

Midea Group Analysis

by Amy Gao

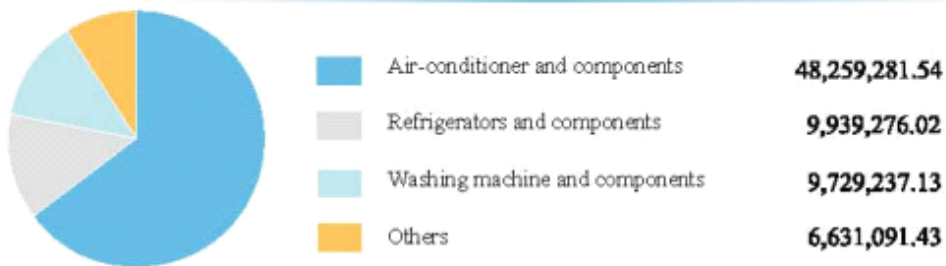


Midea the Company

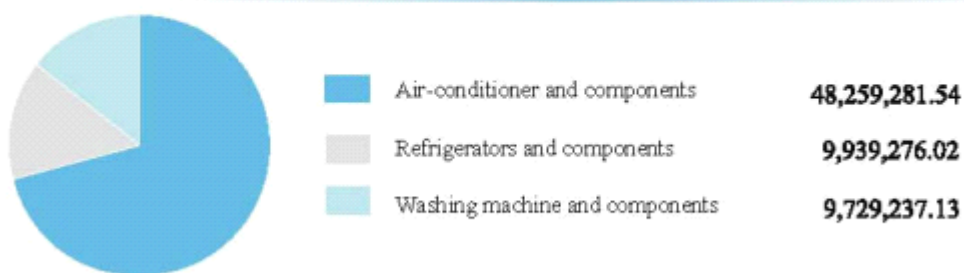
Based in China, Midea Group is a large modern business group with a wide business scope. Its main business is household electric appliances such as fans, air conditioners, microwave ovens, dishwashers, rice cookers, water dispensers, domestic gas appliances, cooker hoods, heaters and vacuum cleaners, electronic controllers, etc. It also involves in other industries like real estate, logistics, finance and machinery manufacturing. With Midea as the flagship brand of the group, it owns other brands as well, such as Little Swan, MDV, Hualing, Welling and GMCC. With 15 operations all over China, it also has 3 overseas operations in Vietnam, White Russia and Egypt. Being one of the leading enterprises in the domestic market, Midea exports its products to more than 200 countries and regions every year.

In 2012, the enterprise has more than 150,000 employees at home and abroad. According to Forbes 2012, the sales revenue of Midea in 2011 reached \$14.8 billion, ranking 2nd in terms of sales among the biggest household appliances manufacturers worldwide and ranking 25th Top 50 Asian Public Companies 2011.

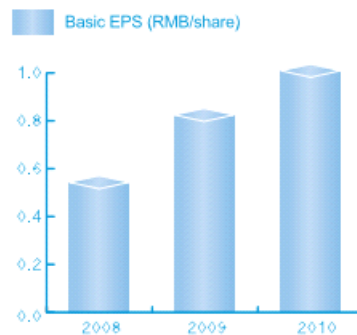
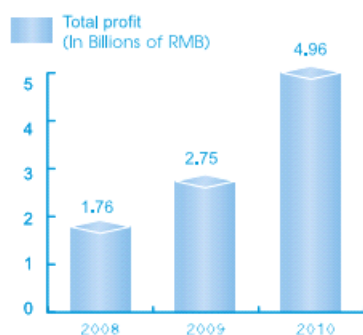
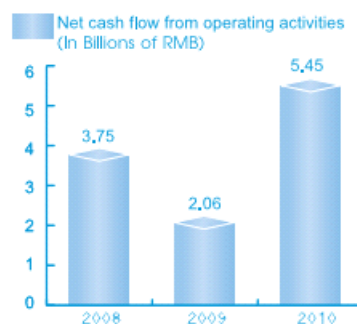
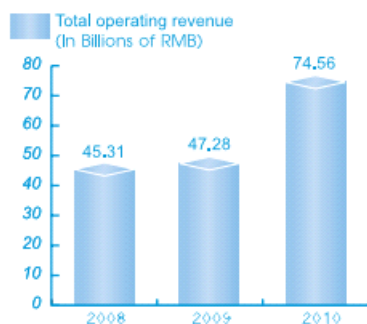
Breakdown by industry (Unit: RMB'000)



Breakdown by product (Unit: RMB'000)



Geographical Region (Unit: RMB'000)



Company Structure

Midea Group now mainly has 4 sectors: Midea Air-conditioning & Refrigeration Sector,

Midea Living Appliances Sector, Midea Components and Parts Sector and Midea Realty Sector. Among all the four sectors, Midea Air-conditioning & Refrigeration Sector (MARS) is the flagship part, controlling over air-conditioning systems both residential and commercial. Besides, it also covers the business of refrigerators, freezers, washing machines and compressors. This one sector only has about 85,000 employees and is currently listed in Shenzhen Stock Exchange as GD Midea Holding Co., Ltd..

Major Reasons of Success

Product Diversification

When Midea was first founded, it was only a small factory producing plastic caps, brake valves, engine generators. It is the fans that Midea produced later made the brand “Midea” domestically known and won the factory public favor and government support. With the reputation built among the public and the government support in terms of finance and policy, Midea broadened its business scope and made its products more diverse. Maintaining its edge in the sales of fans, it began to manufacture air conditioners, microwave ovens, rice cookers and other household electric appliances as well.

In 1988, with the right to import and export granted by Guangzhou government, Midea exported more than \$10 million worth of items. In 1992, Midea Group was founded. Later in 1993, the core enterprise formed a corporation and got listed on Shenzhen Securities Exchange.

Management

Before 1997, Midea, like other private companies, had a highly centralized power system. He Xiangjian, one of its founders took the absolute power of everything associated with the company. This power system once boosted the development of Midea when its size was small. But as Midea grew into a much bigger group, it became an obstacle. Now, Midea has its board of managers. Most of the managers were growing with Midea. They learned from their business in Midea and all became very successful managers. Through the rapidly growing revenue in recent years, their profession and talent are very qualified.

Besides, Midea has a very effective incentive and constraint organism--Management Buy-out (MBO) starting from 1997. The future of the enterprise is highly involved with the future of every manager, who will thus unlikely make blind decisions or focus short-term profits more than

long-term ones.

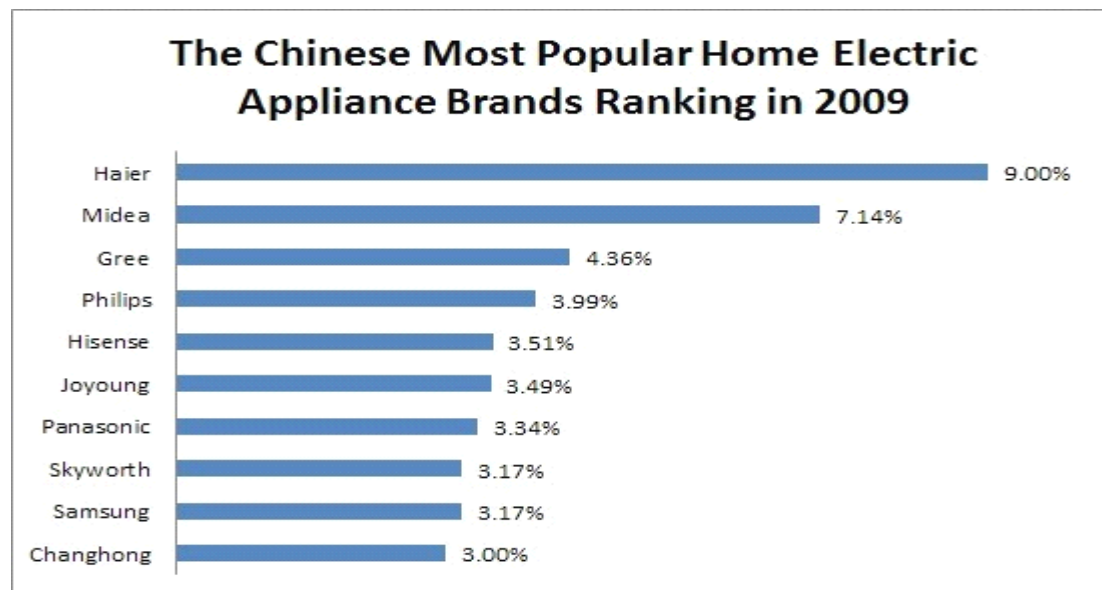
Industry Analysis

In recent years, the Chinese Market witnesses a rapid growth in the domestic electric appliances industry. The sales quantities of the products in 2010 recorded about 95 million air conditioners, increased by 44% compared with 2009; about 70 million refrigerators, increased by 22% compared with 2009; and nearly 50 million washing machines, increased by 29% compared with 2009.

As the rapid growth of China's GDP, the spending power of Chinese residents are getting stronger and stronger. In 2009, China's per capita income exceeded \$3,000 and it keeps growing. With more disposable money, the Chinese have more power on buying. Besides, as the process of urbanization keeps going on, the rural Chinese are changing their consumption attitudes. In their pursuit of much more quality life, their demands of household electric appliances are rapidly growing and their focus of buying is changing from price to quality, which gives manufactures a stronger position in bargaining.

Competitors

In China's household electric appliances market, there are 10 leading brands, which are Haier, Midea, Gree, Philips (Dutch), Hisense, Joyoung, Matsushita(Japanese), Skyworth, Samsung (South Korean) and Changhong. Among the 10 brands, both Haier and Midea have very diverse products and perform better in terms of annual revenue, public favor, etc.



Major Risks for Future Development

Due to the scarcity of resources in China, the prices of main raw materials for production, especially the price of copper, will continue to rise, which gives material providers a strong position in bargaining. Meanwhile, it costs manufacturing companies like Midea more to yield products and forces an urge to develop a more resources-saving method.

Trade barriers and technical barriers are major risks for the future development of Midea as well. Non-tariff barriers and trade frictions caused by anti-dumping measures of some countries and regions have brought new challenges to home electric enterprises like Midea in terms of cost and expansion.