successful partnerships can help increase its efficiency and strength its market power.

Another WO strategy is transformation regarding its internal weakness in international market and global marketing. Since 2009, Haier has already undergone a transformation in two aspects. The first one is to transfer its main market focus from domestic to the international market which doesn't mean to abandon domestic market but to boost it through the successful expansion of global markets. This requires Haier to integrate global resources and tap the international marketplace of ideas, innovations, and human resources to satisfy customers' needs all over the world. The second one is to transform itself from a manufacturer to a service provider which means putting more emphasis on marketing, logistics, and responding faster to the market needs by offering personalized services to customers. This transformation strategy is a great adventure as well as an innovation; however, it should progress step by step cautiously and make adjustment accordingly to guarantee the success of this move.

### **5.3.4 WT Strategy-Informatization Strategy**

In respect of WT Strategy, Haier should strive hard to reduce the negative effects of both internal weaknesses and external threats. One of the strategies to avoid bogging down in the dilemma is the internal and external informatization aiming at facilitating its internal operations as well as external cooperation with its suppliers and distributors to better serve its customers and exceed its competitors. Wisely, Haier has already realized the necessity of this move and is on its way of informatization. Specifically speaking, on the one hand, it endeavors to improve its hard information construction by the investment in information technology infrastructure, continuously updating its software application and recruiting IT elites.

On the other hand, it also attempts to ameliorate its soft information construction through restructuring organizational frameworks, processes, and personnel as well as making innovations in management and decision-making mechanism. As a result, Haier have made some progress such as the exploration of Management Information System including E-Commerce and logistics systems that improve business operations between its suppliers, customers, and business partners. And it also created the "Just-in-time model with zero-inventory" based on the combination of virtual and actual network to meet the dynamic needs of the user (Fu Ruicheng and Bi Kexin, 2009). Hopefully, if Haier continues this informatization process, it can use information technology as a strategic weapon to create collaborative advantage by optimizing its business with zero distance between itself and suppliers, distributors and customers. That's to say, ideally, Haier's design centers, manufacturing bases, and trading companies in different areas will come together to share global resources through a single information platform. And all these will jointly help Haier defend the potential threats and survive in the heated competition smoothly and successfully.

## 6. Conclusion

To sum up, this paper first has a systematic and comprehensive SWOT analysis of Haier and then introduces accordingly its development strategies as well as the author's suggestions based on the previous analysis and Haier's actual development process. It therefore demonstrates that SWOT analysis model do assist business in making appropriate strategies by deeply examine both its internal and external factors. Only after a scientific investigation of a business's current position can people makes effective decisions and strategic corporate planning. More importantly, this paper puts forward an applicable and understandable SWOT development strategy model of Haier which combines the previous SWOT model with the corresponding strategies.

It hopefully can shed a new light on the understanding and application of the SWOT analysis and set an example for other business that helps them to better utilize this model and make more effective strategies in the future. However, the materials concerning Haier are not first-hand, and this paper studies from a macro perspective aiming at showing an overall direction of development instead of focusing on one specific area such as marketing or competitor evaluation. Consequently, it is suggested that future researchers conduct micro and more in-depth analyses with first-hand data so as to guide the business practice and serve the specific needs in other fields.

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