

ON + INNOVATION

Observatory of new ways to innovate

CASE I

HAIER

*An ecosystem of internal microcompanies
and partners where the customer is the boss.*

A global innovation leader from China



November 2020

On+innovation is a project to detect, analyze and synthesize new practices on innovation around the world, be it new models, methodologies, technologies or practices, which aim at improving the way now people or organizations innovate.

The analysis is presented in a descriptive manner in order to make it easy to understand. Its goal is to help organizations to be more efficient when they innovate.

The cases are brought to you thanks to the UPF Barcelona School of Management through a collaboration with the Institute of Next, an organization based in Barcelona since 2000 and focusing on detecting, deriving and applying effective models of innovation.

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ON A SNAPSHOT

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Haier CEO Zhang Ruimin exclusive interview on Rendanheyi, Platforms and Ecosystems, by Boundaryless



<https://www.youtube.com/watch?v=RgQrz3EVhU0>



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ON A SNAPSHOT



1 Its business model and operations has transformed this Chinese company from a local company to the **global leader** in the industry of electric appliances.

4 Its focus on quality, at its beginning, and its current focus on smart market response, have given Haier a **clear advantage over its** competitors, and it has enabled to develop an international edge in its industry.

2 It has successfully moved from a typical, bureaucratic company into a **network of thousands of micro-enterprises** (some 4000) managed by employees that act as entrepreneurs. This makes Haier a pioneer in organization transformation. Its **Rendanheyi model** is becoming an example for companies across the world.

5 Its **HOPE platform** engages thousands of agents (suppliers, distributors, retailers, even customers) that connect among each other in order to quickly respond to needs and opportunities in the market. In this sense, it becomes a truly internet-company.

WHY IS HAIER'S INNOVATION MODEL RELEVANT

3 The non-hierarchical model enables **zero-distance with the market** and stimulates constant innovation (what Haier calls “sustainable innovation”).

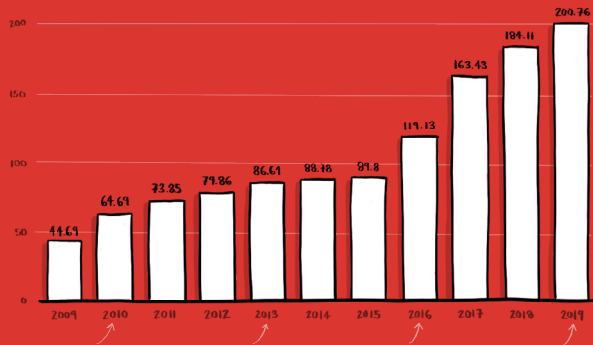
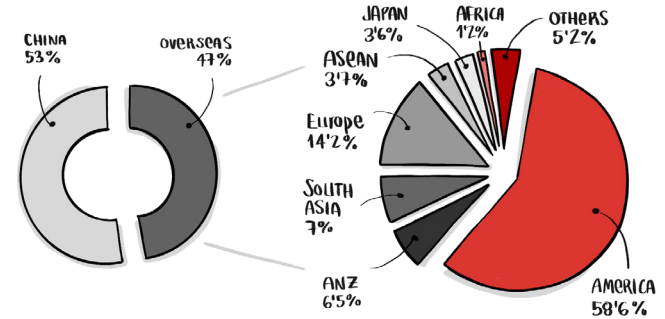
6 So, innovation is not thought of as merely improving what you do, but on **creating markets based on new opportunities**, answered by entrepreneurial teams.

7 Since the 1980's, Haier **has reinvented itself several times**.

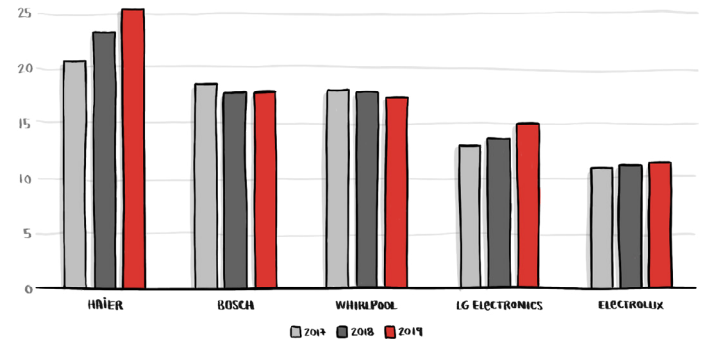
KEY FIGURES

The world largest appliance manufacturer (since 2010)

Revenues around 25 B€ (2019)
 Global profits around 4 B€ (2018)
 Total assets around 24 B€ (2019)
 Brand value around 24 B€ (2019)
 Number of employees close to 100,000
 Established in 30 countries
 122 manufacturing plants
 10 R&D global centers
 25 industrial parks

EVOLUTION REVENUES
2009-2019 (Billion Yuan)**REVENUES PER REGION, PERCENTAGE (2019)**

Source: Haier webpage

EVOLUTION of sales VERSUS MAIN COMPETITORS (Billion euro)

Source: Companies data

THE COMPANY



Based on a previous small refrigerator manufacturer founded back in 1920, the current Haier Company started as a **state-owned enterprise** by 1984, with headquarters in Qingdao, under the direction of the charismatic **Zhang Ruimin**, acknowledged as one of the most relevant business people in China.

The transformation of the company into what will finally become the worldwide leader in the electric appliances industry, started with a **sharp focus on quality** (“zero tolerance for defective products”), which enabled it to quickly become leader in China as refers to fridges.

During the 1990s, the company started a determined **strategy of diversification**, so that it acquired some 20 rival Chinese companies, that added production capabilities on top of Haier’s successful management models. This brings a complete catalogue of electric appliances for the growing Chinese market.

After 1998, the company started an **aggressive global approach**, focussing in the most complex markets, United States and the European Union. It did so by acquiring some Western companies and brands, and by establishing R&D and marketing centres across many countries.

BRANDS and COMPETITORS

MAIN BRANDS

Haier

GE APPLIANCES

Fisher&Paykel

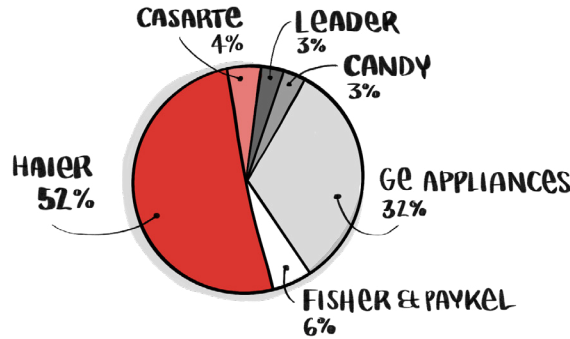
Casarte
REFINED LIVING

CANDY

统帅
Leader

AQUA

GLOBAL REVENUE BY BRAND



MAIN COMPETITORS

BOSCH
Invented for life

Whirlpool

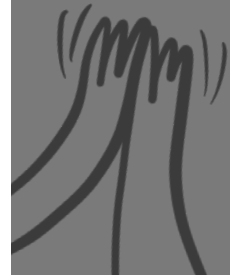
LG

Electrolux

“ No company is promoting management innovations on such a large scale and in a systematic manner like Haier. ”

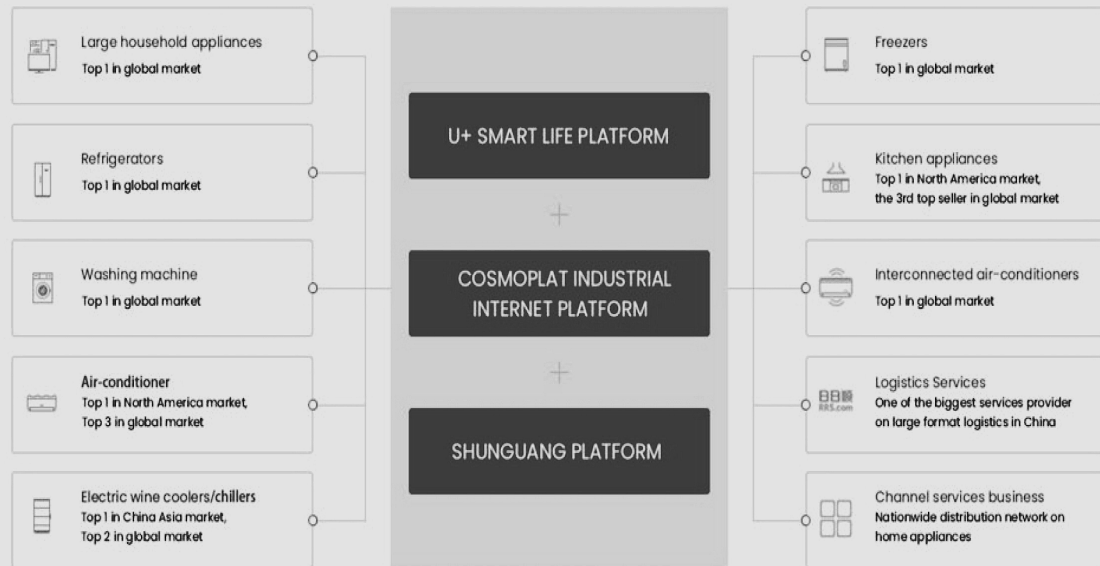
World's leading expert on business strategy

Gary Hamel



MAIN PLATFORMS

HAIER'S MAIN PRODUCT-SERVICE PLATFORMS



GLOBAL BRAND

A GLOBAL BRAND WITH LOCAL OPERATIONS

Haier is a worldwide brand with **a strong focus on local management and production**. Gradually reinforcing its local presence, the main group headquarters are located in Qingdao (Asia), Paris (Europe), and New York (Americas).

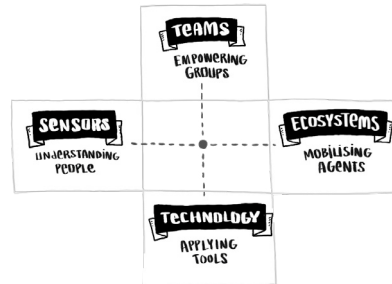


THE HAIER'S WAY



Haier's innovation model is characterized by a balance within the four assets that may be considered as fundamental in the new operating system of a company: sensors, technology, equipment and ecosystems.

Each of these four main assets has a critical function:



SENSORS: to understand people, to quickly give them the right answers

TECHNOLOGIES: to detect transformative technologies, and apply them right along

TEAMS: to empower teams, and guide them to outcomes more than outputs

ECOSYSTEMS: to generate value with other agents, combining their capabilities

In the case of Haier, the following actions stand out in these four assets:

Sensors: millions of customers taking part on an interaction to design and manufacture new products and services.

Technology: an internal platform to connect and coordinate market-facing autonomous micro-companies.

Teams: an organization of more than 4000 self-managed micro-companies whose revenues are partly shared across the members.

Ecosystems: a platform with thousands of external companies and experts that help solve problems that lead to enhanced or new products and service.

SENSORS

responding to people needs



The company's customer-centric revolution started back in 1984 when Zhang Ruimin established the zero tolerance for defects, the legendary **quality-centered strategy**, which basically meant that the focus must be placed on the customer and its satisfaction.

This focus on quality progressively evolved into one of **personalized user experiences for customers** since satisfaction finally comes from understanding needs, problems and expectations of the customers.

In order to achieve such a goal, the participation of users in the design of products becomes critical, so the company must work out a **“zero distance” with users and customers**. Haier's customer community is used as a vehicle for millions of customers to actively participate in product design, but the company also uses popular social networks such as Baidu to do so.

So at Haier “zero distance” means that “everyone is directly accountable to customers”. The way this relationship is made is through the market-facing micro-companies.

The **huge dimension of the Chinese market** as well as its fast rate of change, has become for Haier the best “school” for customer focusing.

Once this interaction is established, the company can “create markets and customers” by understanding competition as a **“war of value, not of price”**. The targets are established not based on previous performance of the company but on the opportunities detected in the global market.

The next level of “responding to customers” stems from the **conversion of products into services** (for instance, IOT connected fridges that detect products to be purchased and proceed to buy them on supermarkets in Haier’s ecosystem). This helps create users that remain loyal to the brand across time. Every micro-company inside Haier is expected to evolve from selling products and services **to establish an ecosystem with customers**.

The final result is one of a sophisticated **sensing of customer needs** (what people want or need) and a **mechanism to generate a fast response** (integration of agents such as suppliers or solution providers that allows zero stocks and very low operational costs).

The combination of zero-distance to users and zero-inventory enables a system of **on-demand manufacturing and delivery** that accurately responds to evolving needs of the customers.

TEAMS

empowering people to
generate outcomes



TEAMS
EMPOWERING
GROUPS

The determined focus on customers means that any employee has to be oriented towards satisfying people needs. So bringing outputs (meeting production goals) is **less relevant than bringing outcomes** (meeting customers expectations). The result of such a change in focus was a radical redesign of the structure and organization of the company.

Every employee follows an “individual goal”, what the chairman Zhang Ruimin called the **Rendanheyi** model (人单合一 in Chinese, translated as ‘Maker-Customer Integration’), launched in the company in 2005. The term is based on three elements: ‘Ren’ (‘people’ in Chinese), the people that comprise the organization (employees, freelancers, etc); ‘Dan’ (‘order’) means the needs to be solved or the value expected by the user, whose satisfaction is the main goal of the company; and ‘Heyi’ (‘combination’) refers to the combination of the value for the employee with the value for the user. So the employee gets value when he/she is responding to users’ needs and expected value.

Rendanheyi is an entrepreneurial philosophy, where the end user, **the customer, is “the boss”**. The employees do not work for the company but for the customer. In this way, the company becomes an **ecosystem of thousands of microcompanies** (4.000 in 2020), most of them separate legal entities, and participated in part by their founders. The majority of them have 10-15 employees. Some 200 of them are larger, and are building upon the current markets of Haier (they are **“market-facing”**), some 50 are incubating new businesses, and the rest (more than 3500)

are providing components, resources and services (design, marketing, manufacturing) to the “core” market-facing microcompanies.

All the microcompanies sport a market relationship among them: they sell and buy to each other, and even compete for resources and markets, internally or externally (they have to access world-class resources where they may be). If a microcompany wants to shift to an external service provider that brings a better service, it can do so. Internal services are not a “monopoly” inside the company. Nodes that are unable to provide competitive service can and do go out of business.

Every employee is highly stimulated to become an internal entrepreneur. Employees can form a microenterprise asking for initial (seed) funding to the company, if they show that there is a clear demand, and that they have actual orders for a new product or even external investment by somebody. To do so, many internal microcompanies start with a proposal made through external crowdfunding platforms.

Microcompanies distribute the right pay and bonuses to team members. Compensation is sharply connected with the business unit’s performance and it is calculated using a Haier’s proprietary model of team’s performance valuation. Besides, every supplying node’s revenue depends on the market success of the internal microcompanies they supply. Every employee’s pay is linked to market outcomes. So, either if you work on a microcompany or on a support node, you are stimulated to strive to make your unit succeed.

New leaders of the microcompanies are chosen among the candidates that present their plans to the team, which is set to decide.

In recent years the company got rid of almost the entire middle management (more than 12000 people) and replaced them with thousands of those small, independent companies, totally oriented to specific markets of customers, and organized as a networked platform. The idea is to flee away from becoming a bureaucracy.

ECOSYSTEMS

generating value with
many market agents



Haier created in 2009 its **HOPE platform** (Haier Open Partnership Ecosystem, <http://hope.haier.com/>) in order to connect the demands of its users/customers with the capabilities of its suppliers. The main idea is that its partners (suppliers, contractors, inventors) provide “solutions” (what they can do) and the platform uses this “assets” as a way to find answers to customer’s expressed needs or demands.

In HOPE’s own terms: “As a *core innovation team of Haier appliances group, we have active outreach programs to the broader innovation community so that **the brightest minds across all fields can see the areas that Haier is pursuing, and recommend solutions, contacts, or resources to fulfill these needs.***”

In this way, Haier amasses a **large network of “solvers”** (companies or individual experts, adding to some 400000 units), based anywhere in the world, that may be contacted and engaged into the challenges of new products or processes. The company issues “problems” that have to be solved, and challenge the platform to contribute to solve them.

In this pool of solvers, the business partners are **expected to share their patents**, Haier acknowledging that they will be rightly rewarded if their technology is used in the final product.

The entire company works as a set of platforms, each one connecting the microcompanies that act across an internal market of services (for instance, e-gaming). Moreover, the freedom of those microcompanies to look for the best provider, even beyond the company's limits, has enabled the emergence of thousands of new jobs across China and globally. For instance, its logistics network across the country now encompasses close to 95000 independent drivers.

These platforms guarantee the coordination between the microcompanies. One of these typical industry platforms encompasses more than 50 microcompanies. Each one is coordinated by a "platform owner", who identifies and promotes opportunities of collaboration between the units. It can also bring seed investment to new microcompanies, that are proposed and finally run by employees of the platform. If the company is finally established, they usually become shareholders in the new venture.

All the "market-facing" microcompanies, looking for a closer and persistent relationship with their customers, explore the opportunities **to transform their markets into ecosystems**. For instance, once they had built a community of laundry between university students (with more than 9 million members), they could bring other external companies providing related services to the community, Haier acting as the platform of them all and getting a fee from all business that could be derived from it.

The platform orientation of Haier makes it possible to keep growing in markets and results without becoming a payroll behemoth. Microcompanies remain under a reasonable size, but they **generate jobs outside and across the company**.

In Zhang Ruimin words, "**a firm either owns, or it is owned, by a platform**".

TECHNOLOGY

detecting and applying
transformative technologies



To make the ecosystem of 4000 independent operating units (microcompanies) to work together efficiently there is a **need for coordination and synchronization**, not also on the actual running of the units but on the decisions on relevant investments in technology and facilities (for instance, there is a need to build cross-units capabilities on automation).

Haier does it **organizing the micro-companies into platforms**, according to the “distance” of their business focus or their sort of customer approach (for instance, all microcompanies related to “washing” – internet of clothing- or “conserving food” – internet of food- belong in the same platform). Other platforms are built along capabilities, such as digital marketing (competence-focused platforms).

So microcompanies are brought together since they operate in a similar category. One of these platforms brings together some 50 microcompanies or more.

Such a distributed system is built upon a set of **common technical standards**.

The network-oriented technology is also critical for the **management of all the outbound platforms**, such as HOPE (with suppliers). The integration of their processes, looking for a seamless process between the identification of customers needs and the application of a solution brought by one of HOPEs “solvers”, requires a permanent upgrading of the network capabilities.

Hence, thanks to its technology as enabler of platforms, Haier is in the path to become a full **multi-organizational ecosystem** with intense participation of different sort of partners (suppliers, inventors, etc), users and customers, and employees.

The conversion of many products into services is also requiring a **mastering of technologies such as IOT, AI and 5G**, to bring, for instance, services such as the connected fridge. The company looks to be connected to users that become part of an ecosystem of services.

Bringing efficiency in the processes requires a sharp understanding and commitment for **industry 4.0 solutions**.



SENSORS ZERO-DISTANCE TO CUSTOMERS

Haier
Inspired Living

GOING OUT WITH A BANG! **11.11**
THE WORLD'S BIGGEST SALES DAY

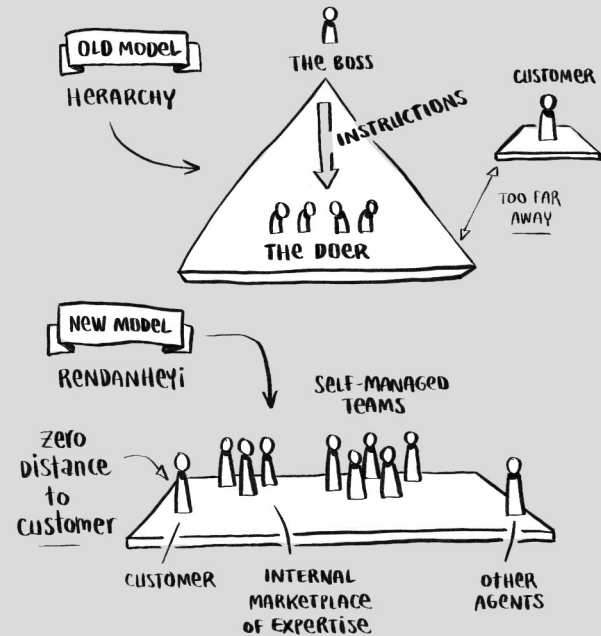
A BIG THANK YOU
TO OUR CUSTOMERS & VALUABLE
PARTNER araz
FOR THIS MEGA SUCCESS!

QR CODE SHOP

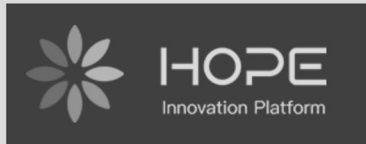


TEAMS RENDANHEYI

人单合
Maker-Customer
Integration



ECOSYSTEMS OUTBOUND PLATFORMS



WHAT WE DO...

We design and create the future



Create Innovation Strategies

We help you identify growth opportunities, assess strategic options, define your optimal future, and clearly lay out the path forward.



Develop Innovation Capabilities

We help company to develop the talent, culture, and systems to make innovation repeatable and reliable.



Scouting Innovation Resources

We build a strong globalized system of resource integration for the enterprise to get innovation resources efficiently.

hope.haier.com

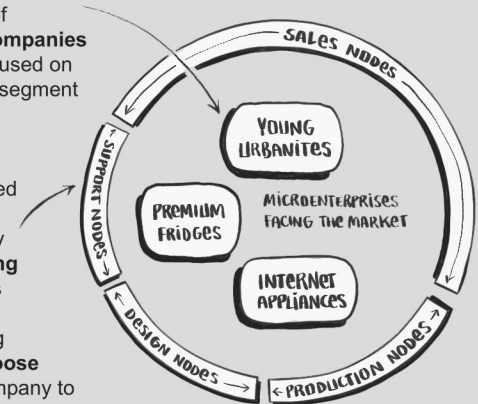
TECHNOLOGY INBOUND PLATFORMS

Haier is made of some **4000 microcompanies**, organized into **platforms**.

In each **platform** there is a few number of **market-facing companies** (in the center) focused on a specific market segment or category...

... that are serviced (components and services) by many smaller **supporting microcompanies**

Any market-facing company can **choose** which service company to work with and even look for a service **outside** Haier



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Video interview with Haier CEO Zhang Ruimin, discussing Rendanheyi with Professor Felipe Monteiro of INSEAD.

Founded in 2000, under the brand Infonomia, the Institute of Next supports processes of innovation in organizations through:

- The stimulation of management teams to **think in the mid-long term**,
- The development of **practical tools and methodologies** of innovation,
- The management of **transformation projects** in the organization based on systematic innovation
- The **dissemination of a culture of innovation** based on the publication of documents (articles and books) and materials, and the delivery of workshops and conferences about innovation and business transformation

At Institute of Next we encourage our clients to explore and execute transformations in their “business operating system” that make them more efficient and resilient through a fastest and most effective response to the opportunities that emerge in the market **in the medium and long term**.

From the conviction that **if an organization does not think 10 years from now, in 5 years it may no longer exist.**

UPF-BSM’s mission is to educate our students to allow them to lead companies, institutions and projects promoting innovation, social transformations, commitment to culture and global wellbeing.

In order to achieve our mission, we aim to impact people, organisations and society, with our raison d’être to contribute to global wellbeing.

Apart from producing and transmitting knowledge, our founding principles are as follows:

- A **global** outlook
- **Plurality**, in order to integrate diversity and boost interdisciplinarity
- **Autonomy**, in order to ensure teaching, organisational and financial capacities.
- **Ongoing innovation and improvement**, in order to meet the needs of a changing environment
- **Ethics** as the grounding for all actions taken
- **Equality**, incorporating the best talent in order to guarantee equal opportunities
- **Rigour and excellence** in teaching, research, knowledge transfer and management
- **A transformative attitude**: taking risks and learning from mistakes
- **Best practices**: taking national and international benchmarks into account in order to push for continual improvement
- **Empathy**: always evaluating others’ work with the knowledge that they are doing their best
- **Critical thought**: expressing disagreements in a constructive fashion.

ON+ INNOVATION

Observatory
of **new ways** to
innovate



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