



TAKING THE HAIER ROAD TO GROWTH

THE CHINESE APPLIANCE MAKER CONTINUALLY REINVENTS ITSELF AND EXPANDS

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Start with 30 million responses on social media platforms to the question: “What do you want in air conditioning?” Then pay attention to the more than 670,000 people who take part in the online conversation that follows. You’re bound to come up with something cool — or, in this case, “cool, not cold”.

This concept, drawn from the online responses, became the tagline for the Tianzun (“Heaven”), the household heater/air conditioner/air purifier, released in 2014 by China’s Haier, a leading global consumer manufacturing company.

By building a product based on an in-depth and multilayered approach to consumer insight, Haier was following its core principle — “customer service leadership,” giving customers what they want most (but may not have yet realized they can ask for). Even the decision to use “cool, not cold” in its Chinese advertising campaign reflected this principle; these were the customers’ words, not something dreamed up by a marketing professional.

Haier is the world’s fastest-growing provider of appliances with annual turnover of over \$30 billion. It has accomplished this by staying true to its core identity as a company dedicated to solving problems for consumers, while continually reinventing itself.

The company is known for several distinct capabilities: a precise understanding of consumer needs, especially in China and other emerging markets, and the ability to rapidly meet them; the management of complicated distribution networks, a skill honed in the complex Chinese market; and a high level of execution ability, including the automation of factories to deliver products to consumer specification.

Customer service leadership

Much of the credit for Haier’s success goes to Zhang Ruimin, CEO since 1984. His focus on consumer-responsive innovation, which the company calls “customer service leadership”, has given Haier consistency throughout some dramatic changes. Customer service leadership means rapidly tailoring products and, increasingly, services for local markets and specific customer needs.

In the earliest years, customer service leadership meant offering quality and reliability. Later, it involved increasingly sophisticated forms of customization and new types of services. The principle has given employees a compass with which to make decisions, even in the face of disruptive market challenges such as new technologies or new competitors. Zhang sees changes as a way of life, not soon-to-be-completed episodes. “If you don’t overcome yourself, you will be overcome by others,” he says.

From early on Zhang linked pay to performance in a manner previously unseen in the Chinese market, through a system called “Overall Every Control and Clear” (OEC). Every day, workers tracked quality results and their wages were tied directly to the outcomes.

Haier has reinvented itself at least four times since 1984. It became a niche innovator, developing, among other novelties, a vegetable washing machine for Chinese potato growers and a small, low-energy washing machine called the “Little Prodigy” that could easily fit into small, crowded Chinese urban apartments.

Some reinventions were more organizational. Zhang built on the company’s hard-won workforce discipline, and the accompanying performance–pay relationship, to link employees directly to customers. To break down the “invisible walls,” as he called them, between functions, Zhang assigned teams made up of members of different functional departments to specific projects. This was also the phase in which Zhang began building Haier into a global company. It launched mini-refrigerators in the United States for school dormitories. Wine refrigerators came next.

Closer still to customers

The third reinvention required employees to feel closer to their customers. Haier inverted its organizational structure into one based on self-organizing work units called ZZJYTs (an abbreviation for *zi zhu jing ying ti*, which translates to *independent operating unit*). Marketing, design, and manufacturing had to work directly for customers.

Each ZZJYT comprised 10 to 20 people — sometimes located in one place, other times virtual — who came from various functional roles and were brought together for a specific mission. To Zhang and others at Haier, this design represented an explicit effort to avoid being disrupted by technological change. To provide talent for the ZZJYTs, Haier created an internal labor market so that the right number of employees with the right skills could gravitate to the right organizational positions at the right time.

The latest transformation, which is ongoing, is its reinvention as a truly Internet-based company, open to the world. This is known at Haier as the “networking strategy”. It involves opening up the company to intensive collaboration, not just with customers, but also with innovators around the world — including with competitors.

The result is a new level of proficiency that goes beyond anything Haier has done before. For example, the company now uses Internet access to customize every product it sells in China, whether bought in a store or online. The process is not unlike choosing the accessories on a new car, except that there tend to be more options.

Zhang believes that Haier isn’t unique. Every major organization has to learn to maintain its identity, the quality of its products and service, and its customer relationships, while being prepared to give up everything else. The goal of a large company is, he says, to “lose control step by step”.

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