

The Overseas Development of Chinese Electronics Companies: A case study of Haier and TCL

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Recently, the electric appliance industry of China has made remarkable progress. Since the reform of trade system in China in the late 1970s, the demands for electrical appliances have rapidly increased. Correspondingly, production has also increased. Today, this industry is the most competitive and rigorous of all Chinese industries. Since 1978, because of the emerging industry, the relationship between China and other countries has deepened through the reforms in the trade system. Furthermore, exports has increased since the beginning of the 1990s. Lately, foreign direct investments in Chinese companies have been in the spotlight around the world. Through this international collaboration many ideas, perspectives, and recommendations have emerged. As a result more and more Chinese companies are improving their skill levels and are getting more competitive in the global market. Especially in the electrical appliance area, competition has become stronger due to technical cooperation and skill sharing between foreign companies and companies in Japan.

The investment of Chinese companies has abroad enabled them to other country's markets, which served as one of the important pillars of the reform of the trade system with the introduction of foreign capital. To support this strategy, all the government departments took new steps in many fields, such as the tax system, foreign exchange, insurance and information. In such situations, many Chinese companies started to explore foreign markets in advance.

In this paper, I consider the current situation and the issues encountered by Haier and TCL, two typical Chinese household appliance manufacturers when

they began their advance into foreign markets. The purpose is to understand the strategic features of the Chinese company's advance into foreign markets by comparing the two companies.

In the first chapter, I presenting research about the overseas development of Haier, the largest household appliance manufactures in China. First, I review the current state of Haier. Then, I consider the overseas development of Haier, including America, which was the first market in a developed country, followed by developing countries such as India and Thailand. Last, I review the current situation and the problems associated with the Japanese market, the most difficult market for Haier.

The second chapter present the research about the overseas development of TCL, the largest TV manufacturer in China. First, I review the current state of TCL. Then, I consider the overseas development of TCL, including Vietnam, India, and other countries. I also consider developed countries such as French, German, and Japan. Also I analyze the current situation and problems concerning each country of TCL's expansion.

Finally, I compare the overseas expansion of Haier and TCL.

Chapter one: The overseas development of Haier

Haier is the largest comprehensive consumer electronics manufacturer in China with a high brand power in Chinese companies. In the domestic market, Haier advanced the national expansion by acquisition of Chinese companies and diversification of products. Haier was successful with extensive sales networks, excellent product quality and excellent after-sales service. The domestic market was saturated as a result. Haier began the internationalization strategy at the end of the 1990s as a new source of growth in overseas markets. Haier's overseas expansion strategy was first to develop in a difficult country such as America, and then develop in an easier country, such as India. It built a successful case in the

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niche market in developed countries, and then heightened the brand value.

1-1 Haier's development overview

Haier was founded in 1984. It headquartered in Qingdao city of China. Currently, it is the largest consumer electronics manufacturer in China. Haier introduced the production technology and equipment from the Liebherr-Haushaltsgerate company of Germany and started production and sales of refrigerators. At first, Haier only produced refrigerators, but now it produces a total of a total of 13,000 items and 86 types' products, including refrigerators, air conditioners, washing machines, videos, TVs, audio equipment, mobile phones, personal computers, and robots, Haier developed a unique strict quality management system. Since the mid-1990s, Haier enhanced after-sales service networks and sales networks, and established an image through aggressive advertisement. In addition, in order to expand its scale, Haier aggressively acquired domestic companies and grew rapidly, becoming the largest Chinese household electrical appliance enterprise.

Haier increased production efficiency and reduced cost because of its large factories, furthermore, it conducted a thorough quality control. It also created a depth service network of about 30,000 stores and about 20,000 locations of after-sales service centers throughout China. Through expedited customer correspondence, such as efficient repairmen and delivery. The domestic market share in 2009 resulted in a 34% of washing machine sales, a 27% of refrigerator sales and a 14% of air conditioner sales. The production numbers of both washing machines and refrigerators placed first in the world share, and the consumer air conditioners also placed third.¹⁾

1) Nihon Keizai Shinbon, morning edition, 29th, December, 2009

1-2 overseas expansion of Haier

Haier's relationships with foreign companies focused on technology introduction until the mid-1990s. The first overseas business operation of Haier was the production of refrigerators in Indonesia in 1996. After that, focusing on joint ventures and the original equipment manufacturer (OEM), it expanded its overseas production. In October 2000, in the background Chinese government advocated the policies of expanding to other country's markets. Therefore Haier became a worldwide brand company and actively entered into the overseas market.

For the overseas expansion strategy, Haier has taken three 'the first of three' marketing strategies from the early 1990s. The first one is domestic production and domestic sales, the second is domestic production and overseas sales, and the third is local production and sales overseas. Currently, productions of Haier occupy 30% of the domestic market and exports also occupy the first of three. By 2014, the overseas sales plan to occupy 70% of the gross sales. However, the domestic priority is the cheap labor force, but recently the cost of export have begun to increase. Furthermore, after joining the WTO, overseas production and overseas sales became more necessary in order to escape the non-tariff barriers.²⁾

Overseas expansion of Haier began exporting productions to the target market. And started to invest and produce locally. The case of investment, in most countries and regions, has taken the way of joint venture and cooperation. It is a fully-owned America factory and Italian market, but the sales company is a joint venture company.

The designs of Haier's products are almost by merger and cooperation methods. From the late 1990s, Haier tried to seek a company of consumer electronics products that could collaborate in many parts of the world, and then obtained the

2) Yong Hu, ShaoWei Chen (2008) [Zhang RuiMin manage log] p.159

share of the company, and established a design center that could share benefit in joint system. Currently, there are nearly 20 companies of this kind of design

Table 1-1: Overseas investment situation of Haier

Period	Investment destination	Business	Form of investment
August 1996	Indonesia	Production and sales of refrigerators	Joint-stock
June 1997	Philippines	Production and sales of refrigerators	Joint-stock
August 1997	Malaysia	Production and sales of washing machine	Joint-stock
November 1997	Yugoslavia	Production and sales of air conditioning	Joint-stock
April 1999	America	Consumer electronics sales	Joint-stock
April 1999	America	Production of refrigerators	Wholly-owned
September 1999	Iran	Production and sales of washing machine	Joint-stock
1999	Tunisia	Production and sales of consumer electronics	Joint-stock
2000	Vietnam	Production and sales of refrigerators	Joint-stock
2000	Bangladesh	Production and sales of consumer electronics	Joint-stock
November 2000	Ukraine	Production and sales of air conditioning	Joint-stock
January 2001	Italy	Consumer electronics sales	Joint-stock
March 2001	Pakistan	Production and sales of washing machine	Joint-stock
May 2001	Nigeria	Production and sales of refrigerators	Joint-stock
June 2001	Italy	Production	Wholly-owned
2003	Jordan	Production and sales of washing machine	Joint-stock
2004	India	Production and sales of air conditioning	Wholly-owned
2007	India	Production and sales of refrigerators	
April 2007	Thailand	Production and sales of refrigerators	

Source: Compiled from Haier important chronicle, Takahashi Goro, p.141

center in the world, widely distributed in America, England, France, and Japan, etc.³⁾

The internationalization strategy of Haier is trinity strategic, including planning, production, and sale. When a particular product is put into the market for the first time, it is marketed singularly any other products accompanied it, when the product receives positive feedback from the market, the company will launch new products. During its entry overseas, Haier always analyzes the consumption demand of the countries or regions and introduces the products that will fit those countries or regions. There is also another strategy's that is the company does not put into the market the same products. Instead, the company will sell a different product for a different country or region. For example, in the U. S. market, refrigerators were firstly entered, but in Europe, it was from the air conditioner. In Southeast Asia, the consumption level is still low, Haier started from the washing machine. By doing so, it is possible to reduce the loss to a minimum, even it failed.⁴⁾

1) American market

In the U. S. market, Haier entered a niche market as a strategic target. It firstly exported special refrigerators to student dormitories in 1995. In the case of American market, because Haier has taken the strategy to focus on its own brand from the beginning, the case of exporting the product of the partner of corporate OEM was little. However, due to the high export cost of transporting the products from China, Haier established a factory in Green, South Carolina in 1999. The reason why Haier chooses South Carolina is that because the state government actively attracted foreign investment by offering some policies, such as three years' Corporation income tax exemption, bearing the costs of business

3) GoRo, Takahashi (2008) [China economy to overseas expansion] pp.142-143

4) Ibid. Yong Hu, ShaoWei Chen p.200

education and training. Currently, the special refrigerators and full-sized refrigerators are produced in South Carolina; compact refrigerators are still exported from China. Furthermore, Haier established its American headquarters in New York by purchasing an office building in March 2002.⁵⁾

In the America market, Haier is taking niche market and low-price strategy depending on the local and market segmentation strategies. The promotional strategy is not done by directly promoting sales to consumer, but by approaching distributors aggressively.

In regard to Haier's localization strategy, the company applies three strategies: localization product development, localization production, and localization sales. In the U. S. market, before building the factory the sales was only \$ 3,000, but three years later it reached \$250 million. All the 300 employees of the factory were Americans who are hired locally. About 10,000 refrigerators are produced and sold in the United States every month.⁶⁾ For this localization strategy, Haier has made great achievements in the United States market: such as catching the situation quickly of the local situation, like what kind of product is being demanded; understanding the psychology of the local consumer, making a response to the local market quickly. Also, hiring local administrators who already are experienced is one of Haier's international strategies.

To avoid competition with local leading companies, the initial entry of the product was targeting the niche markets. Most of the local companies did not manufacture small refrigerator, and freezer which below 180L. The share was stretched to 20% in 2004, and 26% in 2005. In addition, because the sales performance of small freezers, refrigerators grew, the product areas also expanded gradually. In 2005, Haier won 50% share of Wine cellar, 9% of freezer, and 6%

5) Haier's homepage: http://www.haier.cn/about/worldwide_america.shtml (Haier in America)

6) Ibid. 5

of room air conditioners in the U. S. market. It also started to produce medium and large refrigerator from 2007.⁷⁾

In the U. S. market, Haier set the price as nearly half of other manufacturer's products for the same capacity product and took a low-price strategy.⁸⁾

For the promotional strategy in the U. S. market, because of its low visibility at the beginning, Haier mainly adopted a method of selling to distributors aggressively. It invested 80% of sales promotion expenses to retailers. It was advertised by posters and putting the label of "Haier" in the baggage carts of the major airports in the United States. Haier also put the outdoor advertising across the street from Wal-Mart (retail giant) headquarters in 2000. Thus, after being recognized to some extent distributor, Haier changed the strategy to attract customers aggressively.

Haier carried out massive advertising campaign in advance to match the launch of new products in 2004. In this campaign, Haier succeeded to sell 7,000 air conditioners in 7 hours. In 2006, Haier entered into a sponsorship agreement with the National Basketball Association of America (NBA).⁹⁾

Regarding the sales channel, Haier generally did not build their own sales company, it used the channel of the existing total Commercial Agent of the United States. In the retail stage, it concentrated on the development of mass retailers and the construction of high intensive channels, instead of developing retail stores. Thus, Haier used the existing local retail channels. Also, hiring sales human resources is a thorough localization policy. Haier products are sold through sales network of major retailers, including Wal-Mart, Sears, Home Depot, Best Buy, Costco, and Target. Sales volume by these major retailers

7) Ibid. Goro Takahashi p.168

8) [Nikkei Business] July 21, 2002

9) Haier's homepage: http://www.haier.cn/about/worldwide_america.shtml (Haier in America)

accounted for more than 85% of Haier products.

Haier adopted the localization policy thoroughly in the U. S. market, performed a detailed market research, created a product that matches the current local situation, and won the trust of local consumers. It cannot be said that Haier was already at its peak success in the U. S. market today. However Haier has accumulated a lot of knowledge in the U. S. market and has maintained gradual increase of sales.

2) Emerging markets

After Haier established itself as a production company producing refrigerators in Indonesia in 1996, it began to produce air conditioners, washing machines, microwaves, and water heaters; they exported these products to the Southeast Asia. In 1997, Haier started producing refrigerators, freezers, air conditioners, and washing machines in the Philippines, and produced washing machines in Malaysia. The market scale in these countries was not so large, but the competition with companies in developed countries was low. However, it may be considered that the overseas expansion at that time was still at an experimental stage for Haier.

In April 2001, Haier established the second industrial park in Pakistan and began to produce washing machine in May 2002. After that, Haier established production plants in Indonesia, Malaysia, India, Bangladesh, and Vietnam, and finally achieved production locally. In Thailand, Haier advanced by exporting refrigerators first. In April 2007, Haier acquired the Thailand refrigerator factory of Japan's Sanyo Company. Currently, it has become the second refrigerator manufacturing company in Thailand.

On January 1st, 2010, China and Association of Southeast Asian Nations (ASEAN) Free Trade Zone was built. This construction had a significant impact on the strategy for the ASEAN economies of Haier. Haier's strategy was titled

Trinity mainland of production, development, sales strategy, and localized production. For example, the Thailand plant avoided the tariff by using the zero tariff preferential policies and procuring parts from China.

In addition, because Thai-made consumer electronics have lower tariff barriers to export from Thailand than from China, Haier's products made it into the Thailand factory. To have a production base in Thailand brings a significant advantage because it allows Haier to export their products not only to other ASEAN countries but also other countries worldwide.¹⁰⁾ For example, fan refrigerators are often used in Thailand, but are less used in China. In fact, some people like this type of refrigerator in China. By the construction of the free trade zone, duties on Thailand-made products exported to China is zero, so it is more profitable for Haier to manufacture fan-type refrigerators in Thailand factory and exported them to China than having the factory in China. so that the superiority of the product has supplement with each other, and can realized to share the resources of the market.

In the Indian market, Haier established a joint venture company for sales and production in India in 1999. In 2004, Haier established its local factory in India, and owned 100% of its shares. The first local product for the Indian market was air conditioning. Then Haier collaborated with Virtuous and Whirlpool to manufacture air conditioning for the Indian market. In 2004, the current operation of India has been deployed around this Haier—India. Handling both products which are produced locally and which are exported from China, Haier established a development center in India with a purpose to promote the localization of Haier products in July 2005. Haier's sales in India were over 30 billion rupees in 2005, and 35 billion rupees in 2009. Haier's share in the Indian market is 3.5%. To enhance the consumer electronics production system in India, Haier is running a

10) January 25, 2010 China-ASEAN Commerce (twentieth season)

line to assemble the air conditioning and washing machine factory in the western Maharashtra state in 2010.¹¹⁾ In 2006, Haier took risk by entering the mobile phone market. Although, Nokia has accounted for more than 50% share of the mobile phone market in India. Haier was not discouraged to establish a joint venture mobile phone company with Scope of India.

Currently, Haier has 3,000 sales offices and 14 exhibition rooms in the Indian market. Haier's product is expanded from household equipment (refrigerators, air conditioners, washing machine, dishwasher, and microwave) to electronic telecommunication devices (TV, DVD, and mobile phone).¹²⁾

Because Haier's entry into Indian market is later than the manufacturers from South Korea and Japan, its reputation is still lower. As a consequence Haier promotes its brand in advertising aggressively. Development of system sales companies, the development of local sales channels, promotion of human resources with experience in the local market and enhancement of the after-sales service system are its goals.

3) Japanese market

Overviewing of the Japanese market, in 1998, Haier firstly initiated to export to Japan. Haier was affiliated to OEM brand owned by Japanese companies a. In January 2011, Haier started to use their own brand and export 30,000 air conditionings to some commission consumer electronics distributor in Tokyo. After that, the company started to export its own brand washing machine. In January 2002, Haier established Japan sales Co., Ltd., and founded the Sanyo Haier Co., Ltd. with a partnership with Sanyo Electric in the same year. In addition, Haier established Haier Japan Holding and owned 100% of its share in June. As a

11) Tomofumi Amano, Hiroyuki Oki [Internationalization strategy of Chinese enterprises] pp.129-130

12) http://www.haier.cn/about/worldwide_SouthAsian.shtml Haier in Asia

business management of Haier product sales company and the Japanese market window, Haier took charge of the product research in the consumer electronics market, the market development, advertisement, professional recruitment, planning and development. In March 2007, Haier also founded a new company Haier-soft Japan.¹³⁾

The product which was charged to Japanese market at first was all small-and medium-sized products. Initially, sales of Haier were not satisfying for the local Japanese market because Haier was significantly less popular than the local brands. In response to that, Haier aggressively advertise their products on TV. Another thing worth mentioning, here is that Haier ended its partnership with Sanyo in 2007 because both companies did not receive mutual benefits.¹⁴⁾

Presently, the product sales in Japan of Haier are made through Haier Japan Sales. Sales channels of Haier Japan Sales is through low end electronics stores such as GMS, (Aeon group, Itoyoka Hall, and Seiyu, Arc Land Sakamoto, Cain, Keiyo, Konan, Komeri, Joyful Honda, DCMJapan Holding), and home center (Tostem Viva, and K's Holdings, Kojima, Bic Camera, Best Denki, Yodobashi Camera).¹⁵⁾ Because the company focuses on the small products which are not prioritized by the Japanese manufactures, Haier considers its selling route fortunately rather is appropriate.

Unlike in the U. S. market where Haier applies low price strategy. In Japanese market, Haier does not follow this strategy. The products are only 15% cheaper than the equivalent Japanese brand for the washing machines. Over-the-counter price of refrigerator is set to almost the same as the Japanese brand. Both products are aimed at a niche market in capacity of small type of refrigerator and

13) <http://www.haierjapan.com/> (Haier Japan sales)

14) Tomoo Marugawa, Ryoji Nkakawa (2008) [multi-national corporations from China] p.100

15) <http://www.haierjapan.com/> (Haier Japan sales)

two-chamber washing machine targeting to young people living by themselves.

However, there are several problems in the Japanese market. First, in the production cost, there is not much advantage with the Japanese manufacturers than which was produced in China. It has to change the product design to Japan in the cost of development, and for at a voltage of 220V in China, it has to modify the voltage of 100V, corresponding to 50/60Hz in Japan. Second, it is common to put washing machine in the kitchen in Europe and the United States, but because in Japan washing machine is close to the humid bathroom, they changed the ground wire of the power cord to match the moisture resistance in Japan. Further, for the size of the bottle is different in China and Japan, it must be re-designed the storage. Initially in 2002, Haier exported the same products that they sold in the US, Europe, and China to Japan by adjusting them to the local needs. In 2005, Haier specified the products they sold in Japan by having Japanese specification. It is difficult to demonstrate the economies of scale by mass production to make the products of Japanese specifications. In addition, shipping costs to Japan from China factory, such as rebates to dealers in Japan, distribution costs which bored by Haier is the same as Japanese companies.¹⁶⁾ It is a fact that in the technical capabilities, Haier products are not conspicuous. Haier has its proprietary technology development, but because the market in Japan is small, it is very little known. In china, the service centers across the country and many call centers are opened 24hours. Also they have a good after-sales service in China, but to build the same system in Japan is very expensive.

However, the experience of applying marketing strategy in the Japanese market will be helpful for Haier when it wants to deploy to other countries. The partnership with Sanyo in 2002 can be considered as one cause of failure. Therefore, it is better to apply their original strategy they used in China. In order to con-

16) Ibid. Marugawa p.109

tinue staying in the Japanese market, Haier develops products to more suit Japanese consumers from now on advertises the merit of the product aggressively, and takes advantage of sales channels, sets low price to low-end Japanese consumer today. It will be possible to be successful in the Japanese market by utilizing the successful after-sales service in China. In the future, I will study about the expansion of Haier in the Japanese market.

Chapter 2: The overseas expansion of TCL

TCL is the largest manufacturer of color TV (Television) in China. It has been aiming to explore, expand, and internationalize to overseas markets since 1998. Currently, TCL has made investments in each region of the world, and by the end of 2011, it has an R & D (Research and Development) center in China, America, France, and Singapore. It also has a production base of 20 locations in China, Poland, Mexico, Thailand, Vietnam and etc. Recently, due to the impact of reduction of the purchase subsidy policy of government and the economic slowdown in the overseas markets, it has been expanding and diversifying its sales channels. Such as to the rural and small urban markets which use to be weak in the traditional market activities and it has also accelerated the development of overseas markets.¹⁷⁾

2-1 Development Overviews of TCL

TCL had been interpreted as “The China lion,” but has changed to a new corporate image strategy in 2007 redefining itself as “The Creative Life”. Its forerunner, “TTK Home Appliances Co., Ltd.”, got a loan for 5000 Yuan from the local government in 1981. They were established as a cassette tape manufacturer by entrepreneurs from Hong Kong and seven former government officials of

17) May 4 2012 Nikkei Business Daily

Huiyang district Machinery Industry Bureau. It had been considered as one of the earliest 12 Sino-foreign joint venture companies founded in the nation at that time.¹⁸⁾ In 1985, TCL Communication Equipment Co Ltd was established to product magnetic tape and phones. It continued to expand its product lines one after another including color TV since 1992, PC since 1993, the mobile terminal since 1999. Currently, the national market share of fixed phones is listed at first place, color television at first place, home personal computer at third place, and mobile phone terminal at third place. TCL entered into a lot of new businesses at this time, and the company has grown fast.

TCL has three listed companies: TCL Group, TCL Multimedia, and TCL Communication Technology. It was composed of six fields of business: consumer electronics, information, communication, multimedia, electronic and electric works, and parts. TCL began internationalization of management in 1999. With the development of the emerging markets, TCL combined and acquired mature brands in Europe and in the United States markets, and promoted the diversification of management. Under the diversification policy, they continued with mergers and acquisitions of domestic companies along with the expansion of existing business. TCL entered into new types of industries aggressively.¹⁹⁾ In April 2002, TCL underwent a transformation to a state substantially controlled corporation. Currently, they are focusing on both the business of mobile phone production and color TV. TCL has grown to become one of the largest state-owned enterprises which has established their own pillar industry. In 2002, TCL acquired the television department of Schneider from Germany. In 2004, TCL and Thomson from France formed a new company TTE, also in 2004 TCL and Alcatel from France joined and created TCL-Alcatel mobile company in 2004.

18) Inoue Ryuichiro (2004) [ability of China's top 70 company-breakthrough] p.74

19) Tomofumi Amano · Hiroyuki Oki (2007) [Internationalization of Chinese enterprises] p.137

TCL had expanded the types of product widely in the field of consumer electronics, such as TV, audio visual machines, refrigerators, air conditioners and washing machines. In the field of communications, the fixed phones, cell phones, and communication system equipment. Currently, they have also expanded to the fields of real estate, finance, business, physical distribution, and service.

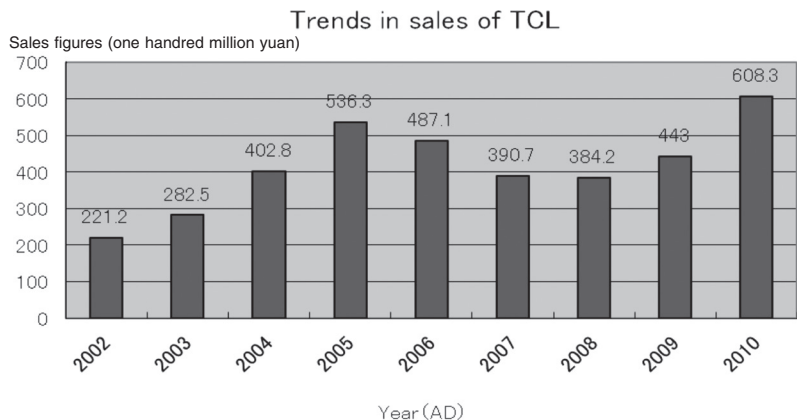
Since the 1990s, it has continued a high growth average of 42.7% yearly for 13 years in a row. In 2004, TCL carried out two large-scale joint ventures, the management integration was not effect fine during the jointed venture (See Figure 2-1). This caused the company to fall into the red for the first time. On the other hand, compared with other consumer electronics manufacturers in China, its overseas revenue was 37.54% higher in 2011, and in this sense, it can be said that TCL has already been a member of the truly global companies.

2-2 Overseas strategy of TCL

From mid-2000, the foreign mergers and acquisitions (M&A) of Chinese com-

Figure 2-1 Trends in sales of TCL

Unit: one hundred million Yuan



Source: Compiled from the home page of TCL

panies have increased. In general, it is common that a flow of development to overseas markets starts from export and then changes to local production due to reevaluation of the currency and trade friction, such as tariff barriers. However, in the case of China, most companies expanded their overseas markets by the method of M & A from the export stage.

In the late of 90's, TCL increased its sales by 42.66% on an average yearly. In the Chinese market, since price competition is intense and profit rate becomes low, the development of new markets have become a common issue to all the Chinese household electrical appliance enterprises. In addition, since China became a member of WTO, there is no barrier in the domestic market. Therefore, foreign companies can easily enter into the Chinese market, which made the competition severe. Overseas expansion is a necessary way to go about the internationalization of Chinese enterprises. It was in such a situation, that the overseas expansion of TCL was started.

TCL first established its supremacy in the domestic market and then gradually started overseas expansion. Overseas expansion of TCL started in 1998 by first entering Southeast Asia countries followed by other developing countries and finally entering market Western countries gradually. TCL adapted its business practices depending on the investment destination. In the developing countries like India, Vietnam, it used its own brand while in developed countries like Europe and US it chose Original Design Manufacturing and Original Equipment Manufacturing (ODM, OEM).²⁰⁾ In this way, TCL has pioneered the local market while leveraging the local name-brand.

Currently, TCL has established a sales base of 40,000 locations in 40 countries and regions around the world, and about 20 local branches, and about 25 manufacturing units and strategic cooperation. Design department were set up in

20) Ibid. Amano Oki p.40

Table 2-1 Internationalization of TCL

1981	The joint venture TTK Home Appliances and Hong Kong capital
1985	Established a joint venture TCL Communication Equipment Co., Ltd. and Hong Kong capital
1993	Established (Hong Kong) TCL electronic
1996	TCL group acquired the color TV sector, Lu Ltd. of Hong Kong
1998	Established a joint venture ZhiFu Cyber Co., Ltd. and Taiwan ZhiFu population
1999	Listed on the Hong Kong stock market, and established a TV factory in Vietnam, established a color TV factory in India
2001	Established a joint venture named TCL Ruizhi with Taiwan Ruizhi to make cold equipment
2002	Acquisition of German companies Stineider companies, and local production color TV Strategic alliance with Matsushita Electric Industrial Co., Ltd., strategic alliance with Philips
2003	Acquisition of TV division of Thomson France
2004	Acquisition of the mobile phone division of France's Alcatel, and Toshiba alliance refrigerator, a washing machine sector
2005	The acquisition of the French company's part Rorangu

Source: Created from the home page evolution history of TCL

America, France, and Singapore, and 17 production bases have been set up in China, Poland, Mexico, Thailand, and Vietnam.²¹⁾

2-3 Asian emerging markets

For TCL, emerging markets in Asia are most important in terms of overseas markets. Processing industry of China were hit hard by the Asian economic crisis of 1997 as they have to rely on their brand partner, channel, market and cus-

21) <http://www.cps.com.cn>

tomers. TCL started expanding overseas in order to develop their own brand and create overseas sales channels which would help achieving stable growth.

From 1999, TCL started entering into the emerging markets of developing countries in Southeast Asia, the Middle East, Eastern Europe, and South Africa, and began to have a sales network of its own to deal primarily with the TCL brand.

1) Vietnam

TCL first entered into Vietnam in Southeast Asia. Based on the market research which stated that there exists mass high quality workforce and there is a future in TV market with a population of 81 million. In addition, Vietnam is close to the economic development level of the inland of China, and its social structure is also similar with a large population living in rural areas. TCL started the development of the Vietnam market in February 1999. TCL acquired Lu Electronic, Ltd (a color TV enterprises established in 1990 by Mr. Lu QingTian from Hong Kong. 500,000 color TVs were produced annually in Vietnam). While the most foreign TV manufacturers are having a joint venture with state-owned enterprises in Vietnam, TCL is a wholly-owned foreign manufactures.

In spite of facing difficulties in Vietnam such as the development of new markets, the communication, the policy of local government, and the low popularity of the brand, TCL manage to infiltrate in rural market at a low price.²²⁾

The strength of Chinese enterprises is in developing a niche market when they enter the foreign markets. In Vietnam, since Japanese and Korean companies did not have an interest in rural thin-margin markets, TCL began to develop the rural television market by establishing a local factory in Vietnam. TCL got enough know-how and experience through the development of rural TV market in China;

22) Wu XiaoBo (2012) [reincarnation of the hawk] p.199

it is strengthening lightning in response to Vietnam climate which has a lot of thunder. TCL is characterized by the things that the rural areas were wide covered by the TV transmitting station, and it has higher reception sensitivity. In addition, TCL is focusing on after-sales service in each city, provided with its 24-hour hotline, and repairing the TVs of the customer in one phone call, and accepting three-year guarantees instead of two years guarantee provided by other manufacturers.

TCL is taking a low-price strategy in the Vietnam market. The price was set same as the cheapest local manufacturers of Vietnam. On the other hand, for the reason that LG and Samsung had already gained the trust of local consumers, the prices were set more than 10% higher than the local manufacturer price. But it still took the largest share. Prices of Japanese brands are still 10% higher than that of Korean manufacturers.

After 18 months of consecutive deficit from its entry into Vietnam in 1999, TCL's sales volume rose in September 2001, and it became second in the Vietnam market. Other than Vietnam, TCL have a local production brands in Philippines, Indonesia (2000), and Thailand (2004), and established a sales office in Singapore, and has been selling in Malaysia, Brunei, and Myanmar.

2) India

With a population of 1.2 billion, India is attracting attention from companies in the world as second emerging markets following China. TCL advanced into the Indian market from 1999 to 2002. In the Joint venture with the Baron of India, TCL Baron Holdings, the Chinese side provided the parts, and the Indian side took the charge of domestic sales, assembly, and sales of the color TV with TCL brand. It was said that the sales was more than \$ 50 million in August 2001 in about one year after the advance, and also above the border line of the profit or loss. However, as the management of Baron got worse, they were discrepancies

in related to philosophy, management and disagreements between the two sides, quality problems, and recovery of accounts receivable, as a result TCL was forced to withdraw from the Indian market.²³⁾

In 2004, TCL decided to acquire Thomson which has a factory in India, and penetrated the Indian market again. In the Indian market, due to religion, hierarchy, regional, and economic conditions, the purchasing power is different. In addition, consumption characteristics are also different. India's economic gap is large and the disparity is clearer than China.

Focus in hierarchy and consumption habits of Indian consumers, marketing strategies of the TCL in the Indian market are targeting the middle class of 200 million. The Chinese have a big role in fields such as sales and marketing in countries like Indonesia, whereas in the Indian market, unlike other Southeast Asian countries, there is no network of Chinese. In addition, since consumers do not have a good impression about Chinese products, TCL are struggling to get sales on-site.

For the reason that Korean manufacturers, such as LG, Samsun, occupy a leading position in the first and second class markets of India, TCL are targeting the rural market and the second and third class market to avoid the direct conflict. In addition, because Korean manufacturers and local manufacturers still are strong in the local market, the re-entering TCL brand appeals to consumers by actively participate in social contribution activities, and adopting a strategy to increase the sales performance by using the local know-how gained in the vast rural markets of China.

Currently, TCL has built a sales network with 20 branch offices, 100 locations of the after-sales service centers, and 2,700 local agencies in India, and also has established a Research and Development (R & D) department.

23) Ibid. Amano Oki p.146

As the promotion in the emerging markets such as India and Vietnam, TCL ① invites the distributors of each market regularly to China, and appeals the actual business status during the tour to the domestic factories and the dealers, then concludes with a contract; ② participates in the exhibition to launch its products; ③ focuses on the product development tailored to the needs of the developing countries' market. TCL has implemented the strategy in the US and European markets by taking advantage of the distribution network and the introduction of high-profile brands through the acquisition business, through these promotional activities to improve the image of the company.

2-3 Western markets

1) Overview

The Europe and the United States markets have a role of "show room" in the world market, it can be said that once you have established the status in this market, your brand power will extend to the whole world market, including the emerging markets. Therefore, every country company puts it as the most important market.

TCL is taking a multi-brand strategy in the overseas markets. For example, Thomson brand is used in the European market, and RCA brand is used in the U. S. market, and Schneider brand is used in Germany. There are two divisions in TCL overseas: one takes charge in the production and export of TCL brand and another takes charge in the production and export of the OEM. In addition, with the establishment of the production based in overseas, it contemplates to avoid duty and dumping. The internationalization of TCL is the basic rule that TCL brands occupy more than 50% of the markets worldwide.

Since 2001, because of the dumping of made in China color TV, EU has applied the high tariff rate of 44.6%. Despite the region overall demands was rising to 20 million units a year, it was only 400,000 units imported from China.

The establishment of overseas production based through acquisitions enables local production, and trade barriers can be avoided. In addition, though color TV and mobile phone are the update fast business, because the poor accumulated power of innovative technology, Chinese enterprises can increase faster technical capabilities with the acquisition. This business strategic background is also present in the deployment of TCL in the Europe and the United States market.

2) Germany

In October 2002, TCL acquired Snyder, an electronics company with a history of over 100 years in Germany, at 8.25 million Euros. The contents include the well-known brand “Schneider” and “Dual”, production equipment, inventory, and sales network R & D and lineup as well. The biggest harvest for TCL was that it got a sales network across Europe and the acquisition of the R & D department of the company.²⁴⁾ With the entry into the European market, the acquisition of Snyder enabled local production, and even the absorption of innovative technology gave large significance to the management of TCL.

3) France

① Thomson

In November 2003, TCL joint the TV sector and the largest electronics manufacturer Thomson in France, and established TTE (TCL Thomson Electronics Co., Ltd.) mainly taking charge in the development, production and sales of DVD products and color TV. The investment rate is 67% by TCL Multimedia, 33% by Thomson. For brand strategy that is one part of the internationalizations, TCL is supposed to use Thomson brand in Thomson’s strong areas, and basically uses “Thomson” brands in the European market mainly. While in the emerging mar-

24) October 3 2002 Nikkei Business Daily

kets and developing countries in Asia's other markets, TCL uses "TCL" brand. With multiple brands, TCL has entered different markets. In August 2005, TTE became a wholly owned subsidiary of TCL by the acquisition of the shares of Thomson.

In regards to the motivation of the acquisition of Thomson in TCL, the first is to strengthen internationalization and brand power. Thomson acquired the electronic sector GE in 1988, and held the famous color TV brand RCA in the United States. Thomson accounted for 8% in the European market and 12% in the U. S. market at that time. The second is a response to trade barriers. Anti-dumping (AD) is an issue for Chinese companies to enter the European and American companies. In addition, the tariff rate is high, since TTE had a production base in France, Mexico, Poland, Thailand, and Vietnam. Exports of the products produced in those production bases can avoid trade barriers. Thus, TCL can enter the Western markets easier. The third is to avoid the risk of intellectual property rights. Chinese companies are poor at core technology, however, after TCL jointed with Thomson, TCL can make use of color TV patent of 34,000 sections of Thomson. The fourth is the brand effect of Thomson in the United States and Europe market. TCL could promote its internationalization in less time than other companies by using Thompson brand.

However, there was also a problem in the collaboration with Thomson. TCL has a ratio of 67%, so TCL had to bear most of the cost of TTE. Except its tangible assets, such as the facilities of the plant, the assets of Thomson are mostly intangible assets patent, such as intellectual property rights. In addition, because TV department of Thomson was unprofitable, it could not make a profit in a short period of time, moreover in the technical aspect, because the technology of Thomson is primarily a CRT traditional television technology, TCL could only use the old technology, and the State-of-the-art technology of Thomson was not entered into the joint venture. Furthermore, the most valuable overseas sales net

was also not included. The relationship with TCL was cooperative in one side, and competitive in the other side. Therefore, the development of core technology becomes necessary to TCL itself.²⁵⁾

② Alcatel

In April 2004, TCL joined with Alcatel in the mobile sector in France. The investment ratio was 55% for TCL communication and 45% for Alcatel. In May 2005, the joint was relieved because of unprofitable in mobile sector. Then, by the acquisition of all shares of Alcatel, Alcatel became a wholly subsidiary of TCL.

In November 2004, sales in the fourth quarter of Alcatel fell sharply. At the same time, China's domestic mobile phone market of TCL was also caught in the situations of upheaval. In 2003, China was subscribed to the worldwide commodities trade association (ITA). As a result, the import tariffs on mobile phone became zero and foreign manufacturers had a chance to enter the low-end market although they used to focus only in the high-end market. Advantage of the low prices in China domestic mobile companies is eliminated. Foreign manufacturers began to change production volume, style, and price by brand power, and began to spread to the entire Chinese market rapidly. In addition, flooding of fake brand was a major blow to the mobile business of TCL.²⁶⁾

TCL has acquired long-term brand use rights over 20 years of Thomson TV sector and the mobile phone division of Alcatel. TCL was aimed to develop overseas markets by taking the advantage of the brand of French companies ("RCA" in the TV and "Alcatel" in the mobile phone).

For the acquisition, Li Dongsheng, CEO of TCL, said that "The acquisition of

25) WuLi "The purpose and risk of TCL acquired Thomson"

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26) Ibid. Wu XiaoBo (2012) [reincarnation of the hawk] p.223

Thomson took the cost more than expected, that is because of 20 years of surplus before the acquisition, and because we were too self-confidence for companies. However, it can be considered a success generally. In the TV business, by the acquisition, it becomes the first brand of Chinese color TV, and the production capacity of the liquid crystal panel is improved. There is still a difference from the other international companies, but in the future, Chinese companies will lead the world's TV industry and more dominant than the Japanese companies". As for the mobile phone, the acquisition of Alcatel enabled the development in Europe and the United States market. It has sold 44 million units in the U. S. and European markets in 2011. It is a result that cannot be obtained without the acquisition of Alcatel.²⁷⁾

2-4 Cooperation with Japanese companies

In the Japanese market, TCL entries are mainly done by partnering with some companies such as OEM. In 2002, under the agreement on comprehensive alliance in the consumer electronics field with Matsushita Electric Industrial Co., Ltd., Matsushita was marketed in rural areas in China with a sales network of TCL, and TCL produced OEM color TV of Matsushita Electric.²⁸⁾

In 2006, Toshiba and Toshiba TCL Consumer Products (Nanhai)" was established in Foshan, Guangdong. The investment ratio is 90% for Toshiba Consumer Products of Toshiba subsidiary, and 10% for TCL. At the new plant, OEM supplies some products to TCL, and produced product of Toshiba brand. In August 2008, they broke the joint cooperation and Toshiba purchased the holding of TCL side by approximately 200 million Yen. It became a wholly owned subsidiary.

27) [LiDongSheng fan xing shi nian guo ji hua] China Electrical Industry No. 2 2012 pp.26-27

28) April 25 2002 Japan Business Daily

In July 2010, TCL established a joint venture “Toshiba and Toshiba Visual Products (China) Co., Ltd.” In Guangdong to sell LCD TV, whose capital were 50 million Yuan (about 600 million Yen): 51% by Toshiba and 49% by TCL, but TCL which was familiar with the Chinese market was the center of business. Utilizing the sales network of TCL, Toshiba advanced to small and medium-sized cities in inland, and increase to 15 000 stores in fiscal year ended March 31, 2014.²⁹⁾ Until now, TCL has produced 70% of Toshiba TV which were sold in China.

2-5 Problems of overseas acquisitions in TCL³⁰⁾

There were problems with the overseas acquisitions of TCL; as observed in the case of the acquisition Tomoson and Alcatel. (1) There was the difficulty of integration. (2) There were difficulties in the fusion of the different business cultures. The scale of the acquired were larger than TCL, and it was difficult for its employees to accept the corporate culture of TCL. (3) Additionally, it was impossible to share the resources of the two companies. It is common for a joint venture to share the sales channel with each other, but TCL and the acquired businesses, could not do that. As a result, TCL was not able to sell in overseas markets through that channel. (4) That foreign labor cost was found to be high. Low labor costs were cheaper of the competitiveness of Chinese enterprises for a long time, but in overseas acquisitions of TCL, labor costs in France, were much higher than China. In addition, because the union of France is very strong, it is difficult to lay off employees. (5) That technological superiority cannot be exhibited. Technical capabilities that TCL expected with the acquisition of Alcatel could not be exhibited, Aggressiveness of employees was low and the development rate of new products was also low. The communications with each

29) July 6, December 16 2010 Japan Business Daily

30) Ibid. Wu XiaoBo (2012) [reincarnation of the hawk] p.222

other was also difficult. By the end of 2005, losses amounted to 900 million Yuan.

TCL is expanding at a stretch in the business acquisition of the two companies in France. It was the forerunner of the M & A of the European and U. S. companies by Chinese companies, but it was wrong at reading the changes in the market. At that time, TV industry was a turning point with cathode-ray tube being replaced by liquid crystal. But the accumulation of liquid crystal technology was poor in Thomson. Nokia (Finland), the largest phone business strengthened the price offensively, and hit the business of Alcatel in high-cost. Both mobile phone and TV are intense price competition products. TCL was delayed in taking action. The falling final deficit in 2005 and in 2006 forced TCL to delist.

Competition of mass overseas acquisition of TCL became intense in Chinese domestic market, so the development of overseas markets were required, but the acquisition at the time of 2004. From the experience of China's domestic market, TCL decided to acquire two companies by its own judgment, and did not investigate the status of the other Partner in detail. And the fact is that TCL like many other Chinese enterprises, did not study in detail the market situation of the partner country and the culture and political situation in overseas acquisitions at the time. In addition, because TCL's acquisition was in a unprofitable sector, it brought huge loss to the TCL. In that regard, for the acquisition of foreign companies of Chinese enterprises and TCL, this will be a big lesson. However, in the long run for the TCL, it can be said that the acquisition of foreign companies in its overseas expansion is a valuable experience in the sense that they can get a sales network in Europe and North America.

Conclusions

In the Chinese domestic market, unlike other Chinese consumer electronics

companies, Haier increased the value of their brand quickly by providing high quality and careful after-sales service. And Haier has delivered the value to the customer who at the end of the commercial distribution. Expansion into developed markets was important as the means of obtaining an international recognition. It is believed that this market knowledge will become properties for the future business development. In developed markets such as Japan and the United States, products have been developed from the small products initially to the recent medium-sized and large products. It was believed that the awareness of consumers will be gradually increased. On the other hand, in emerging countries, they tried to enrich the sales network, develop of local market, promote human resources with local market experience, and provide after-sales service system. Haier utilized the know-how in management which they cultivated in China and applied to those countries.

Currently, Chinese consumer electronics manufacturers on behalf of the TCL, are enhancing technical capabilities and the sales force, not only in China but also in overseas markets. It can be considered that overseas expansion of Chinese consumer electronics manufacturers will continue to be more active in the future. However, to foray into the international market, competition in terms of price will convert to competition in terms of quality, and Chinese companies must make their original brand and high-tech products with original intellectual property rights. The technical capabilities and the high quality must be ensured not only in the emerging markets but also in developed markets. The trend of how to deal with this situation in the future is noted.

As a common point of Haier and TCL in internationalization strategy, both companies took a low-price strategy from the beginning, and had entered the overseas market as a target niche market. It can be called the common point for Chinese companies to expand overseas.

The differences in overseas expansions of Chinese companies listed into two

big models. The typical example of this model is the overseas expansion of Haier. Overseas expansion of Haier began firstly with entry into the market of Western developed countries, which are strict specifications and standards, Haier built trust and brand power to some extent in these countries. Then, Haier continued to expand into developing markets such as Southeast Asia, which have relatively low standard compared to Western countries.

TCL represents the other overseas deployment model. Firstly TCL began to advance from the Southeast Asian countries such as Vietnam and the Philippines, which resemble the culture and custom of China. Next TCL acquired multiple brands of Western companies by M & A and then advanced to the Western developed markets. It is the feature that multiple brands are used in TCL currently.

Japanese consumer electronics manufacturers believe in providing high quality products and make a good in emerging countries, including China and East Asia, but they lost that market due to high product price. On the contrary, consumer electronics manufacturers in China and South Korea take a strategy of low-cost as their competitive power, and then take over emerging markets, including East Asia previously held by Japanese consumer electronics manufacturers. From now on, Chinese consumer electronics manufacturers must gradually develop in their core technology. For the international expansion of Chinese appliance manufacturers, it will be necessary to not only keep the price force but also continue to ensure the global market share by technical force and the product power. In the global TV market in the future, it is expected that Chinese manufacturers shall has the ability to compete with Korean manufacturers, such as LG, and Samsung. It will be a subject of future study that how Chinese consumer electronics manufacturers compete with other consumer electronics companies, such as South Korean by using of low price, and the development of value-added products with a core technology.

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