Haier: Using a franchise model to build a quality brand in remote, low-income markets

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Case Study
One way in which companies position themselves to grow with the future middle class is by building brand equity among today’s low-income consumers. But doing so isn’t easy, particularly in remote areas. Relinquish too much control to local distributors and the brand’s reputation can be ruined. Assume too much control and the expense of managing day-to-day brand operations can become unsustainable. By adopting a franchise model, Haier has mastered the balancing act between brand ownership and cost control, and has built one of the most respected and differentiated brands in rural China.

Impact of the inclusive business initiative

The market for home appliances in urban China is reaching a saturation point. Early 2011 found half a dozen brands competing on thin margins in China’s biggest (tier 1) cities, and even then, there was almost no sales growth. But Haier is well positioned to maintain a leadership position in China. Anticipating just such a scenario, the company started building its brand among low-income populations in rural areas back in the mid-1990s, cultivating demand there, and also preparing for continued growth as incomes increase.

The centerpiece of Haier’s rural strategy is a franchise initiative called Goodaymart. Unlike the company’s competition, which has relied on third-party dealer networks to market their products in rural areas, Haier has worked with grass-roots franchisees to build self-branded stores. The Goodaymart franchise initiative has had a direct impact on the incomes and livelihoods of franchisees; with Haier’s support, most of them have developed profitable, high-quality, after-sales service networks. And today, Haier’s rural market share in the home appliance segment is over 30 percent and in certain products, including washing machines, air conditioners and refrigerators, the company’s market share tops 40 percent.

The initiative has also helped Haier remain at the forefront of the household modernization trend in rural China—a movement that is narrowing the lifestyle disparities between rural and urban dwellers. Today, many rural areas, especially in the southeastern coastal region, boast a living standard similar to that in urban China.

Barriers to scale

Skills deficits among local franchisees: While developing its network of franchisees in rural low-income areas, Haier found varying levels of personal capability and educational background among prospective owners. As a result, standardizing the customer experience across its 6,000 rural stores has been an immense challenge.

Infrastructure deficits: Haier’s success in China has been built on its reputation for providing quality after-sales services. Haier did this particularly well in the urban market. However, the company was unable to replicate its urban model in rural areas.

Poor infrastructure in rural areas restrains Haier’s after-sales technicians’ ability to reach rural customers. Accordingly, Haier has had to rely on its extensive network of franchise owners to provide those services, investing heavily to train the staff in franchise stores in order to ensure consistent service quality across urban and rural operations.

Strategies for success

Using a franchise model to build brand equity in rural markets: Haier’s competitors have typically relied on third-party distributors and multi-brand retailers, such as Gome Electrical Appliances and Suning Appliances, to manage their rural retail operations. But Haier took a different approach, deciding to make branded franchise stores the focal point of its rural-market entry strategy.

Despite heavy initial costs, establishing an extensive network of grass-root stores devoted to the Haier brand has been effective. The Goodaymart franchise model has helped Haier gain brand recognition rapidly among rural consumers. Equally important, by engaging local franchisees directly, Haier has been able to sidestep middlemen and achieve superior margins. Haier’s Goodaymart initiative is in fact one of the company’s most successful ventures. The Goodaymart venture now boasts more than 6,000 stores and often delivers higher profit margins than Haier’s traditional units.

Customizing products based on grass-roots market intelligence: Most franchisees already had longstanding social relationships with local customers, or were residents of the rural communities in which they worked, when they began with Haier.
Recognizing the value in that knowledge, Haier designed a program to make it easy for local franchisees to communicate with the company. This system of gaining bottom-up market intelligence has proved extremely effective in guiding Haier’s innovation for China’s rural markets. For instance, Haier modified the refrigerators it markets in rural areas by equipping them with anti-rat boards at the back to prevent rats from entering the appliances; the company has also developed washing machines that are able to operate at zero water pressure levels to accommodate the erratic water supply faced by rural consumers.

Recruiting local entrepreneurs with proven track records: Haier recruited local entrepreneurs, who were already running small-scale retail operations, to run its franchise network. These mom-and-pop store owners had extensive social networks in place, which helped them swiftly build the Haier brand in rural markets. Moreover, the entrepreneurial spirit that Haier looked for when recruiting new franchisees proved critical in creating a “can do” culture.

Changing organizational structure to partner more effectively with government: In response to the demands of a new government subsidy program, Haier has modified its organizational structure by establishing a separate team whose sole responsibility is to oversee and manage government partnerships. The team has played a key role in ensuring that Haier complies with the regulations of the subsidy program and has even helped to identify opportunities to cut production costs and reduce Haier’s quotes in the bidding process. Ultimately, this has helped Haier become one the most effective participants in government subsidy schemes for rural China. Currently, Haier accounts for 30 percent of white goods and appliance sales to rural consumers through the government subsidy scheme.

"We have found opportunities within rural China and we are not just introducing the products there, but rather developing the products according to the requirements of our customers. In this way, they benefit, and also we benefit."

–Yang Mianmian, president of Haier
Haier is China’s largest consumer electronics and home appliances manufacturer. The company is headquartered in the coastal province of Shandong. In 2011, Haier ranked first in the world among all major home appliance brands with a 7.8 percent share of total retail volume. Employing more than 80,000 people worldwide, Haier realized revenues of RMB151 billion (US$24 billion) in 2011.

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