Zhang Ruimin

Chinese Refrigerator Maker Finds U.S. Chilly
By MEI FONG
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Camden, S.C.

While Western companies cast a covetous eye at China's huge consumer population, Zhang Ruimin, the chief executive of one of China's largest appliance makers, was ogling the U.S. His plan: Build a signature, $2,000 refrigerator in America to capture a bigger slice of the lucrative U.S. market.

Mr. Zhang's strategy brought Haier Group closer to its potential customers and avoided the cost of shipping bulky appliances from China. But since it was introduced last year, the new high-end refrigerator has been given a cool reception.

Tom Torgerson, senior buyer at ABC Appliances, says his chain of more than 40 Midwestern stores sold only about 50 of the Haier convertible fridges in the first few months of the product's launch last year. "Haier's name recognition is small," he says.

One of China's biggest consumer brands, Haier makes more than twice the number of refrigerators in a year made by **Whirlpool** Corp. Even though it is the leading seller of compact fridges used in dorm rooms, it is still a mere pipsqueak in the $40 billion U.S. market, where it has been selling mostly lower-cost appliances for years.

Growth overseas is crucial for Haier because profit margins from the company's core products in China -- refrigerators and washing machines -- are razor-thin thanks to increasing foreign competition. That pressure has increased since 2004, when Haier made an unsuccessful attempt to buy Maytag Corp., losing out to Whirlpool.

But Haier's U.S. ambitions have run up against hurdles. The new refrigerator, which allows consumers to set specific temperatures for individual compartments, was designed and built at Haier's South Carolina factory, at 10 times what it would cost the company to make in China.

The downturn in the U.S. economy crimped consumer demand just as the company's most-expensive U.S.-made products came on the market.

At the same time, Haier's rigid, top-down management structure fell flat with American workers accustomed to a less-authoritarian style.

"Haier is at a crossroads" as it attempts to build a dynamic company out of a bureaucratic, formerly state-owned enterprise, said Teng Bingsheng, a professor at the Beijing-based Cheung Kong Graduate School of Business.

Despite the country's growing economic power, and strong endorsements by China's government in the form of tax subsidies, cheap land and advice, many of China's leading companies have struggled on the international stage. Few Chinese companies are global household names. None were on a list of the top 100 global brands compiled in 2007 by Interbrand, a consulting firm.

Mei Fong/WSJ

Haier turns out pricey refrigerators at its Camden, S.C., factory.

A number of Chinese companies have stumbled after making high-profile forays into the international marketplace. A unit of electronics giant TCL Corp. took over the television operations of France's Thomson SA in 2005, acquiring a license to use the RCA brand. But the venture struggled, losing hundreds of millions of dollars. **Lenovo Group** Ltd., perhaps the most internationally established Chinese brand, only recently has started making money outside China after buying the personal-computer division of **International Business Machines** Corp. in 2005.

For Haier, which had $15 billion in revenue world-wide last year, a delay in getting its new refrigerator to market meant that it arrived just as the U.S. economy was turning south. A series of recalls for China-made products last year, which have heightened quality concerns about Chinese manufacturing, compounded the company's challenges. And the new fridge's design simply hasn't set it apart from models by better-known competitors, appliance buyers say.

Investors are worried. "It's disappointing," says Ulrich Baumann, a fund manager at Austria-based Volksbank Invest Kapitalanlagegesellschaft mbH, the fund-management arm of Oesterreichische Volksbanken AG, which was the biggest institutional investor in Haier Electronics, a Hong Kong-listed unit of Haier Group, until late last year, when it sold its entire stake. "They say they have strong plans, but so far, we don't see it," he says.

Based in the northeastern coastal town of Qingdao, Haier calls itself an employee collective, which is a de facto state-owned enterprise. Much of its inner workings are opaque, with only about 30% of the company's assets listed in Hong Kong and Shanghai.

Mr. Zhang, one of China's best-known businessmen, has led Haier for more than two decades. He developed a management system of strict discipline, with a strong emphasis on quality control. Workers in China who make mistakes must stand on a set of footprints outlined on the floor and publicly criticize themselves out loud, explaining why they erred and the lessons learned.

Managers are required to wear company-issue blue silk ties. Factory workers sport colored caps signaling their seniority, gray for higher ranks, yellow for lower ranks. And in a nation of people famous for line-jumping, Haier's employees are taught to march in straight lines as part of their job-training.

By 1999, Haier had become a colossus in China, probably the single best-known appliance brand in the country. It had a reputation for good quality, and surveys of recent college graduates consistently ranked Haier as one of China's most desirable employers. But profit margins were falling, prompting Mr. Zhang to search for growth abroad.

Haier built or acquired more than 30 factories stretching from Italy to India. These plants were set up to produce goods targeted at local tastes -- for instance, its factory in Pakistan targets the Middle East market with a washing machine designed to handle 33 disdashas -- billowy Arab garments -- per load.

Known for sage-like sayings and for idiosyncrasies such as the flying-saucer-shaped tower he had built at one of his plants, Mr. Zhang insisted that Haier press on with its global expansion. "First the hard, then smooth. That's the way to win," he says.

Haier started business in the U.S. more than a decade ago, targeting small products that can be cheaply shipped from China. Haier, for example, is the top seller of compact refrigerators in the U.S.

But Mr. Zhang wanted to get Haier products into major retailers such as **Sears Holdings** Corp. and **Lowe's** Cos., where the Haier brand still has no major presence. To do that, Haier needed to produce higher-end products -- typically larger-size appliances that couldn't be as easily brought in from China.

Haier built a large plant in tiny Camden, a town once full of textile mills that had been shuttered because of low-cost competition from China and elsewhere.

But Haier's hierarchical culture has been a tough fit with U.S. workers. They rebelled against being forced to stand in the footprints when they made mistakes. Haier's Chinese management has tried to adjust to American tastes. Instead of humiliating bad workers, they now encourage the best ones to stand in the footprints for recognition.

Haier does have some competitive advantages. With its large scale, making eight million units a year world-wide, it can negotiate cheaper prices for parts. Ed Wuesthoff, the Camden plant manager, estimates the company gets volume discounts of 3% to 5% on steel and plastic orders. According to company executives, overseas sales, including exports, have risen to one-fourth of total revenue, compared with about 10% five years ago.

But Haier's U.S. factory is still running at a loss. Having higher-cost overseas operations to manage has weighed on profit growth. According to unaudited figures from China's Ministry of Information, Haier's 2006 gross profit was $20.3 million, a 32% drop compared with four years ago.

Haier's head of its U.S. division, Michael Jemal, acknowledged that the economic downturn has hurt business, but said in an email that U.S. sales have increased year-to-year in all areas. Mr. Jemal also said the company soon plans to launch a cheaper model of the convertible fridge.

Mr. Torgerson, ABC Appliances' chief buyer, likes Haier's quality and pricing. Haier's washing machine without an agitator -- which makes for larger loads and gentler washing -- is 40% cheaper than a similar Whirlpool model. But with the slump in the U.S. housing market, Haier's "timing is tough," says Mr. Torgerson.

Undeterred, Mr. Zhang says he wants to add 10 more overseas plants by 2010. Those who don't become global players "won't survive," he says.

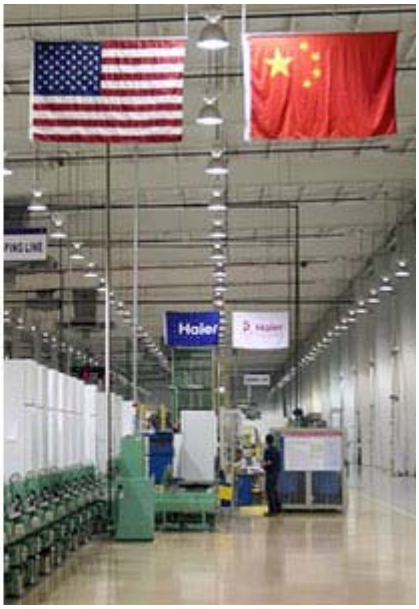
--Zhou Yang contributed to this article.

Haier's name recognition outside China is small, but that may soon change with the 2008 Beijing Olympics. Like many Chinese companies, Haier hopes to use its Olympic sponsorship to imprint its name onto the global consciousness -- much as South Korea's Samsung did during the 1988 Seoul Games.

A banner in Haier's plant in Qingdao, left, touts the company's Olympic slogan: "Haier and higher."


As Chinese manufacturers increasingly push to establish their brands on a global stage, Zhang Ruimin, head of Haier Group, the world's third-largest appliance maker, is going even further.

Mr. Zhang is betting more than $50 million that his company will be the first Chinese brand to break into the U.S. mainstream with a product -- a $2,000 fridge he is making in America.



In China, Mr. Zhang rewards good workers with stuffed animals -- bears for good workers, pigs for poor performers. But "American workers want money, not bears," said Michael Jemal, Haier USA's chief executive.

Both in China and the U.S., Haier's factories are covered with slogans, but Haier's American workers make $12 an hour, ten times what their Chinese counterparts are paid.

Mr. Zhang is adamant that he's steering the right course. "In the globalization area, there are only two categories of companies. One is the international company. The other is the kind of company that's taken over by them. There's no third category," he said.