

Qingdao Haier Ltd.

Considering the Maytag Acquisition

We are paying great attention to events concerning the acquisition of Maytag, but have so far made no decisions yet.

“Haier Undecided on Maytag Bid as Deadline Looms,”

Reuters.com, June 17, 2005

In early June 2005, senior executives at Qingdao Haier Ltd., China's largest home appliance maker, faced a major decision. They had to determine whether or not to bid on the purchase of Maytag Corporation, the third-largest U.S. home appliance manufacturer. In May, a private U.S.-based investment group made a \$1.13 billion bid to acquire Maytag which the company agreed to consider. Maytag's Board of Directors was willing to entertain competitive offers.

Acquiring a venerable company like Maytag would put Haier (pronounced HIGH-ER) on the same stage as Lenovo Group Ltd., China's largest computer manufacturer. Lenovo bought IBM's personal computer business for \$1.75 billion in late 2004, and became the world's third-largest producer of PCs behind Dell and Hewlett-Packard. The Maytag acquisition would elevate Haier's major home appliance market position in the United States and worldwide.

A decision by Haier to purchase Maytag would be consistent with the Chinese government's encouragement of its large companies to consider overseas acquisitions for the purpose of turning these companies into transnational corporations featuring a single corporate global brand name. For example, IBM PCs would be marketed under the Lenovo name. The Chinese government has named Haier as one of six domestic companies it hoped to transform into one of the world's top 500 companies by 2010. According to Haier's vice-president of marketing, “We really want (Haier) to become a first-class brand. It's our business strategy.”¹

A decision to purchase Maytag would depend heavily on competitive issues and the marketing opportunity that the Maytag business and assets could provide Haier in the United States and worldwide. At the same time, the strengths and resources that Haier could bring to Maytag warranted consideration. Even though Maytag's market

¹ “Made in China” Woos World,” Chinadaily.com, October 10, 2003.

This case was prepared by Professor Roger A. Kerin, of the Edwin L. Cox School of Business, Southern Methodist University, as a basis for class discussion and is not designed to illustrate effective or ineffective handling of an administrative situation. This case is based on published sources, including company annual reports, U.S. Securities and Exchange Commission Form 10-K and 10-Q reports, company news releases, published articles, and information provided by individuals knowledgeable about the industry. The information presented in the case does not necessarily depict the explicit situation faced by Qingdao Haier Ltd., but is introduced only for class discussion purposes. Where appropriate, quotes, statistics, and published information are footnoted for reference purposes. Copyright © 2005 Roger A. Kerin. No part of this case may be reproduced without written permission of the copyright holder.

position and profitability in the United States had eroded in recent years, the company was likely to attract other suitors.

■ QINGDAO HAIER LTD.

Qingdao Haier Ltd., which started out as a nearly bankrupt refrigeration plant (Qingdao Refrigerator Plant), was founded in 1984 with imported refrigerator production technology from Germany's Liberhaier Company. Since then, the company has become one of the top 50 transnational corporations in developing countries. Haier manufactures a wide range of household appliances—15,000 varieties of items in some 90 product lines, including refrigerators, freezers, washing machines and dryers, dishwashers, microwave ovens, and air conditioners, among a number of other products such as television sets and mobile phones—all sold with the Haier brand name. When asked to explain why Haier offered such a diversified portfolio of products under a single brand name, the company's chairman and CEO Zhang Ruimin said²:

Diversification is still a controversial topic in China. Some people say companies shouldn't diversify, because some manufacturers that were very good in the past died after they diversified. But at Haier we offer a lot of products like refrigerators, air conditioners, washing machines, TVs, and cell phones. We feel that from the consumer's perspective it's not diversification but rather specialization. The target customer group for all these products is one and the same. For example, a consumer satisfied with a refrigerator from Haier is more likely to buy related products from us, too, such as washing machines or air conditioners.

Haier's sales revenue was \$12.1 billion in 2004. Household appliances accounted for about 70 percent of the company's sales revenue which has grown rapidly since 2000 (see Exhibit 1).

With a 30 percent share of China's \$13 billion household appliance market, Haier is China's dominant household appliance company. It enjoys leading domestic (China) market shares in washing machines, refrigerators, vacuum cleaners, and air conditioners. Haier has built a reputation in its domestic market for product quality, continuous innovation, and customer service and was recently recognized as China's most valuable brand name by *Forbes* magazine. Haier is the world's fifth largest household appliance company behind U.S.-based Whirlpool Corporation and General Electric, Sweden's Electrolux, and Germany's Bosch-Siemens based on sales revenue. "Our objective is . . . number three," said Zhang Ruimin.³ Haier has the world's largest unit brand share for

EXHIBIT 1

Haier Operating Revenues (\$ in Billions)

	Year				
	2000	2001	2002	2003	2004
Operating Revenue	\$4.9	\$7.3	\$8.6	\$9.7	\$12.1
Growth Rate (yr. over yr.)	—	48%	18%	13%	25%

Source: United States Information Technology Office, Beijing China, June 2005. Operating Revenue expressed in U.S. dollars: \$1.00 = 8.27 yuan.

²Yibing Wu, "Interview: China's Refrigerator Magnate," *The McKinsey Quarterly* (Number 3, 2003).

³"Interview: China's Refrigerator Magnate."

refrigerators and is the world's second largest volume producer of household appliances.

Haier Worldwide

The company markets its Haier-branded products in 160 countries with global networks for design, production, distribution, and after-sales service. The company operates 18 design institutes (8 outside China), 10 industrial complexes (4 outside China), 12,000 after-sale service centers, and 22 factories (13 outside China) that produce mostly home appliances.

Global Markets The consumer and competitive environment for Haier varies significantly across regions of the world.⁴ North America (United States and Canada) is the largest market for large household appliances in the world based on dollar sales. It is also the most "mature" region in the world for these appliances based on household saturation levels (Saturation level refers to the percentage of households that own a particular appliance). For instance, refrigerators and cooking equipment (excluding microwaves) are present in virtually 100 percent of North American households. Washing machines are found in 94 percent of households and clothes dryers are owned by 81 percent of households. Four manufacturers account for over 90 percent of large household appliance sales in North America. Whirlpool is the market share leader. The remaining three companies are General Electric, Maytag, and Electrolux, which markets the Frigidaire brand in the United States. Haier's market share in the North American market is about three percent.

The Western and Eastern European market has household saturation levels for most large household appliances that are roughly half of what they are in North America. Thirty-five companies manufacture home appliances for this market. No one company has a commanding market share. The largest competitors in Europe are Electrolux with a 16.2 percent market share, followed by Bosch-Siemens (15.2 percent share), Italy's Indesit Company (14.7 percent share), and Whirlpool (8.6 percent share). Haier's market share in the Western and Eastern European market is close to 2 percent.

Asia is the world's largest consumer market for large household appliances in terms of population and potential spending power. Industry analysts believe that consumers in Asia could purchase as many or more appliances as North American and Western European consumers by 2025 given the low saturation levels for home appliances, particularly in China and Southeast Asia. China is already the world's biggest unit volume market for refrigerators. The potential in China and Southeast Asia has attracted 50 appliance manufacturers to the region, sparked intense price competition, and eroded company profit margins. Matsushita Electric Industrial is the largest appliance supplier in Japan, Haier is China's leading producer, and Whirlpool captures nearly one-third of the appliance market in India. Haier is the leader in Asia with about 10 percent of the Asian market for household appliances.

Australasia (Australia and New Zealand) evidences household saturation levels for major appliances that are similar to Western Europe. About 15 appliance manufacturers compete in this market. Electrolux captures about 28 percent of this market, followed by South Korea's LG Electronics (10 percent), Maytag (6 percent), and Whirlpool (5 percent). Haier's market share is about 1 percent.

Latin America is considered to be a future growth market for large household appliances, according to industry analysts. There are 25 home appliance manufacturers

⁴ Portions of this discussion are based on "Comparative Regional Strengths of Major Players: Large Kitchen Appliances"; "Global Sector Shares: Large Kitchen Appliances—Manufacturer & Brand," Euromonitor.com, January and February, 2004; and "China's Home Appliances Industry: 2004," Asia Case Research Centre, The University of Hong Kong, 2005.

in Latin America. Whirlpool and its majority-owned subsidiaries capture about 33 percent of the Latin American large household appliance market—far more than its nearest rivals with barely double-digit market shares. Some Chinese competitors, such as Wuxi Little Swan Company Ltd., have targeted Latin America as a growth opportunity. Haier's Latin American market share is under 2 percent.

Perspective on Global Marketing The thinking behind Haier's strategy for expanding into global markets was recently described by Zhang Ruimin:⁵

The objective of most Chinese enterprises is to export products and earn foreign currency. This is their only purpose. Our purpose in exporting is to establish a brand reputation overseas. We have created an important brand in China, and we are taking that brand to other markets. In other ways, too, our strategy is very different from that of other export-oriented Chinese enterprises. They will usually explore easier markets first and difficult markets later. Many Chinese enterprises will first export to Southeast Asia, for instance, which has competitive markets but where there are no strong, dominant competitors, as there often are in Western markets. But our strategy is the other way around: we go to easier markets after we first penetrate difficult markets such as the United States and Europe. These are much bigger markets. They are also the home markets of our largest global competitors, and we believe that if we can succeed there we can succeed in easier markets. Haier started exporting to the United States in 1990; it has been more than ten years now and the results have been good. We've established a brand reputation in the U.S. market and earn higher margins on sales, while many Chinese companies can do only OEM work for foreign brands and manufacturers, at lower margins.

He went on to say:

All success relies on one thing in overseas markets—creating a localized brand name. We have to make Americans feel that Haier is a localized U.S. brand instead of an imported Chinese brand. The same goes for the European market. It's very difficult to set up a name brand. But if you don't take this road, you will always work for others.

The presence of Chinese brands in the global marketplace is a relatively recent phenomenon, compared with Japanese global corporate brands (e.g., Sony, Canon, Nintendo, and Honda) and South Korean global corporate brands (e.g., Samsung, LG Electronics, and Hyundai). Cross national research generally supports the view that Western consumers (North Americans and Western Europeans) are open to Chinese-brand products—if they offer something unique.⁶ In the United States, 36 percent of consumers associate Chinese brands with low cost (price) products, 26 percent associate them with innovation, and 24 percent associate them with advanced features and good value for the money.

Haier America

Haier America is the U.S. sales and marketing division of Qingdao Haier Ltd.⁷ Haier America's headquarters is located in New York City, which also houses a research and development laboratory, and product showrooms. Camden, South Carolina, is the site

⁵ "Interview: China's Refrigerator Magnate."

⁶ Geoffrey A. Fowler, "Buying Spree by China Firms Is a Bet on Value of U.S. Brands," *Wall Street Journal* (June 23, 2005), pp. A1, A6.

⁷ Portions of this discussion are based on HaierAmerica.com, downloaded June 17, 2005; Andy Raskin, "When Your Customer Says Jump . . ." *Business 2.0* (October 2003), pp. 78–80; Jonathan Sprague, "Haier Reaches Higher," *Fortune* (September 5, 2002), pp. 148–153; and Cheryl Lu-Lien Tan, "The New Asian Imports: Your Washer and Drier," *WSJ.com*, June 16, 2005.

of the Haier America Industrial Park that includes a state-of-the-art refrigerator manufacturing facility capable of producing 400,000 refrigerators annually. Haier is the first Chinese company to open a factory in the United States. A U.S. factory also allows Haier to stick a "Made in the U.S.A." label on its refrigeration products.

Haier began exporting refrigerators to the United States under several brand names, including Welbilt. In 1999, it began marketing its appliances under the Haier brand name with the creation of Haier America, a joint venture involving a U.S. investor group and Haier, the majority partner. Since its formation, Haier America sales have grown rapidly and are expected to approach \$1 billion in 2005. The company's success has been attributed to product feature innovation, quick product design and delivery in response to retailer needs, competitive prices, product quality, and the development of new product categories in the household appliance market that larger U.S. manufacturers overlooked. In the span of five years, Haier America has achieved commanding unit market shares in several niche appliance categories including compact refrigerators under 6.5 cubic feet (50 percent), compact chest freezers under 7 cubic feet (38 percent), and freestanding refrigerated wine cellars (50 percent). Haier America captures 10 percent of the U.S. refrigerator market and 9 percent of the freezer market. In addition, the company markets Haier-brand air conditioners, clothes washers and dryers, dishwashers, and microwave and convection ovens, among other appliances. Haier America expects to roll out 24 new washers and dryers and 15 new dishwashers in 2005, up from 12 washers and dryers and six dishwashers it sold in 2004. The company does not market conventional ovens or ranges in the United States.

Haier America distributes its household appliances primarily through national chain retailers in the United States. These include Wal-Mart, Lowe's, Target, Sears, and Best Buy. Exhibit 2 shows Haier-branded products sold through these retailers. Wal-Mart carries the most complete line of Haier-brand products. Haier America also sells selected Haier-branded appliances through regional chains such as Brandsmart and Mennards and some items at specialty chain stores, including Bed, Bath and Beyond and Linens 'n Things.

EXHIBIT 2

Haier-Brand Products Sold by National Retail Chains (June 2005)

<i>Retail Chain</i>	<i>Products Sold</i>
Best Buy	Compact refrigerator; portable dishwasher; freestanding clothes washer and dryer; portable air conditioner; refrigerated beer dispenser, and wine cellar
Lowe's	Refrigerated wine cellar
Target	Built-in and portable dishwasher; compact and full-size refrigerator and freezer; refrigerated wine cellar and beer dispenser; microwave oven; freestanding clothes washer and dryer
Sears	Countertop portable dishwasher
Wal-Mart	Compact and full-size refrigerator and freezer; portable air conditioner and dehumidifier; microwave oven; refrigerated wine cellar; beverage center; beer dispenser; compact dishwasher; freestanding clothes washer

Source: Retailer Web sites, downloaded June 5, 2005.

Haier America generally prices its products below Whirlpool, General Electric, and Maytag brands. However, the products are not necessarily deeply discounted. The company also budgets limited funds for media advertising. About 80 percent of Haier America's advertising budget of roughly \$7.5 million goes toward retailer-directed campaigns, such as print advertisements in appliance trade magazines.

In interviews related to the Haier America marketing strategy in the United States, Michael Jemal, the company's CEO, is quoted as saying⁸:

Our primary purpose and goal is to develop the Haier brand in the U.S. . . . We promote Haier as a global brand—not Chinese or American, but global. In fact, most people think it is a German brand. Our slogan is "What the World Comes Home To" . . . Right now we are displacing the derivative brands owned by the top three players—Amana owned by Maytag, Hotpoint owned by GE, and Roper owned by Whirlpool.

■ THE LARGE HOUSEHOLD APPLIANCE INDUSTRY IN THE UNITED STATES

The U.S. large household appliance industry consists of manufacturers, distributors (wholesalers and retailers), and consumers that produce, sell, and buy refrigeration and cooling appliances, home laundry appliances, dishwashers and trash compactors, and large cooking appliances, including microwave ovens.⁹ In 2004, U.S. consumers spent \$30.5 billion for these appliances, which represented an 8.9 percent increase over 2003. The Association of Home Appliance Manufacturers reports that total shipments for large household appliances increased 7.5 percent to 79.2 million units in 2004. Exhibit 3 shows U.S. appliance shipment data for the period 2000 to 2004 and year-end projections for 2005 and 2006.

Manufacturers and Manufacturing

Four manufacturers dominate the core U.S. household appliance market, which consists of clothes washers and dryers, refrigerators, freezers, dishwashers, and freestanding and built-in ranges. Whirlpool claimed 33.4 percent of the U.S. market in 2004, followed by General Electric, with a 25.7 percent market share. Electrolux's Frigidaire Home Products division posted a 19.0 percent market share. Maytag had a 15.1 percent market share. These four companies accounted for 93.2 percent of the U.S. core appliance market in 2004. However, manufacturer market share varied by product category. Measured by unit volume, the largest core appliance category is refrigerators. Here, General Electric was the market leader with a 29 percent market share, followed by Electrolux with its Frigidaire brand (25 percent), and Whirlpool (25 percent). The second largest category, washing machines, was led by Whirlpool, with 51 percent of the market, followed by Maytag (20 percent), and General Electric (17 percent).

Although not a core appliance, microwave ovens represented a sizeable unit volume. In 2004, the U.S. market share leaders were Asian companies LG Electronics (with 38 percent of the microwave oven market), Sharp Electronics Corporation (23 percent), and Samsung Electronics (11 percent). Whirlpool was the top U.S. manufacturer with a market share of four percent. Exhibit 4 details the U.S. market shares of large household appliance manufacturers by product category.

⁸ "Mainland Brands Think Globally," English.eastday.com, downloaded June 15, 2005; "Haier in America," Kotler Marketing Group, April 2002.

⁹ Portions of this discussion are based on "Household Durables," *Standard & Poor's Industry Surveys*, March 17, 2005; "A New Deal for Durables," Boston: *The Boston Consulting Group*, 2005; "Large Kitchen Appliances in the USA," Euromonitor.com, June 2004; and "Where to Buy Appliances," *Consumer Reports* (September 2005), pp. 32–34.

EXHIBIT 3

Industry Shipments of Major Appliances: Trends and Forecasts—2000 to 2006 (Thousands of Units)

Product Category	2000	2001	2002	2003	2004	2005 ^F	2006 ^F
Cooking—Total	20,846	21,548	21,917	23,315	25,390	25,141	25,760
Electric Ranges—Total	5,026	5,066	5,338	5,622	6,145	6,265	6,361
Free-Standing	3,826	3,842	4,030	4,238	4,612	4,690	4,757
Built-In	706	726	7780	841	963	996	1,016
Surface Cooking Units	494	498	528	543	570	579	588
Gas Ranges—Total	3,176	3,036	3,268	3,419	3,719	3,802	3,914
Free-Standing	2,729	2,580	2,781	2,897	3,124	3,185	3,280
Built-In	70	72	71	67	67	67	67
Surface Cooking Units	377	384	416	455	528	550	567
Microwave Ovens	12,644	13,446	13,311	14,274	15,526	15,074	15,485
Home Laundry—Total	14,070	13,863	14,637	15,480	16,754	16,959	17,412
Automatic Washers	7,495	7,362	7,745	8,146	8,832	8,932	9,111
Dryers—Total	6,575	6,501	6,892	7,334	7,922	8,027	8,301
Electric	5,095	5,117	5,402	5,718	6,262	6,350	6,603
Gas	1,480	1,384	1,490	1,616	1,660	1,677	1,698
Kitchen Clean-Up—Total	11,430	11,291	12,137	12,831	13,884	14,203	14,413
Disposers	5,485	5,547	5,815	6,277	6,649	6,700	6,775
Dishwashers	5,827	5,627	6,207	6,428	7,106	7,377	7,513
Built-In	5,663	5,478	6,049	6,280	6,953	7,231	7,367
Portable	164	149	158	148	153	146	146
Compactors	118	117	115	126	129	126	125
Food Preservation—Total	11,180	11,520	12,279	12,544	13,429	13,458	13,760
Refrigerators	9,217	9,305	9,744	10,021	10,913	11,019	11,246
Freezers—Total	1,863	2,215	2,535	2,523	2,516	2,439	2,514
Chest	1,075	1,285	1,492	1,518	1,529	1,463	1,510
Upright	888	930	1,043	1,005	987	976	1,004
Home Comfort—Total	7,471	6,381	6,952	9,527	9,754	7,819	8,726
Room Air Conditioners	6,496	5,575	6,153	8,216	8,082	6,500	7,400
Dehumidifiers	975	806	799	1,311	1,672	1,319	1,326
Total Shipments	64,997	64,603	67,922	73,697	79,211	77,580	80,071
AHAM 6**	38,408	38,230	40,785	42,495	46,055	46,732	47,805

^FIncludes shipments for the U.S. market whether imported or domestically produced. Export shipments are NOT included. Forecasts as of April 30, 2005. Forecasts are a median of the participating companies' forecasts.

#Includes units of 6.5 cu. ft. and over.

Total industry shipments may not add due to rounding.

**The AHAM 6 includes: Washers, Dryers, Dishwashers, Refrigerators, Freezers, and Free-standing and Built-in Ranges.

Source: Copyright © 2005 Association of Home Appliance Manufacturers. Used with permission.

EXHIBIT 4

**U.S. Market Shares of Major Household Appliance Manufacturers
by Product: 2004 (Unit Sales)**

<i>Product Major Manufacturers</i>	<i>Market Share (%)</i>	<i>Product Major Manufacturers</i>	<i>Market Share (%)</i>
Refrigerators		Dishwashers	
General Electric	29	Whirlpool	33
Whirlpool	25	General Electric	29
Electrolux	25	Electrolux	19
Maytag	11	Maytag	16
Haier	10	Washers	
Freezers		Whirlpool	51
Electrolux	68	Maytag	20
W. C. Wood	21	General Electric	17
Haier	9	Electric Dryers	
Microwave Ovens		Whirlpool	56
LG Electronics	28	Maytag	19
Sharp	23	General Electric	14
Samsung	11	Gas Dryers	
Daewoo	10	Whirlpool	55
Electric Ranges		Maytag	25
General Electric	49	General Electric	11
Whirlpool	23		
Maytag	12		
Gas Ranges			
General Electric	36		
Electrolux	27		
Maytag	18		

Source: Case author estimates based on "Household Durables," *Standard & Poors' Industry Surveys*, March 17, 2005, and interviews with appliance industry analysts.

Appliance production is capital intensive and there are significant initial and ongoing cash costs for manufacturing plants. For example, the capital investment necessary to build a new appliance manufacturing facility from scratch ranges between \$200 million and \$800 million, depending on capacity and the appliance made. Accordingly, manufacturers often add to or retool existing manufacturing plants. The capital investment necessary to modify or upgrade an existing facility ranges between \$55 million and \$75 million.

Appliance manufacturing facilities are highly mechanized, with assembly lines designed for long production runs. Manufacturing fixed cost of operations is high. Variable cost consists mostly of raw materials (steel, aluminum, packing materials, energy, etc.), shipping, and labor. Raw materials account for about 60 percent of a manufacturer's cost of goods sold; labor represents about 20 percent. Rising raw material costs since 2002 have depressed manufacturer gross profit margins worldwide which historically fluctuated between 21 percent and 24 percent. Even lower labor cost manufacturers, such as Haier, have recorded smaller gross profit margins

due to rising material cost. For example, Haier's gross profit margin in 2004 for air conditioners fell to 11.2 percent from 12.4 percent in 2003. Its gross profit margin for refrigerators declined to 16.5 percent from 19.2 percent.¹⁰ At the same time, manufacturers have encountered competitive pressure and retailer demands to reduce home appliance prices. Prices for major household appliances in the United States declined three percent on average in 2004, following a 3.7 percent decline in 2003.

Distributors and Distribution Channels

Appliance manufacturers in the United States distribute their products to consumers through chain retailers, independent appliance retailers, and distributors/wholesalers. About 70 percent of appliance manufacturer sales in the United States are to chain retailers. Sears is the largest home appliance retailer, with a 38.6 percent retail market share, due to the wide range of brands and models it carries, including its own Kenmore brand appliances, a large portion of which are made by Whirlpool. However, its retail share has declined from 42 percent in 2002. Lowe's is the second largest appliance retailer, with a 13.8 percent market share, followed by Home Depot (8.1 percent) and Best Buy (6 percent). Lowe's, Home Depot, and Best Buy increased their combined home appliance retail market share from 22 percent in 2002. Wal-Mart Stores, the world's largest retailer, ranks seventh in major home appliance sales and its Sam's Club ranks ninth. Chain retailers purchase appliances directly from manufacturers and operate warehouses to stock inventories for truck delivery to stores.

Independent appliance retailers account for 25 percent of home appliance sales, down from 30 percent in 2002. These retailers, like Sears, typically sell appliances at the manufacturer's suggested retail price, drawing customers with well-stocked inventories and knowledgeable salespeople. In contrast, Home Depot and Wal-Mart often sell appliances at a discount on the manufacturer's suggested retail price. About 85 percent of independent appliance retailers purchase their products through national buying groups. A buying group is organized by small- and medium-size appliance retailers to purchase products in higher volumes from producers, and achieve price discounts equivalent to larger national retail chains. A buying group also enhances efficiency by combining warehousing or distributor functions.

Distributors and wholesalers sell appliances to commercial buyers, such as builders and contractors, who install appliances in mostly homes and apartments. They account for about 5 percent of home appliance sales. Exhibit 5 on page 228 displays the distribution channels for large household appliances in the United States along with the percentage of dollar sales sold through each.

Marketing Practices

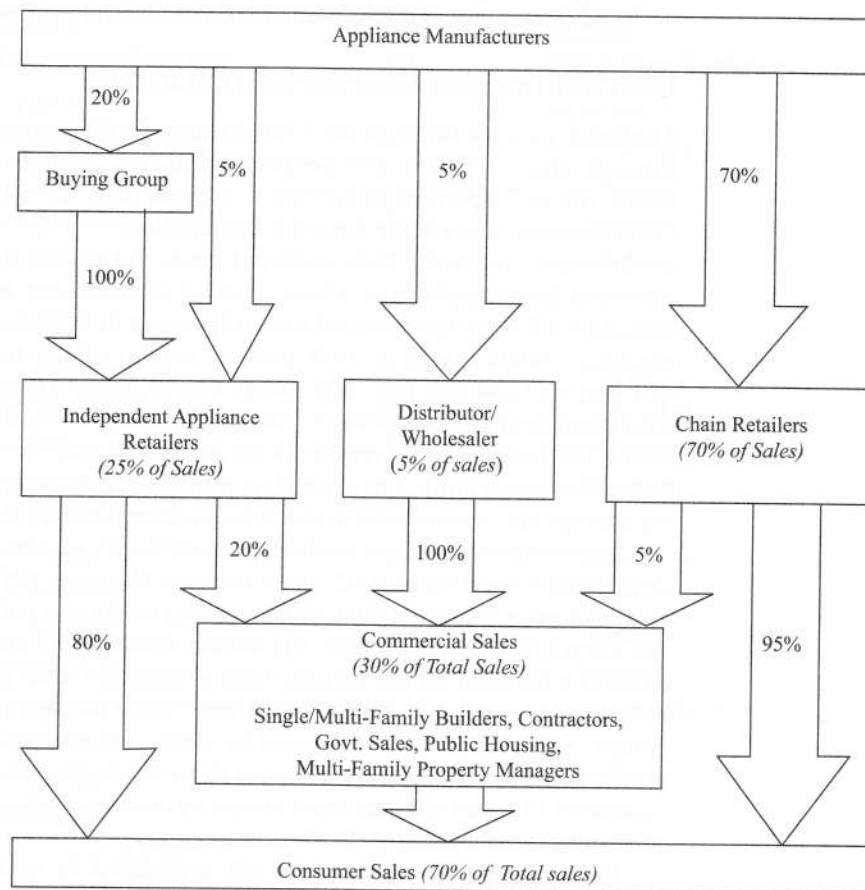
Major U.S. appliance manufacturers offer a complete appliance product line in the United States. Each line (e.g., clothes dryers) contains multiple models with different features, sizes, colors, performance specifications (e.g., energy efficiency), and configurations (e.g., top-loaded vs. front-loaded dryers).

Manufacturers position their products along a "price-quality" continuum using sub-branding and multibranding strategies. For example, each major manufacturer has a flagship corporate brand (e.g., General Electric, Maytag, and Whirlpool). These manufacturers use sub-branding to differentiate individual products within the corporate brand line. For example, General Electric uses sub-branding featuring the GE *Momentum* sub-brand targeted at the high-end market. The Maytag *Neptune* sub-branded clothes dryer with numerous value-added features is priced higher than Maytag's conventional dryer. Home Depot sells the Maytag *Neptune* for between \$999 and \$1,069,

¹⁰ "News & Commentary: Haier," Bloomberg.com, June 21, 2005.

EXHIBIT 5

Home Appliance Distribution Channels in the United States and Dollar Sales Breakdown



Source: Case author estimates based on "Household Durables," *Standard & Poors' Industry Surveys*, March 17, 2005, and interviews with appliance industry analysts.

depending on model. In contrast, the retailer sells conventional Maytag dryers for between \$799 and \$869.

Manufacturers also employ multibrand strategies. Different brand names are used to further differentiate products along the "price-quality" continuum. For instance, Whirlpool markets the "higher-end" Kitchen Aid brand and a "lower-end" Roper brand, along with its corporate brand in the United States. General Electric and Maytag also market "lower-end" brands such as Hotpoint and Admiral, respectively. This multibrand strategy often parallels distribution strategies. As an example, Maytag mostly markets its "high-end" JennAir brand products through independent appliance retailers and through wholesalers/distributors to builders and contractors. Maytag recently pulled its "midlevel" Amana brand out of Lowe's and Best Buy. The company now distributes the brand through independent appliance retailers to convey a more upscale market position. By and large, major U.S. household appliance manufacturers derive the bulk of their sales from products bearing the corporate brand. Non-U.S. manufacturers employ a corporate brand exclusively and avoid multibranding. The Frigidaire brand marketed by Electrolux in the United States is a notable exception.

South Korean electronics manufacturers, LG Electronics and Samsung, entered the U.S. household appliance market in the last three years. Both companies first introduced refrigerators, followed by clothes washers and dishwashers, positioned in the mid- to higher-end level on the "price-quality" continuum with an emphasis on styling and electronics. LG Electronics and Samsung intend to offer a full line of large household appliances for the U.S. market under their corporate brand name. According to industry sources, LG Electronics has its sights on becoming the number 1 or 2 appliance manufacturer in the United States by differentiating itself as a fashion and innovation brand.¹¹ For example, it offers a \$3,000+ refrigerator that features a 13.1 inch flat-panel, cable-ready, LCD television with built-in radio and speakers. LG Electronics and Samsung branded household appliances are sold at Home Depot and Best Buy.

Large household appliance manufacturers spend, on average, about 1.4 percent of their dollar sales on consumer brand advertising in the United States.¹² Advertising focuses on introducing and positioning new models and building or sustaining overall corporate brand equity. Exhibit 6 shows the estimated U.S. advertising expenditures for U.S.-based appliance manufacturers for the period 2001 to 2004. Maytag is the largest home appliance advertiser in the United States.

Appliance Buying Behavior

Large household appliances in the United States are infrequently purchased due to their durability. Most purchases involve replacement of an existing appliance. Approximately 70 percent of large household appliance sales through retail chains are replacement purchases. The majority of these replacement purchases are due to appliance failure. Thirty percent of appliance sales are discretionary or first-time purchases. Buying behavior at independent appliance retailers is slightly different. About 47 percent of appliance purchases arise from appliance failure. The remaining 53 percent of purchases are due to remodeling (17 percent), first-time purchasers (15 percent), upgrading for additional features (11 percent), and moving (10 percent). Large household appliance brand selection also differs between retail chains and independent appliance retailers. According to *Consumer Reports*, about 10 percent of Sears shoppers choose a different brand than they planned after visiting the store. Just 1.5 percent of independent appliance store shoppers bought an unplanned brand.

Industry research on buying behavior indicates that appliance replacement buyers purchase the same brand more often than not. Interestingly, as the time interval between the original purchase and the replacement purchase increases, the incidence

EXHIBIT 6

U.S. Appliance Manufacturer Advertising Dollar Expenditures in the United States: 2001–2004 (\$ in Millions)

<i>Manufacturer</i>	<i>Year</i>			
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Whirlpool	\$63.7	\$44.3	\$11.4	\$59.6
General Electric	\$36.0	\$42.7	\$22.8	\$20.7
Maytag	\$101.9	\$105.7	\$115.0	\$88.2

Source: Case author estimates from company annual reports.

¹¹ Karl Greenberg, "Upmarket Tacks Avoid a Washout," *BRANDWEEK* (June 23, 2003), p. S18.

¹² "2004 Advertising to Sales Ratios for 200 Largest Ad Spending Industries," *AdAge.com*, June 5, 2005.

of buying the same brand increases. When shopping stores for large household appliances, U.S. consumers rank product selection as a store's most important attribute, which includes the size of a store's appliance display area and brand availability. "Getting the best price" is ranked second. Convenience, including store location and hours, ranks third. The fourth most important attribute is service and knowledge that a retailer will stand behind its products. Industry analysts attribute Sears' high retail market share for large household appliances to this factor, in addition to brand availability and display area, since Sears does not offer the lowest household appliance prices at its stores.

Appliance product preferences in the United States are also changing. According to a recent *Boston Consulting Group* study, household durable goods consumers are either "trading-up to affordable luxuries" or "trading-down to products that offer low-cost functional benefits." "Stuck in the middle" products that provide neither a price advantage nor a functional or emotional benefit are in grave danger of declining sales. This view is consistent with large household appliance industry data showing the market share growth of "high-end" and "low-end" appliances on the product price-quality continuum and the market share decline of "middle-level" appliances (see Exhibit 7). According to one retail appliance analyst, "The middle is thinning. [Consumers] buy the opening price point or just go to the high end."

■ MAYTAG CORPORATION

Maytag Corporation is a Fortune 500 (#410) company headquartered in Newton, Iowa.¹³ The company was formed in 1893 by E. L. Maytag and three associates to produce feeder attachments for grain threshing machines. In 1907, the company produced its first washing machine, a hand-cranked wooden tub model.

The Company: 2004

Maytag designs, manufactures, sells, and services home and commercial appliances in North America and in selected international markets. In 2004, 94 percent of consolidated

EXHIBIT 7

Large Household Appliance Share by Price–Quality Segment

Price-Quality Segment	Year		
	1995	2000	2004
High-end	22%	30%	35%
Midrange	55	45	31
Low-end	23	25	34
Total	100%	100%	100%

Source: Case author estimates based on charts shown in "Stepping Up: Middle Market Shrinks as Americans Migrate Toward the High End," *Wall Street Journal* (March 29, 2002), pp. A1ff; and "A New Deal for Durables," Boston: The Boston Consulting Group, 2005.

¹³This discussion is based on Maytag Corporation, Form 10-K, filed February 18, 2005, and Form 10-K filed April 22, 2005; "Maytag Corporation," Hoovers.com, downloaded June 17, 2005; *Standard & Poors' Industry Surveys*, March 17, 2005; and Lorie Grant, "Maytag Stores Let Shoppers Try Before They Buy," *USAtoday.com*, downloaded June 6, 2004.

Maytag sales were to the home appliance market; six percent were to the commercial market. Eighty-eight percent of consolidated company sales were in the United States; 12 percent of sales were in other countries.

Home Appliances Maytag brands are among the most recognizable and respected names in the U.S. large household appliance market. Over the years, the company positioned its flagship Maytag corporate brand as a premium midpriced market entry based on product quality (notably dependability) and innovative product features. The company's long-running "Lonely Maytag Repairman" advertising campaign, featuring a rarely called service man for Maytag appliances, effectively conveyed this positioning. In addition to the Maytag brand, the company markets the value-priced Admiral and Magic Chef brands, the midlevel Amana brand, and the high-end Jenn-Air brand. Maytag's vice president of marketing differentiated its non-value brands as follows¹⁴:

For Amana, its characteristics include craftsmanship, convenience, and styling. For Maytag, its dependability, product performance, and intelligent innovation. And for Jenn-Air, its kitchen performance and product elegance.

The company also owns the Hoover brand, which is well known for vacuum cleaners. Hoover is the North American floor care products market leader.

Maytag sold its home appliances through large chain retailers (Sears, Home Depot, Best Buy, and Lowe's) and numerous independent appliance retailers and distributors in 2004. Among national chain retailers, Sears accounted for about 13 percent of consolidated Maytag sales in 2004 (down from 15 percent in 2003). Home Depot and Lowe's each account for about 10 percent of consolidated Maytag sales. Best Buy accounts for one percent of consolidated company sales. Maytag did not distribute its brands through Wal-Mart or Target.

Maytag also has a retail presence with its Maytag stores. The stores are independently run, in some cases by owners of existing appliance stores who want to expand with a separate Maytag location. Appliance shoppers are encouraged to use Maytag products in the stores by baking cookies or washing and drying a load of clothes. "The environment lets us showcase the product," said a Maytag executive of the 50 stores opened since 2000.

Commercial Products Maytag also manufactures and sells commercial-grade cooking equipment under the Jade brand name and vending equipment under the Dixie-Narco brand name. These products are primarily sold to distributors, soft drink bottlers (Coca-Cola and PepsiCo), restaurant chains and dealers in the United States.

Manufacturing Maytag manufactures about 75 percent of its products in the United States (compared with about 50 percent for General Electric and Whirlpool). The company has offices and 13 manufacturing facilities in Arkansas, California, Illinois, Iowa, Ohio, South Carolina, Tennessee, and Texas. The company operates two manufacturing facilities in Mexico. In late 2004, Maytag manufacturing facilities were operating at roughly 60 percent of their productive capacity.

Maytag outsources some of its appliance manufacturing to South Korean companies. Since 2003, Daewoo Electronics has custom manufactured top-freezer refrigerators for Maytag. Samsung recently began producing front-loading washers. Both products carry the Maytag name and are sold through existing Maytag distribution channels. Maytag disposed of its 50.5 percent stake in Rongshida-Maytag, a Chinese producer of washing machines and refrigerators, in 2002 following lackluster performance of the joint venture.

¹⁴ Joe Jancsurak, "Marketing Challenges," *ammagazine.com*, August 2002.

Global Presence Maytag has a modest global business with 12 percent of its total sales from non-U.S. markets. By comparison, about 35 percent of Whirlpool sales are from non-U.S. markets. Maytag embarked on a major globalization initiative in the late 1980s with an emphasis on Western European markets. However, following aggressive competition from Sweden's Electrolux and Germany's Bosch-Siemens, the company shut down its European operations in 1995. Today, Maytag is estimated to have modest market shares (less than 1 percent) in Western Europe and Latin America and a respectable market share (6 percent) in Australasia. It has no material market presence in China, Southeast Asia, or Eastern Europe.

Financial Performance Maytag's consolidated net sales in 2004 totaled \$4.7 billion—a 1.5 percent decline from 2003 sales. Home appliance sales were down \$40 million, or 0.9 percent compared to 2003. Commercial product sales declined by \$30.4 million, or 10.4 percent compared to 2003. Maytag's overall gross profit in 2004 was \$660.2 million, or \$799.3 million less than 2003. Consolidated operating income declined to \$40.4 million or 0.9 percent of net sales in 2004 from \$228.3 million, or 4.8 percent of net sales in 2003. Ongoing restructuring efforts since 2001 were a major expense and reduced Maytag's operating income over the past three years. Home appliance operating income declined to \$47.4 million or 1.1 percent of net sales in 2004 from \$212.3 million or 4.7 percent of net sales in 2003. Commercial products registered an operating loss of \$7.1 million in 2004 compared to an operating income of \$16 million in 2003. Maytag consolidated financial statements for 2002, 2003, and 2004 appear in Exhibit 8. The company also reported that "[Unit] sales of major appliances increased slightly in 2004 compared to the prior year but market share declined in all categories in a strong industry."¹⁵ In fact, Maytag's U.S. retail market share has eroded since 2001. Maytag's CEO also said that market share in home appliances suffered as a result of competitors offering better trade margins to retailers.¹⁶

The Company: First Quarter 2005

Maytag reported First Quarter 2005 consolidated net sales of \$1.17 billion. Consolidated net sales decreased 4.2 percent compared with First Quarter 2004 results. Net sales declined 2.8 percent in Home Appliances and 26.3 percent in Commercial Products. Maytag's overall operating income was \$24.1 million compared to \$63.6 million in first quarter of 2004. Home Appliances operating income of \$26.6 million offset a \$2.5 million operating loss in Commercial Products.

In January 2005, Maytag announced that it would no longer sell its major home appliances to Best Buy. According to a Best Buy spokesman¹⁷:

[Best Buy has] decided to no longer sell Maytag's large appliances because customers were responding positively to products made by new foreign suppliers, such as LG Electronics, Samsung, and Bosch-Siemens. Customers liked the style and innovation of the new brands . . . Maytag makes innovative products, too, but Best Buy has to respond to what customers want.

In addition, Maytag announced that Home Depot added LG Electronics and Samsung home appliances to its product line. Maytag executives acknowledged that the decisions made by Best Buy and Home Depot might adversely affect the company's home appliance sales in 2005. Also in January, Maytag raised the prices on its major appliances by 5 percent to 8 percent, citing higher raw material cost as the reason. In February, Maytag reported additional factory layoffs at its Newton, Iowa, washer and dryer production

¹⁵ Maytag Corporation, Form 10-K, p. 8.

¹⁶ Karl Greenberg, "Newbies Load Up, Put Squeeze on Big Four," BRANDWEEK (June 20, 2005), p. S23.

¹⁷ "Maytag, Best Buy Decide It's Over," DesMoinesRegister.com, January 20, 2005.

ASSETS

Current asse

Cash and cash

Accounts rece

Inventories

Other current

Total current

Noncurrent A

Deferred inco

Goodwill

Other noncur

Total noncur

Property, pla

Land

Buildings and

Less accumula

Total proper

Total assets

LIABILITIES

Current Liabi

Notes payabl

Accounts pay

Other current

Total current

Noncurrent l

Long-term de

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Accrued pens

Other noncur

Total noncur

Shareowner

Total Liabilit

EXHIBIT 8

Maytag Corporation Financial Statements: 2002, 2003, and 2004 (Abridged)

(A) Maytag Corporation Consolidated Balance Sheets (\$ in Thousands)

	<i>Year-End</i>		
	<u>January 1, 2005</u>	<u>January 3, 2004</u>	<u>December 28, 2003</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$164,276	\$6,756	\$8,106
Accounts receivable, less allowance for doubtful accounts	629,901	596,832	586,447
Inventories	515,321	468,345	468,433
Other current assets	135,999	232,390	260,613
Total current assets	\$1,445,497	\$1,304,323	\$1,323,599
Noncurrent Assets			
Deferred income taxes	\$253,428	\$183,685	\$190,726
Goodwill	259,413	269,013	280,952
Other noncurrent assets	140,524	220,184	242,864
Total noncurrent assets	\$653,365	\$672,882	\$714,542
Property, plant, and equipment			
Land	\$15,489	\$23,365	\$24,532
Buildings and Equipment	2,229,680	2,605,620	2,470,376
	\$2,245,169	\$2,628,985	\$2,492,908
Less accumulated depreciation	1,324,007	1,582,050	1,428,800
Total property, plant, and equipment	\$921,162	\$1,046,935	\$1,066,108
Total assets	\$3,020,024	\$3,024,140	\$3,104,249
LIABILITIES AND SHAREOWNERS' EQUITY (Deficit)			
Current liabilities			
Notes payable	\$—	\$71,491	\$178,559
Accounts payable	545,901	466,734	363,639
Other current liabilities	364,162	445,565	621,542
Total current liabilities	\$910,063	\$983,790	\$1,163,740
Noncurrent liabilities			
Long-term debt, less current portion	\$972,568	\$874,832	\$738,767
Postretirement benefit liability	531,995	538,105	517,510
Accrued pension cost	496,480	398,495	488,751
Other noncurrent liabilities	183,942	163,107	153,342
Total noncurrent liabilities	\$2,184,985	\$1,974,539	\$1,898,370
Shareowners' equity (deficit)	\$(75,024)	\$65,811	\$42,139
Total liabilities and shareowners' equity (deficit)	\$3,020,024	\$3,024,140	\$3,104,249

(continued)

EXHIBIT 8 (Continued)**(B) Maytag Corporation Consolidated Statements of Operations (\$ in Thousands)**

	Year-End		
	January 1, 2005	January 3, 2004	December 28, 2003
Net sales	\$4,721,538	\$4,791,866	\$4,666,031
Cost of sales	4,061,319	3,932,335	3,661,429
Gross profit	660,219	859,531	1,004,602
Selling, general and administrative expenses	507,013	555,092	577,995
Restructuring and related charges	69,758	64,929	67,112
Asset impairment	—	11,217	—
Goodwill impairment—Commercial products	9,600	—	—
Front-load washer litigation	33,500	—	—
Operating income	40,348	228,293	359,495
Interest expense	(56,274)	(52,763)	(62,390)
Other income (loss)	(5,392)	4,415	(1,449)
Income (loss) from continuing operations before income taxes	(21,318)	172,760	295,656
Income tax expense (benefit)	(11,973)	58,382	100,523
Income (loss) from continuing operations	(9,345)	114,378	191,401
Gain (loss) from discontinued operations	339	5,755	(2,607)
Net income (loss)	\$(9,006)	\$ 120,133	\$188,794
Earnings per common share	\$(.11)	\$ 1.53	\$ 2.43

(C) Maytag Corporation Consolidated Statements of Cash Flows (\$ in Thousands)

	Year-End		
	January 1, 2005	January 3, 2004	December 28, 2003
Operating activities			
Net income (loss)	\$(9,006)	\$120,133	\$188,794
Depreciation and amortization	169,782	165,785	163,708
Accounts receivable	(29,207)	1,403	35,211
Other current liabilities	139,386	67,061	(22,996)
Net cash provided by continuing operating activities	\$270,955	\$354,382	\$364,717
Investing activities			
Capital expenditures—continuing operations	\$(94,420)	\$(199,300)	\$(229,764)
Settlement of Amana purchase contract	—	11,939	—
Proceeds from business and property disposition	25,495	16,168	—
Investing activities—continuing operations	\$(68,921)	\$(171,193)	\$(229,764)
Financing activities			
Net proceeds (reduction) of notes payable	\$(71,491)	\$(107,068)	\$30,312
Proceeds from issuance of long-term debt	100,000	200,000	—
Dividends on common stock	(56,899)	(56,524)	(56,010)
Other	(16,323)	(221,067)	(211,245)
Financing activities—continuing operations	\$(44,713)	\$(184,659)	\$(236,943)
Effect of exchange rates on cash	199	120	726
Increase (decrease) in cash and cash equivalents	157,520	(1,350)	(101,264)
Cash and cash equivalents at beginning of year	6,756	8,106	109,370
Cash and cash equivalents at end of year	\$164,276	6,756	\$8,106
Cash flows from discontinued operations	\$(5,811)	\$3,014	\$(4,727)

Source: Maytag Corporation, Form 10-K Reports.

facility.¹⁸ Maytag had laid off about 330 production workers at the Newton facility during the past year, trimming the factory work force to an estimated 1,430 people, compared with around 2,500 as recently as 2002.

■ MAYTAG BID CONSIDERATIONS

Haier's decision to bid on Maytag would depend heavily on an assessment of competitive issues and the marketing opportunity that the Maytag business and assets could provide Haier in the United States and abroad. For example, a competitor might acquire Maytag, (re)build its business, and achieve a more advantageous competitive position in the United States in terms of brands owned and marketed and display space in retail outlets. In late 2002, industry analysts speculated that Electrolux considered Maytag to be an acquisition target.¹⁹ On the other hand, a successful bid would establish Haier as a major home appliance manufacturer in the United States, broaden its U.S. appliance product lines, and give Haier brand recognition with the Maytag name. It could also provide Haier access to new retail channels given Maytag's long-standing trade relations with independent appliance retailers, national chain retailers, and appliance distributors/wholesalers.

Haier executives would also need to consider the Maytag purchase in light of Haier's long-term corporate initiatives, strengths and weaknesses, and the future marketing of Maytag and Haier-branded appliances in the United States and worldwide. A plan would need to be developed that described how Maytag could further Haier's initiatives, capitalize on its strengths, and overcome its weaknesses in the United States and abroad. In addition, attention to the integration of Maytag's business into Haier's business (or vice versa) in the United States was necessary. In particular, decisions related to the offering and brand portfolio of the combined companies would have to be made. For example, should Haier continue with its multiproduct brand strategy or adopt Maytag's multibrand strategy?

The initial May bid for Maytag by a private U.S.-based investment group was \$1.13 billion, or about \$14.00 per share. The investment group would also assume Maytag's \$969 million in debt. Haier had the capital to exceed this bid should company officials determine that the financial value of Maytag exceeded this figure. Furthermore, Haier's cost of capital was virtually zero given its preferred status according to the Chinese government's plans for global expansion. According to financial analysts, the average price-earnings ratio (P/E) multiple in the household appliance industry fluctuated in the 16 to 20 range in the prior five years (that is, corporate stock prices were trading at 16 to 20 times corporate earnings-per-share). Financial analysts also projected Maytag's earnings-per-share to be \$.54 in 2005, \$.75 in 2006, and \$.80 in 2007 following a successful completion of Maytag's restructuring effort. Maytag's stock price was trading at \$15.31 per share on June 15. Exhibit 9 on page 236 shows the Maytag stock price trend over the past 10 months.

On the other hand, Haier executives had to consider whether such a financial investment might be better directed at building the Haier brand and business in the United States following the corporate growth strategy of Japan's Sony Corporation and South Korea's Samsung Corporation. Both companies built their core businesses and corporate brands over an extended time period rather than through acquisitions.

¹⁸ "Maytag to Cut More Jobs at Newton Plant," *ApplianceMagazine.com*, February 9, 2005.

¹⁹ "Repairing Maytag," *Forbes.com*, November 11, 2002.

EXHIBIT 9

Maytag Corporation Common Stock Price Trend: September 2, 2004, to June 15, 2005



Source: Adapted from Maytag Corporation Web site, downloaded June 16, 2005.