

A “WIN-WIN” MODEL BETWEEN DAIKIN’S AND GREE

¹FANGQIXU

¹Faculty of Business Administration, Kindai University, Japan
E-mail: fqxjo@bus.kindai.ac.jp

Abstract- Japanese companies’ investment in China is entering into a new phase. With the rise of Chinese enterprises, Japanese companies will have to adopt an unprecedented attitude towards the offer of technical collaboration from Chinese enterprises. Certainly, there is a high possibility that a technical partnership with Chinese enterprise will foster a potential rival. However, Japanese companies never ignore the huge market called China which has changed from the world factory to the world market. Therefore, Japanese companies also accepted the idea of “transaction of technology and market” which originally born in China. Although this is an attractive issue for both Japan and China, there have been few examples that have been successful so far. Nevertheless, the case what mentioned in this paper showed a successful example that brought benefits to both sides.

Keywords- Japanese company, Daikin, Chinese enterprise, Gree, partnership

I. JAPANESE COMPANIES’ INVESTMENT IN CHINA

In recent years, Japanese companies have shifted their production from China to India or the countries due to soaring labor costs, but the number is relatively few. Because of the fully equipped infrastructure, high industrial concentration and the size of the market, there is no country superior to China anywhere, although there are many cheaper countries than China as far as labor costs. Therefore, Japanese companies never can ignore the world’s biggest market if they try to enter overseas.

However, there are many Japanese business executives who are anxious about what they have to do from now, and although they understand the reasons for, the current situation has become more and more severe. Therefore, in this article, we took Daikin Industry as a successful example of investment in China, and considered ways to relieve such anxiety and enter the new phase of investment in China.

From the standpoint of Chinese companies, they had nothing but cheap labor and land in the early stages of the economic reform and openness to the outside world. As a result, foreign companies would be welcomed if they invested in the manufacturing industry. Several years later, Chinese companies had earned some foreign currency due to the processing trade, and they wanted to introduce good facilities and technology in order to develop products with higher added value. Needless to say, Japanese companies did not respond positively. Then the Chinese government launched a policy “to exchange technology for market”. That is, in preparation for the WTO accession in 2001, the Chinese government wanted to introduce advanced technology from foreign countries instead of opening the domestic market. However, as time went on, the foreign products kept rising in the Chinese market, but there was no example of a domestic company developing a hit product with its own brand and using foreign technology. Chinese business executives realized that “to exchange technology for market” was almost impossible.

Under the circumstances, how can Japanese companies take advantage of their strengths to receive continuously the benefits of investment in China? This may seem to be a difficult problem, but in fact it is not.

Daikin is a good example for us.

II. THE PROFILE OF DAIKIN AND GREE

2.1. About Daikin

The predecessor of Daikin was Osaka Metal Industry that established in 1924, and has a history of 93 years. It is a long-established company of metal processing, fluoro-chemistry and refrigeration. Also, it is a leading manufacturer of air conditioners in the world. According to Daikin Annual Report of 2017, by the end of March in 2107, the company has expanded their business into 39 countries and regions, and has 245 consolidated subsidiaries (including 27 in Japan, 218 overseas) and 67,000 employees. The consolidated net sales of fiscal 2017 were 2,043.9 billion yen (about US\$18 billion) and the operating profit was 230.7 billion yen (about US\$2.04 billion).

The time of Daikin’s expansion into China was 1996. Compared with other Japanese air conditioner manufacturers, it was never fast. Moreover, the big companies in the same industry have not only goods themselves but also brand power, so it was a very difficult sailing for Daikin. In addition, Daikin’s executive managers discussed thoroughly what goods should be put into Chinese market. A lot of them argued that room air conditioners sold well in China and therefore should enter the market. On the other hand, another opinion pointed out that although room air conditioners were selling well, the price competition was intense, and Japanese companies had failed to win the Chinese and almost fell into deficit as a result. After this discussion, Daikin’s marketing strategy was formulated. It contains two parts, one to develop business mainly for commercial-use air conditioners, and the other to enter the room air conditioner market with the newest ceiling embedded type. The key person who led the formulation of this marketing strategy was the president Noriyuki Inoue.

Once they knew of the high profitability, rival companies also entered the commercial air conditioner market, and as the competition became intense, Daikin launched the next step. However, Inoue felt that there was a limit to developing a sale route by just Daikin, so he

decided to look for a partner. That was Gree.

2.2. About Gree

Gree's full name is Gree Electric Appliances, Inc. of Zhuhai. It is a global home appliance manufacturer that is involved in R&D, manufacturing, sales and service, and its domain is air conditioning. According to the Annual Report of 2016 fiscal year, the air conditioner business accounts for 85.65% of sales, and the remaining 14.35% are electric appliances such as water heaters, industrial products and others.

Gree was established in Zhuhai City, Guangdong Province in 1991. As Gree Group, the parent company of Gree, is a 100 percent state-owned company and the largest shareholder, Gree is also a state-owned company.

Although the history of the company is not so long, its development has been very fast. Since it became the leading company in China's air conditioning industry in 1995, it has been holding its number one position in China for 22 years. And Gree became the number one company in room air conditioner in the world in 2005. According to IDC, Gree's share in the world market was 23.1 percent in 2017.

III. THE PARTNERSHIP OF DAIKIN AND GREE

In 2009, Gree's shipments of air conditioner had already exceeded 20 million units, but almost all were non-inverter air conditioners. Inverter is a technology that controls the compressor and can control room temperature finely. Inverter air conditioners which applied this technology saves 30 percent more electricity than non-inverter air conditioners. Although Gree had been developing inverters, it was unable to mass produce them due to technological difficulties. So, Gree proposed to establish a joint venture with Daikin with the condition of its providing inverter technology. Needless to say, not only Daikin's technology team, but also the directors opposed this proposal.

However, the opinion of President Noriyuki Inoue (current Chairman and CEO of Daikin Group) was different. He raised four points and persuaded his opponents. 1) Not only Daikin but also other Japanese manufacturers had the technology, so there was a concern that Gree would introduce the technology from other companies. 2) What Gree was seeking was not specific advanced technology but just general technology. 3) Gree has also been developing the technology, they would not have ask Japanese companies if they had succeeded. 4) Daikin can provide the inverter device as a package, and to make the program for controlling the current into a black box. It was a good idea. If Gree introduced the same technology from another company, or if Daikin was unable to make decision quickly, there was no doubt that Daikin would have missed the big business opportunity.

Under Inoue and Dong's leadership, Daikin made the partnership with Gree in February 2009. Based on this partnership, two joint ventures were set up. Daikin invested 49 percent in these joint ventures, and entrusted OEM function for inverter air conditioners to Gree.

Actually, as expected by Inoue, in order to develop the inverter

technology, Gree had mobilized technical teams and cooperated with several universities in China. Their 12 projects were selected as "National Torch Plan" (it is a support plan for rural areas established by the Ministry of Science and Technology and, began to be implemented in 1986) and received a large research grant already until 2011. One of them, the "1 Hertz inverter technology", received the "National Science and Technology Progress Award" in 2012. Although these technical projects and research results were not the inverter technology itself provided by Daikin, but it cannot be denied that Gree was enlightened on technical difficulties by the partnership with Daikin. For example, after making the partnership with Daikin, Gree declared that, "We already have all the core technologies of inverters and the ability to produce inverter air conditioners" in the Annual Report of 2009.

So, what were the merits of Daikin's alliance with Gree?

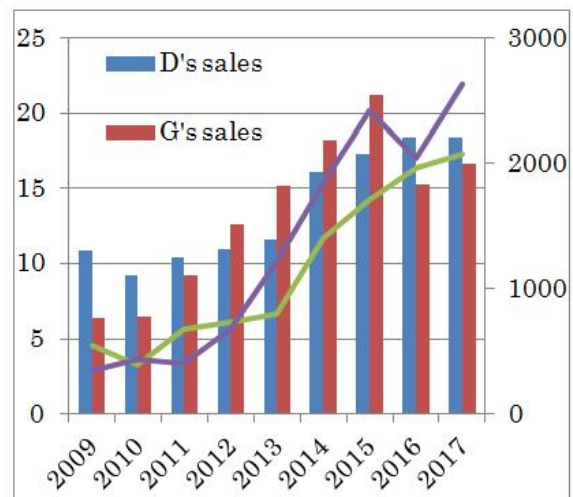
First, is the reduction of manufacturing costs. Daikin's products have good quality, but the prices are high, so they were not selling so much in the Chinese market.

Secondly, the problems that Daikin had been struggling with for a long time, for example, developing sales channels, collecting of accounts receivable, were solved at the same time.

In addition, by bringing the products made in the joint ventures to Japan, they could strengthen Daikin's competitiveness in Japanese market.

The result turned out to be right. With this alliance, Daikin was able to enter not only business air conditioners, but also the room air conditioner market. The latter is a larger volume zone. Even when relations between the two countries deteriorated, Daikin also increased sales and operating profit without the influence of the boycott of Japanese products that occurred in China.

Figure 2. Sales and operating incomes
Dollar in billions Dollar in millions



Sources : Based on Daikin and Gree's annual reports. Billions of dollar for sales and millions dollar for operating income. The exchange rate is US\$1=Y111, and US\$1=RMB6.60.

On the other hand, with this alliance, Gree strengthened its competitiveness not only in the Chinese market but also in

the overseas market. It was exactly the result of a "Win-Win" that benefited both sides. We thought that Daikin's approach to develop a big market through an alliance with a Chinese enterprise with such advanced technology is a successful example of a real "trading of technology and market". Figure 2 shows the trends in performance since the partnership was made by the two companies.

IV. SIGNIFICANCE OF THIS CASE

In Japan, there is a strong tendency for companies to never bring out advanced technology to the outside and to produce high value-added product using this technology by themselves. This is not a mistake. However, with the progress of the internet society, various kinds of information can flow to the world in a moment. Indeed, as far as selling products, no matter how much the core technology is black-boxed, it is the same as providing samples for technical analysis to rivals. Needless to say, patents can protect technology to some extent, but not fully. This is because when you apply for a patent, you have to open the technology. Also, it is extremely important to maintain the competitive advantage for technologies that have not or are unable to be patented for some special reasons, but it is also a difficult task. In other words, it becomes increasingly difficult to keep technical secrecy.

Despite this situation, what will happen if a company insists on keeping its secrecy? Considering the case of SHARP may help one understand the possible consequences.

SHARP once was the leading company on liquid crystal technology in the world. They built the state of the art Kameyama plant, tried to conquer the global market with the brand of "Kameyama in the world" without bringing the technology to the outside. However, while they have protected the existing technology, it is becoming

obsolete. Why did Samsung develop liquid crystal technology so quickly and overtook the level of SHARP? Clearly, when SHARP was stepping on, Samsung went on top with full power. If SHARP had licensed liquid crystal technology to leading companies in the world, they would have been able to establish global standards and would have acquired abundant royalties. At the same time, if they had kept upgrading the technology version, they could have kept the lead position. Unfortunately, as a result of the technology secrecy and the autonomy of production, SHARP fell off the cliffs of management. Not only SHARP, but many Japanese companies have been doing the same thing. However, if they did not produce profits while having excellent technology, it was a useless treasure.

In order to avoid such undesirable results, the author strongly proposes Daikin's way of doing business for other Japanese companies. We believe that if more Japanese companies do as Daikin, then investment in China will surely result in more "win-wins".

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