Research on Strategic Transformation from Demand-based View: A Case Study of Haier

Zhiming Shang
School of Business, Sichuan University, Wangjiang Street, Chengdu City, China
email: shanglouis@163.com

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Abstract. In recent years, the corporate strategic philosophy that is based on customer demand (referred to as “demand-based view”) has been valued by more and more scholars and enterprises as an emerging strategic management theory. This paper reviews theories of demand-based view and strategic transformation, then constructs a mechanism model of strategic transformation process based on this view, and demonstrates the model by case study. It concludes that the successful strategic transformation begins with a deep understanding of customer demand, strategic positioning plays a connecting role in strategic transformation, and that the transformation and reconstruction of corporate value chain is vital to the success of strategic transformation, and it also provides a prospect for future research.

1. Existing Problems

In the past 40 years of reform and opening-up, along with the rapid development of China's economy, the enterprises that are the basis of the micro economy have made considerable progress. In the context of globalization and technological advancement, Chinese enterprises face various problems and challenges, such as soared factor costs, resource and environmental constraints, low technology content of products and services, and low value-added links in global value chains, making strategic transformation an urgent task. Existing studies mainly explore the driving factors of strategic transformation from the aspects of resources and capabilities, external environment factors, and characteristics and motivation of the management. External environment factors mainly focus on institutional, industrial and technological environments, and there is little discussion on customer demand that drive directly the strategic transformation of companies, and even no exploratory research on the “black box” of the strategic transformation process.

In the 21st century, customer demand plays an increasingly important role in corporate management. Consumers have been pushed from outside the value chain into every link of the value chain due to the consumption environment of oversupply, the surge of quality and personalized consumption, and the dis-intermediated development of Internet. Corporate strategic transformation must be based on a profound insight into the customer demand, and then make correct strategic positioning, and enhance their ability of meeting customer demand through the transformation and reconstruction of the value chain, so as to build a core competitive advantage. Therefore, it is of great theoretical value and practical significance to study the corporate strategic transformation from the perspective of customer demand. This paper studies the mechanism of strategic transformation process from the perspective of demand-based view, and then builds a mechanism model of the process. It also analyzes Haier's strategic transformation process with the aid of this theoretical model. Finally, it sums up the main conclusions and imperfections of this study and the further research direction.
2. Research Review and Model Building

2.1. Connotation and development of demand-based view

In recent years, the corporate strategic philosophy based on customer demand (referred to as “demand-based view”) has been valued by more and more scholars and enterprises as an emerging strategic management theory[1]. From the early Five Forces Model of Porter to the current dominant resource-based theory and dynamic capabilities perspective, the perspectives of strategic research has undergone a process of transformation from inward to outward. Porter's theory emphasizes industry analysis, and values the unique position of a company in its industry. Resource-based theory focuses on unique, valuable, scarce and inimitable resources in an enterprise, and the dynamic capabilities perspective highlights the importance of matching internal and external factors in a highly variable environment. It can be said that the dynamic capabilities perspective is based on the resource-based theory[1].

The biggest difference between Porter's theory and resource-based theory lies in their theoretical assumptions essentially. Porter's theory assumes that factor market and product market are constant, so companies can build their competitive advantage only by economy of scale and monopoly, that is, to obtain the monopoly rent. The resource-based theory believes that the product market is constant, while the factor market is different. An enterprise can find and possess unique resources from the factor market, thereby bringing itself values and building its competitive advantage, which in essence is to look for land rent or Ricardian rent. The dynamic capabilities perspective pays more attention to differentiated market demands, and emphasizes that the primary component of dynamic capabilities is the market perception ability. The dynamic capabilities perspective is a supplement to resource-based theory and enterprise demand research to a certain extent.

However, the resource-based theory and the dynamic capabilities perspective are too vague to quantify the core concepts, which makes strategic research and strategic practice disconnected. Additionally, the assumption of the resource-based theory that the product market is one-dimensional is unrealistic. If we allow the product market to be multi-dimensional (that is, customer demands are different and diversified) in the theoretical model, there is no sole optimal solution for the resource combination that meets the customer demand. Enterprises need to meet the customer demands through innovation, producing new products and even new industries. From the perspective of diversified customer demands, companies can obtain not only monopoly rent or Ricardian rent, but also Schumpeter rent in the process of continuous innovation[1]. Therefore, the demand-based view assumes the diversification of demand, and believes that enterprises are the carriers of solutions to satisfy customer demand, and that their competitiveness is the process of continuously obtaining Schumpeter's rent on the basis of enhancing customer value. It differs from the resource-based theory in that it introduces customers into the theoretical framework, and emphasizes the exogenous nature of value, shifting the perspective of strategy from outside to inside once again.

In recent years, the theoretical system of the demand-based view has been established gradually. Priem et al.[2] combined previous research results, clarified the definition of the demand-based view, looked from the core companies to the downstream to focus on the product market and buyers, so as to explain and predict the management decisions that add value creation in a value system. This definition emphasized that the diversity of customer demand influences the strategic judgment and decision-making of the management. With the development of the demand-based view, the theory has been applied to all levels of strategic management. Ye et al.[3] applied this view to explain the industrial diversification, and verified that customer-centered strategy can create bilateral value for
customers and enterprises. In addition, Bailey and Li\textsuperscript{[4]} extended the demand-based view to the field of transnational strategy.

The demand-based view initiates strategic analysis, formulation and implementation on the basis of customer demand. As far as customer demand itself is concerned, we believe that its evolution is driven by three factors: supplier, customer and environment. When the customer demand changes greatly and the tactical business adjustment is unable to cope with this change, the strategic transformation comes into being.

2.2. Connotation and process of strategic transformation

The connotation of strategic transformation has not been defined clearly till now. Levy & Merry\textsuperscript{[5]} believed that strategic transformation results from problems in the operations of a company who had to make significant changes in its mission objectives, structure and corporate culture for survival. Ginsberg\textsuperscript{[6]} stated that strategic transformation contained transformations of content and decision-making procedure. The content transformation is the change in competitive decision-making for products and markets; decision-making procedures include transformation in corporate culture, formal management systems and organizational structure.

Bound & Dobbins\textsuperscript{[7]} thought that strategic transformation includes mainly: changes in strategic positioning and the corresponding resources and capabilities; changes in the company’s technological processes, systems and operational methods; redesigning of organizational structure and job responsibilities, and change in power structure incurred; changes in the values and behavioral rules of the enterprises, and changes in the ideas, skills and knowledge competence of the employees. Xue Youzhi et al.\textsuperscript{[8]} believed that strategic transformation has two-dimensional manifestations: content and process. The transformation of strategic content refers to the strategic transformation of the three levels: company, management and functional levels. The transformation of the strategic process refers to the transformation of specific activities of strategy formulation and implementation.

This study holds that strategic transformation is a process in which a company, in order to meet and create customer demand continuously, transforms and reconstructs its value chain systematically to build its competitive advantage on the basis of clear strategic positioning. According to the degree of transformation and reconstruction of the value chain, the strategic transformation is divided into three types: low-, medium- and high-level transformations and reconstructions of value chain.

2.3. Model building

The research on companies’ strategic transformation is based on the fundamental logic of driving factors, transformation process and transformation results\textsuperscript{[9]}. Driving factors trigger the occurrence of strategic transformation, go through the “black box” of transformation process when it is digested, absorbed and transformed into specific strategic and tactical arrangements, and ultimately output the transformation performance.

Based on the analysis above, we construct a mechanism model of strategic transformation process from the perspective of customer demand (as shown in Figure 1). In this model, the driving factor is customer demand. The transformation process includes the strategic positioning and the transformation and reconstruction of value chain. The transformation result is the strategic transformation performance. Considering that customer demands and their evolution are intensive reflection of changes in the internal and external environment of the company's operations, the
model incorporates also the three driving factors of customer demand.

![Figure 1 The mechanism model of strategic transformation process from the perspective of customer demand.](image)

**2.3.1. Successful strategic transformation of enterprises begins with a deep understanding of customer demand**

A deep understanding of customer demand is the starting point for successful strategic transformation of enterprises. In Porter's value chain, the traditional strategy holds that customers lie outside the value chain and only affect the profit ratio of a company through the willingness to pay. Customer demand is more related to marketing and marketing strategy, that is, how a company interacts with customers in such primary activities as marketing and after-sales service. The reality is that customers not only interact with the company in such primary activities as marketing and after-sales service, but also participate in all primary and support activities. It can be said that customers and their demands shape a company’s value chain and its corporate culture.

To a certain extent, customer demands aggregate the comprehensive influence of the external environment of business operation, so focusing on customer demand reduces the difficulty of collecting and analyzing the complex external environment by enterprises. For the enterprise itself, if its existing business management system can no longer meet the customer demands, this will send a clear signal for the enterprise to carry out strategic transformation.

For the process of strategic transformation, customer demands are not only the basis of strategic transformation design, but also the guide for its implementation. The main factor of customer demand runs through the whole process of strategic transformation.

**2.3.2. Strategic positioning plays a connecting role in strategic transformation**

Strategic positioning originated from Andrews' research. In 1971, Andrews introduced the strategic theory and its analytical framework in his book Concept of Corporate Strategy, which have been regarded as the starting point of modern theoretical research on competitive strategy of companies. Michael E. Porter of Harvard Business School of the United States is the representative who studies positioning from a strategic point of view. Based on studies and practice of theoretical and practical circles, Porter introduced the theory and methods of analyzing industrial structure and competitors, creating the famous positioning school. On the basis of Andrews’ strategic analysis framework, Li Qinghua[10] advanced that the theoretical framework of corporate strategic positioning should be composed of three dimensions, namely, “what to do”, “how to do” and “who to do”. “What to do” is actually the target of the strategic positioning of an enterprise. “How to do”
is actually the operations of the strategic positioning. “Who to do” is the subject issue of the strategic positioning. Among them, “what to do” answers the three basic questions of corporate strategy: first, what is the business of the company? Second, what should it be? Third, why? The core of these three problems is that customers are the essential foundation of the existence of an enterprise.

In this paper, the profound insight and analysis of customer demand are transformed into the content of strategic positioning, and strategic positioning defines the direction and strategy of value chain transformation and reconstruction, and plays a connecting role in strategic transformation.

2.3.3. The transformation and reconstruction of corporate value chain is vital to the success of strategic transformation

Porter[11] stated that “every enterprise is a collection of activities that are performed to design, produce, market, deliver and support its product. All these activities can be represented by a value chain”. The task of an enterprise is to create value, and the process of value creation is mainly accomplished by two parts: primary activities and support activities. These different and interrelated production and operation activities constitute a dynamic process of value creation, namely the value chain[12]. Each enterprise has its own unique value chain. The corporate value chain is located in the industrial value chain that is composed of its own, upstream, downstream and competitor value chains. When the corporate and industrial value chains carry out global activities across national bounders, they become part of the global value chain.

The essence of corporate value chain is to create and deliver customer value. When customer demands change, the form and content of customer value will change inevitably, which will call for the transformation and reconstruction of value chain. Therefore, the core of corporate strategic transformation is the transformation and reconstruction of value chain. It should be emphasized that in the context of globalization, the corporate strategic transformation must be based on the customer demands, and strategic positioning and value chain transformation and reconstruction should be carried out in the context of global value chain.

Humphrey & Schmitz[13][14] classified the upgrade from a micro perspective, including process, product, functional and inter-sector upgrading. In process upgrading, the production system is restructured to convert input into output more effectively. In product upgrading, more advanced production lines are introduced, and the company launches new products or improves old products faster than its rivals, increasing added value of products. In functional upgrading, new functions are acquired or existing functions are abandoned, such as spanning from production to design, marketing and other lucrative links. In inter-sector upgrading, knowledge of a sector is applied to another. On the basis of this four-level classification method, we divide the transformation and reconstruction of value chain into low-, medium- and high-level value chain transformation and reconstruction. Low-level value chain transformation and reconstruction is the transformation within or between the links of the value chain, and contains process upgrading and product upgrading. Medium-level value chain transformation and restructuring is commencing high value-added activities, such as functional upgrading of ODM/OBM. The high-level value chain transformation and reconstruction is inter-sector upgrading, entering a new value chain for production, or adding new functions to a new value chain. In addition, there is a progressive relationship among these three levels. Kaplinsky & Morris[15] found in case study that many companies show a ladder-like development route in the process of upgrading. The upgrading usually starts from process upgrading, then to product and functional upgrading gradually, and finally to value chain upgrading, but there are also cases of leaping or even regressing in the
3. Research Method

3.1. Case study

Case study method is suitable for observing and studying the series of changes that have taken place. Therefore, this paper adopts the method of longitudinal single case study, starts with the investigation of specific successful cases, and complies with the general principles and methods of case study. After validating relevant theories, this paper constructs the mechanism model of strategic transformation process based on the demand-based view, answers the questions asked in this paper, and makes meaningful conclusions.

3.2. Case selection

This paper chooses Haier's strategic transformation as the case after the following considerations: firstly, Haier implemented the strategic transformation based on customer demand quite early in China. It adheres to the customer-centered innovation system to stimulate its sustainable and healthy development, and always stands among the top from implementing total quality management, adopting star-rated service system, creating global brand, and exploring the business model of “values of employees and customers in one”. Secondly, Haier has achieved a breakthrough in business in each stage of strategic transformation, and developed from an insolvent small factory to the world's top brand of large household appliances, with global turnover reaching RMB 266.1 billion in 2018. Thirdly, from the perspective of data availability, Haier is a global well-known enterprise that owns two listed companies, so its second-hand information is easier to obtain. In addition, Haier is studied by lots of scholars from different perspectives, thus increasing the richness and diversity of research data, which is conducive to a comprehensive investigation of problems, so that these materials are verified mutually, and the results are more accurate, convincing and explanatory.

4. Case Analysis and Findings

4.1. Case background

Founded in 1984, Haier has undergone many strategic transformations under the leadership of CEO Zhang Ruimin, and grown from a domestic brand to a global brand, from a single business of household appliances to diversified businesses. Its strategic theme of each stage is changing with the times, and is committed to be “an enterprise of the times”. What’s the business code for Haier's continued success? What experience can be used for reference by companies of the same or other sector? At present, the corporate strategic transformation has become a hot topic, and the answers to these questions will bring thinking and action to business operators.

4.2. Transformation process

Haier's strategic transformation can be divided into four stages. The first stage is the quality premium phase (1984-1991). In the 1980s, consumer demand for household appliances surged, and home appliance manufacturers were in short supply of goods. Many companies strove for mass production and valued the quantity rather than quality. But Haier did not expand the production
blindly, and instead it controlled the quality strictly and implemented the total quality management. The incident of smashing the refrigerators in 1985 aroused the quality awareness of Haier employees, and opened up the business gap between Haier and other household appliance companies. The second stage is the service premium stage (1991-1998). In the 1990s, the production capacity of household appliances enterprises increased rapidly, and the market of household appliances entered the phase of oversupply gradually. Price wars rose and fell one after another. Instead of falling into the quagmire of price war, Haier raised the flag of service, and gained competitive advantage by means of differentiated services. The third stage is the brand premium stage (1998-2005). At the end of 1990s, China's entry into WTO provided a rare opportunity for Chinese companies to go abroad. Many companies provided the original equipment manufacturing for well-known international brands to earn foreign exchange, while Haier was the first to build its brand in developed countries with great strategic courage, and then entered the developing countries, establishing a localization mode of trinity of “design, manufacturing and marketing” in foreign countries. The fourth stage is the ecological value stage (2005-now).

Table 1 Mechanism analysis of Haier's strategic transformation process.

<table>
<thead>
<tr>
<th>Transformation stage</th>
<th>Customer demand</th>
<th>Strategic positioning</th>
<th>Value chain transformation and reconstruction</th>
<th>Strategic transformation performance</th>
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<tbody>
<tr>
<td>(1) Quality premium (1984-1991)</td>
<td>Supply was less than demand, buying household appliances became the basic demands of customers, and their quality became the satisfaction demands of customers.</td>
<td>Implement overall quality management</td>
<td>Low-level value chain transformation and reconstruction • Process upgrading • Product upgrading</td>
<td>• Haier was granted the National Quality Award in only four years; • In 1990, Haier was granted the National Quality Management Award and the Golden Horse Award of China’s Corporate Management.</td>
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<tr>
<td>(2) Service premium (1991-1998)</td>
<td>The quality of household appliances became the basic demands of customers, and the service became the satisfaction demands of customers.</td>
<td>Build star-rated service system</td>
<td>Low-level value chain transformation and reconstruction • service upgrading</td>
<td>Differentiated services stimulated Haier's rapid growth, which widened the gap with competing brands.</td>
</tr>
<tr>
<td>(3) Brand premium (1998-2005)</td>
<td>An oversupply stage, the basic customer demand was to reduce the purchase cost and risk through the brand; brand identity became the satisfaction demands.</td>
<td>• Establish brand strategy to guide the implementation of marketing strategy and other functional strategies; • Establish brand management system; • Brand communication.</td>
<td>Medium-level value chain transformation and reconstruction • Functional upgrading: from manufacturing to brand and marketing links.</td>
<td>In 2018, Haier ranked 41st among the top 500 international brands and the first among the top 100 Chinese brands.</td>
</tr>
<tr>
<td>(4) Ecological value (2005-now)</td>
<td>Products and service become the basic demands of customers; individualized and experiential consumption becomes satisfaction demands; sense of participation becomes an attractive demand.</td>
<td>Create a win-win ecosystem</td>
<td>High-level value chain transformation and reconstruction • Inter-sector upgrading: integrate customers and global resources intensively, and build an ecosystem that is “centered around social economy, based on customer value interaction, driven by maker ownership, with integrity as its core competitiveness”.</td>
<td>In 2018, Haier's global turnover reached RMB 266.1 billion, a year-on-year increase of 10%; global profits and taxes exceeded RMB 33.1 billion, a year-on-year increase of 10%; ecological income reached RMB 15.1 billion, a year-on-year increase of 75%.</td>
</tr>
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</table>

In September 2005, Zhang Ruimin introduced the management model of “values of employees and customers in one”, changing the organizational structure from “positive triangle” to “inverted triangle” to decentralize and dis-intermediate and allowing employees become entrepreneurial
entities who are “self-employed, self-organized and self-driven”, and devoted himself to build Haier as a global smart home platform in the era of the Internet of Things, so as to build a “co-creation and win-win ecosystem”. See Table 1 for the process mechanism of the specific transformation.

4.3. Analysis and findings

Haier’s four transformations have provided us a profound understanding of the strategic transformation. Customer demand is the direct motivation for the strategic transformation, and a deep insight into customer demand is the first step to achieve success in strategic transformation. Firstly, it is necessary to establish a corporate culture in which customer demands motivate the business development. The first rule of Haier's core values is that customers are always right. It is this strong customer-oriented awareness that makes Haier feel like walking on thin ice and achieve “the victory in change”. Secondly, enterprises should not only get an insight into the actual demands of customers, but also their potential demands, and even create customer demands, so as to lead the market and keep invincible in the competition. For example, the “washing machine for washing sweet potatoes” is an example of Haier's demand creation.

Through analysis, we find that only after customer demand is transformed into corporate strategic positioning that will then guide the transformation and reconstruction of the value chain, can it deliver finally into satisfactory products and services to customers. For example, the management mode of “values of employees and customers in one” that Haier has implemented for fourteen years began with the significant changes of customer demand, and also the Internet has provided the technical conditions for the interconnection of everything. The reflection of this customer demand in the strategic positioning is to break the traditional management mode of hierarchy, and break the boundaries of businesses and resources to build a “co-creation and win-win ecosystem” whose target is to provide customers with user-centered solutions and to realize the value of all participants of the ecosystem while satisfying customers. Once this strategic positioning is determined, the transformation and reconstruction of the corporate value chain, which is based on the perspective of global value chain, will have a clear direction.

Further analysis found that the transformation and reconstruction of the value chain is vital to the success of the strategic transformation. Through different levels of action measures within and between links of the value chain and into new value chain, customer demand and strategic positioning can be integrated into all links of the value chain and promote strategic transformation to achieve practical results. For example, in the service premium stage, besides 24 hours customer consultation, visiting service at promised time, and standardized and transparent service process, Haier has set up after-sales maintenance workshops in many big cities to deal with customers' after-sales demand and shorten the after-sales maintenance time, thus winning customers' trust in its service and brand.

5. Research Conclusions and Prospects

Based on the demand-based view, this paper constructs the mechanism model of strategic transformation process after literature research, elaborates on the relationship and function path of each element in the model, and develops the mechanism model of interaction among customer demand, strategic positioning, value chain transformation and reconstruction, and strategic transformation performance. Additionally, Haier's transformation process is analyzed by the method of longitudinal case study with time span, and the model is verified.

This study believes that strategic transformation is the process of transforming and
reconstructing the value chain systematically on the basis of clear strategic positioning in order to meet and create customer demand continuously, and then build the competitive advantage. According to the different levels of value chain transformation and reconstruction, strategic transformation can be divided into three types: low-, medium- and high-level value chain transformation and reconstruction.

We draw the following conclusions on the basis of the above understanding and research:

(1) The success of corporate strategic transformation begins with a deep understanding of customer demand. Based on the demand-based view, customers are no longer independent from the corporate value chain, but become an integral part of the value chain. To a certain extent, the change in customer demand aggregates the comprehensive impact of changes in the external environment, and the collection and analysis of this information simplifies the efforts to collect and analyze external environmental information. The driving factors of customer demand are the supplier, the customer, and the environment.

(2) Strategic positioning plays a connecting role in the strategic transformation. The theoretical framework of strategic positioning includes three dimensions: what to do, how to do and who to do. Through the accurate description of the strategic positioning, the customer demand is elevated to the corporate strategy, and guides the subsequent value chain transformation and restructuring, thus promoting the effective realization of the strategic transformation goals.

(3) The key to strategic transformation is to promote the transformation and reconstruction of the value chain. According to the literature, the value chain transformation and reconstruction are divided into three levels: low, medium and high levels. Low-level value chain transformation and reconstruction are shown as process upgrading and product upgrading, medium-level value chain transformation and reconstruction are shown as functional upgrading, and high-level value chain transformation and reconstruction are shown as inter-sector upgrading. The three levels of value chain transformations and reconstructions provide a clear path for the implementation of strategic transformation.

This study provides reference for enterprises that are in the period of transformation and upgrading. However, it has the following shortcomings: (1) only one company is studied, without cross-case comparative analysis; (2) the model is demonstrated by the case, without large sample empirical research; (3) lack of in-depth explanation of how customer demand act on strategic positioning and value chain transformation and restructuring.

In view of the above shortcomings, further research can be carried out from the following aspects: (1) cross-case comparative study of more sectors and enterprises; (2) collecting large samples to make general demonstration of the model; (3) further research on how customer demand influence strategic positioning and value chain transformation and reconstruction.

References


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