Against the Grain

A Chinese appliance maker has placed its bet on a counterintuitive strategy: It's bringing jobs to the U.S.

By KELLY K. SPORS

BEHIND THE CORINTHIAN columns of an old Manhattan bank building, an appliance maker is adding a new twist to the outsourcing drama.

On the top floor of the building, Haier America shows off a range of products to potential customers: a keg-like beer dispenser for the kitchen; a frog-shaped television that quizzes kids on math before allowing them to watch shows; and large-capacity freezers with slide-out drawers rather than the traditional flap-top.

The twist? Haier is the U.S. arm of **Haier Group**, China's largest kitchen-appliance maker. While hundreds of U.S. companies have set up factories in China to take advantage of cheap labor and get access to a booming local market, Haier is among the first Chinese manufacturers to bring jobs and infrastructure to the U.S. Along with its Broadway headquarters, Haier has opened a factory in South Carolina and plans to add a distribution center there.

"I think we made a lot of friends in an industry and in a climate where we're hearing every day that jobs are going to Mexico or offshore," says Michael Jemal, chief executive of Haier America, who helped launch the U.S. unit in the late '90s.

Already the fifth-largest kitchen-appliance maker in the world, Haier Group has made big inroads here. Since introducing its compact refrigerators and refrigerated wine cellars to the U.S. in 1995, Haier has captured 50% of the market for the devices, according to the company. Now it's introducing a host of other products and rising in those categories, too: The company estimates it sells around 2% of all full-size refrigerators in the U.S., 16% of window air conditioners and 8% of portable fans. And the company recently started introducing electronics products here, including flat-screen TVs and DVD players.

In Through the Out Door

Gerry Beatty, who follows major appliances for the trade journal Home Furnishings News, estimates that Haier America ranks seventh or eighth in market share among kitchen-appliance makers in the U.S. The company projects its annual U.S. sales will double to $1 billion by 2006. It's also looking to the rest of North America for growth: The company already sells its products in Canada and recently closed its first deal with a large Mexican appliance retailer, **Grupo Elektra**.

Haier's story holds a lesson that's often lost in the debate on corporate outsourcing. While globalization has made it easier for U.S. companies to shift jobs to other countries, it has become increasingly feasible for foreign companies to move operations here.

Of course, other nations, such as Japan, have been building outposts in the U.S. for years—but only now are Chinese companies making the trip. Already, a few large Chinese businesses have followed Haier's lead. **TCL** Corp., the largest Chinese consumer-electronics company, recently launched a joint venture with **Thomson** SA, the French company that owns RCA, forming the world's largest television maker. And **Huawei Technologies** Co. has been aggressively selling routers and switches in the U.S. for the past few years.

Almost everyone who works in Haier's South Carolina plant is American

There's disagreement about just how far the trend will go. Bill Fischer, a professor at IMD business school in Lausanne, Switzerland, predicts that a wave of Chinese companies will start expanding and bringing products and jobs to the U.S. in the next few years. While they will probably continue doing the bulk of their manufacturing in China—where labor costs are about one-tenth those in the U.S.—they are likely to set up marketing and distribution operations here.

But Yasheng Huang, an international management professor at the Massachusetts Institute of Technology's Sloan School of Business and author of a book about foreign direct investment in China, says the movement may likely be limited to a handful of Chinese companies trying to establish a brand name in the U.S. He notes that it makes more sense for Chinese companies to invest domestically, where the economy has grown at a steady 8% to 9% pace for several years and the companies understand the customers. And he points to statistics that show net direct foreign investment from China has actually dropped substantially in the past five years, as more Chinese companies transferred assets from foreign ventures to reinvest in China.

"To me, it is very mystifying" why Chinese companies would want to invest in the U.S. right now, Mr. Huang says.

So what has been driving Chinese companies into the U.S. market so far? They are attempting "to cut out the middleman in many ways," says Dion Wiggins, a Gartner Inc. analyst in Hong Kong.

For decades, big Chinese manufacturers, including Haier, made products for foreign companies that went abroad looking for cheap labor. The foreign companies then sold those products at home—but also targeted the local Chinese market, making huge inroads against the country's stodgy, bureaucratic conglomerates.

That began changing a few years ago, as more foreign investors flooded into China and bought stakes in Chinese companies. Bolstered with foreign capital, and encouraged by their new investors to use Western-style competitive tactics, Chinese operations began to seriously challenge incoming foreign businesses.

Closer to the Customer

When **Whirlpool** Corp., the world's largest appliance maker, moved into China in the late 1990s, it came "with quite a bit of bravado," says Mr. Fischer. But the company soon realized competition from Haier was much fiercer than expected. "Haier was able to listen to the [Chinese] customer better. They were able to innovate." For instance, Haier offered compact products that better fit the needs of Chinese consumers, who have smaller homes. Whirlpool is still growing in China, but not at the pace first anticipated.

A Whirlpool spokesman acknowledges that the company experienced some early problems when it first introduced its products in China and, like many others, underestimated the local competition. But the company's market share has steadily grown since then, he says.

As the Chinese companies fought off challengers at home, they grew confident enough to look overseas. China's move into the World Trade Organization in 2001 only strengthened their determination to go global.

It was no surprise to find Haier in the vanguard of the movement. In the latest tally by Euromonitor International Inc., a London-based market-research firm, Haier was the world's fifth-largest large kitchen-appliance maker in 2002 after Whirlpool, **Electrolux** AB, **Bosch-Siemens Hausgerate** GmbH and **General Electric** Co. It increased its global market share to 3.8% from 3.2% in that year alone.

The Qingdao-based collective employs about 35,000 people world-wide, including 320 in the U.S.—120 in its U.S. headquarters in New York and 200 at its plant in South Carolina. It plans to add more jobs and factories in the next couple of years, as it expands into new product lines and potentially garners greater market share. It recently bought a distribution center in South Carolina that will open next year.

Haier started out as Qingdao General Refrigerator Factory, a state-run enterprise that nearly went bankrupt turning out low-cost, low-quality products. All that began to change in 1984, when Zhang Ruimin took over. A former local-government bureaucrat, Mr. Zhang instituted higher management and quality-control standards at the plant. In 1991, the company renamed itself Haier, which means "the sea" and symbolizes profit in Chinese.

Haier began selling some refrigerators in the U.S. in 1995, but didn't establish a separate operation there until 1999, at the urging of Mr. Jemal. An appliance distributor for importer Welbilt Corp., Mr. Jemal was already selling Haier products to U.S. retailers under other names. He says he thought Haier's products and innovations could easily work in the U.S. and persuaded executives in China to take a shot at selling here on a larger scale. Mr. Jemal and a small group of U.S. investors put up about $1 million to start Haier America. It started with a staff of 13.

After much success selling compact refrigerators, the company decided to branch out into full-size refrigerators. Executives realized it was cheaper for Haier to produce the bulky items domestically than to ship them from China, which can take weeks and a huge amount of cargo space.

So the company bought 110 acres in Camden, S.C., a rural community with about 6,000 residents about 35 miles northeast of Columbia, and in 2000 built a $40 million, 350,000-square-foot refrigerator factory. Originally, the company brought in Chinese workers to train new employees on how to use the equipment. Now almost everyone who works there is American. The facility puts out about 200,000 18- and 21-cubic-foot models a year.

For South Carolina, Haier's move could not have come at a more opportune time. The state has seen a mass exodus of textile jobs leaving for China in the past few years, making Haier's move into the state particularly significant. South Carolina has lost roughly 30,000 jobs in textiles and 68,000 jobs in manufacturing since 1997, according to the state's Employment Security Commission.

Wanted: Chinese Industry

The state actively recruited Haier, pitching its low-cost work force and strategic location along major highways and near the Port of Charleston, says Bob Faith, the state's commerce secretary. Haier also received financial incentives, including three years of tax abatement and an attractive price on land, the company said.

South Carolina, which has the second-most direct foreign investment per capita among U.S. states, including four Japanese and 18 European facilities, has made China a prime target for industrial recruiting. Last fall, Mr. Faith and some other state officials traveled to China on a trade mission in hopes of luring more Chinese businesses. And South Carolina's commerce department plans to open an office in Shanghai by January.

"Rather than watch our jobs get drained to China, we want to take advantage of what's going on in China right now," he says. "Haier is sort of like the [General Electric] of China. If you're a big company like that

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Haier

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looking to grow, you're going to look at the biggest country in the world."

David Parks, a senior vice president of Haier who oversees the South Carolina operation, says the company currently only uses about one-fifth of the 110 acres of land the company owns in Camden and can feasibly build four more factories of similar size on the land.

That will probably happen, he says, because the company intends to add side-by-side refrigerators, large-capacity freezers and central-air-conditioning units in the next few years.

"We could certainly double or triple our employment rates here in the next five years," Mr. Parks says. While not specifying an exact wage, Mr. Parks says most employees at the plant make more than $10 an hour and get health benefits.

After South Carolina, Haier's next target was the Big Apple. In 2002, Haier America spent $15 million to buy the old Greenwich Savings Bank, a six-story landmark structure, now dubbed the Haier Building. The executives keep offices in the basement, and the reception area is decorated with a sampling of the company's products, including a 122-bottle wine cellar behind the reception desk.

Despite its quick evolution in the U.S., Haier still has major challenges ahead. For one thing, the company was able to dominate the market for compact appliances so quickly because there's much less demand for them here than in China; Americans typically prefer bulky refrigerators that can hold a lot. As Haier moves into larger products, it will face a much more crowded field.

Thus, Haier will be trying to win over buyers with innovations—and to do that successfully it must try to learn the nuances of the U.S. market. "The American market is different, from the types of features to the size of the product," Mr. Parks says. "Ice is not prevalently used in China. But all our refrigerators here have ice makers."

At the same time, Haier's outsider perspective may let it spot opportunities for innovation that have been missed by established players. For example, before Haier began marketing them, few if any companies sold refrigerated wine cellars in the U.S. market. But, noting that many Americans had to spend a lot of money to construct cellars in their homes, the company launched the compact product at a relatively low cost—a few hundred dollars, typically—to Americans and quickly dominated the market, while other companies introduced copycat versions.

"All of a sudden, we had all the big appliance companies here copying us," Mr. Jemal says. ▦