

# Analysis Report on Qingdao Haier's Acquisition of Candy in Italy

Yucheng Huang<sup>1</sup>, Huadong Lin<sup>2</sup>, Yuqian Peng<sup>3,\*</sup>, Xintian Wu<sup>4</sup>

<sup>1</sup> Shenghua Zhizhu Academy, Shanghai, China

<sup>2</sup> Jinan Foreign Language School, Jinan City, China

<sup>3</sup> Number 7 middle school, Zhengzhou, China

<sup>4</sup> Foreign Language School to Guangxi Normal University, Guangxi, China

\* Corresponding Author Email: phammonds79110@student.napavalley.edu

**Abstract.** Since the implementation of economic reforms and opening up, the electricity industry has experienced remarkable growth, capturing an increasingly larger market share on the global stage. In response to this trend, the Chinese government has introduced numerous policies to encourage and support the industry's development. Concurrently, enterprises are recognizing the significance of cross-border cooperation as a means to foster their own progress and gain entry into international markets. Against this backdrop, Qingdao Haier, a telecommunications company, has embarked on several cross-border mergers, achieving notable successes. This article focuses on Qingdao Haier's acquisition of the Italian company Candy, using it as a case study to delve into the background, motivations, and outcomes of mergers and acquisitions between the two entities. By doing so, this study aims to offer valuable insights and inspiration to other Chinese companies seeking to expand their global presence.

**Keywords:** Cross-border M&A; Haier; Candy.

## 1. Introduction

### 1.1. Research Background

In 1999, the "going global" strategy emerged, providing a solid political foundation for the development of China's financial market and M&A activities. While Western countries have experienced early and advanced development in their economic markets, resulting in a higher prevalence of mergers and acquisitions activities, the existing theoretical frameworks and case studies predominantly cater to Western economic markets. However, China's financial market landscape significantly differs from that of Western economies. As the Chinese economy continues to flourish, an increasing number of Chinese enterprises are actively engaging in mergers and acquisitions to drive their own growth.

In 2016, Candy made its entry into the Chinese market through the acquisition of Guangdong Jinling Electrical Appliances Co., Ltd., but faced limited success. Recognizing the importance of strategic partnerships, in March 2017, Candy established a collaborative alliance with Meiling, forming a joint venture dedicated to research, development, and sales of washing machine products in the Chinese market. Building upon these efforts, on September 28th, Haier Europe entered into an equity acquisition agreement with Candy's shareholders, marking a significant milestone in their collaboration. The agreement entailed Haier Europe acquiring 100% of Candy's shares for a transaction consideration of 475 million euros.

While the acquisition of Candy by Haier Europe represents a notable development, it is essential to examine the broader implications and potential synergies that can be derived from this strategic move. This paper aims to delve into the background, motivations, and expected outcomes of this cross-border merger and acquisition. By conducting a comprehensive analysis, incorporating relevant financial market dynamics, and drawing insights from similar cases, this study seeks to contribute to the understanding of mergers and acquisitions activities in the context of the evolving Chinese

financial market. Furthermore, it aims to shed light on the strategies employed by Chinese enterprises as they pursue their global expansion goals in an increasingly interconnected world economy.

## 1.2. Literature Review

In recent years, scholars have gradually paid attention to cross-border M&A strategies. Zhang Ming and Chen Weihong (2019) used the Fuzzy Set Qualitative Comparative Analysis (fsQCA) method to explore the "joint effect" of multiple factors on cross-border M&A equity selection and the "interactive relationship" between different factors in the SDC Global M&A Transaction Database from 2004 to 2019. Four cross-border M&A strategies that Chinese companies can refer to, as well as the substitution relationship between the accumulated experience of professional buyers in cross-border M&A and the industry correlation followed by industry experts in M&A [1]. Wei Jiang, Wang Ding, and Liu Yang (2020) found through inductive case studies that emerging economy enterprises tend to respond to the source country disadvantage of institutional factors through legitimacy repair strategies such as organizational system design, resource coordination, and reputation reconstruction. This has certain implications for Chinese enterprises in cross-border mergers and acquisitions [2].

## 1.3. The Contents and Significance of The Article

The objective of this article is to conduct a comprehensive analysis of the cross-border merger and acquisition case between Qingdao Haier and Italy Conti, aiming to present insightful conclusions and findings. The primary focus of this research lies in exploring various aspects of cross-border mergers and acquisitions within relevant business contexts. By thoroughly examining the background, motivations, and performance data of Qingdao Haier's acquisition of Italy's Kangdi, this study seeks to gain a deeper understanding of the implications of cross-border mergers and acquisitions on corporate growth strategies.

To achieve this objective, the article will delve into the potential risks and opportunities associated with cross-border mergers and acquisitions. A thorough analysis of business models, market prospects, and cultural differences between the two entities will be conducted. Furthermore, by comparing and contrasting with similar cases, this study aims to provide readers with comprehensive insights into the dynamics of cross-border mergers and acquisitions. Moreover, it will explore effective corporate expansion strategies within the context of an increasingly globalized economy. By presenting a detailed examination of the Qingdao Haier-Italy Conti case, this article endeavors to contribute to the existing body of knowledge on cross-border mergers and acquisitions. The findings and conclusions drawn from this research will offer valuable guidance and recommendations for companies seeking to navigate the complexities of cross-border mergers and acquisitions in an era of globalization.

## 2. The Basic Information of Both Parties

### 2.1. The Basic Information of Haier

Haier Group established its headquarters in Qingdao, Shandong Province in 1984 with Zhang Ruimin and others for RMB 311.8 million, mainly engaged in white e-commerce. Currently, Haier has established 21 industrial parks, 5 research and development centers, 19 overseas trading companies, and more than 70000 employees worldwide. Through the acquisition of well-known foreign home appliance enterprises, Haier has achieved its goal of globalization strategy. Haier's overseas markets already include Southeast Asia, Australia, New Zealand, North America, Europe, and other regions. In 2007, Haier's overall share in the Chinese home appliance market reached over 25%, had the first-place share. In several technological field, the Haier Company was also at a world leading level. In the same year, Haier applied for a total of 7883 patents (including 1736 invention patents). In 2007 alone, Haier applied for 875 patents (including 502 invention patents), and Haier was also the only global white light sponsor of the 2008 Beijing Olympics. In 2012, Haier acquired Fisher&Paykel from Italy, thereby consolidating the home appliance market in Pacific countries.

Haier successfully gained a share of the US market through the acquisition and integration of General Electric Appliances. In 2019, despite the overall decline in sales in the large US kitchen appliance market, GEA ranked first in terms of market share. In 2018, Haier's board of directors passed a resolution to acquire Candy Company in Italy, and entered the European market in early 2019, filling Haier's gap in the European market [3].

## **2.2. The Basic Information Of Candy**

Candy was founded in 1954, which was a professional electrical appliance manufacturer in Italy. Since its establishment, the group had more than ten professional home appliance brands. Candy Group's products cover the vast majority of the household appliance field, including washing machines, clothes dryers, dishwashers, drum dryers, refrigerators, freezers, kitchen appliances, and vacuum cleaning equipment. In 1954, Candy produced the first semi-automatic washing machine in Europe. On January 8th in 2019, Qingdao Haier completed the acquisition of Candy Company in Italy and obtained 100% equity of the company for approximately 3.8 billion yuan [4].

## **3. Reasons For Mergers And Acquisitions**

### **3.1. Create Synergies**

After Haier acquires Candy Company in Italy, it can cooperate in research and development, jointly purchase raw materials to reduce costs, and expand markets, sales channels, etc., which can benefit both parties in many aspects, and the resources of both parties can also be jointly used and enjoyed [5]. Because both Haier and Candy are well-known in their respective regions, it will be easier to achieve synergies in all three areas of finance, management and operations after the merger is completed. Haier can further open up the European market through Candy's popularity, enhance the brand's reputation and international competitiveness, and lead the development of the global industry. After the completion of Haier's acquisition, it began to carry out a series of integration work with the concept of "light integration". According to the resources of both parties, the industrial chain was broadened and the original planned procurement was replanned, Haier provided cheap labor, and Candy expanded the sales market and publicity for Haier with its own popularity. Qingdao Haier and Candy are both world-renowned home appliance companies, and they can both stabilize the problems caused by mergers and acquisitions based on their own experience in terms of operation. After the completion of the merger, both companies can learn and correct their own shortcomings according to each other's advantages, so that they can obtain greater benefits, go far, and further achieve synergies. Qingdao Haier's market share increased from 10.3% in 2016 to 27.2% in 2022 [6], further validating the effectiveness of synergies. Qingdao Haier provides cheap products and services, which can enable Qingdao Haier's products to "go global" and even obtain a larger market, higher benefits, and more able to make Qingdao Haier have a place in the international power market.

### **3.2. Achieve Economies Of Scale**

Qingdao Haier hopes to expand its capital scale, increase product production and sales through mergers and acquisitions, in order to enhance the company's position. By reducing costs, increasing revenue levels, and enhancing competitiveness, Haier hopes to gain more market share. Haier's decision to acquire Candy not only effectively enhances industry visibility, but also enables both parties to quickly expand the company's capital scale and collect the necessary raw materials more efficiently. The completion of this cross-border operation means that Qingdao Haier will expand its industrial scale and successfully enter the European market, which is very beneficial for enhancing Haier's bargaining power in various aspects. By expanding its scale, enterprises can improve their own quality and to some extent help Haier reduce costs. By means of mergers and acquisitions, entering the other party's market, and developing new products, Haier can achieve an increase in revenue. In order to achieve these goals, Haier will continue to work hard, maintain innovation, and continuously improve its competitiveness.

### 3.3. Strategic Development Needs

Since Qingdao Haier proposed a global brand development strategy in 2005, the company has been actively and proactively expanding its presence in markets worldwide. With multiple international brands under its umbrella, including Haier and General Electric Appliances, Qingdao Haier has successfully distributed its products across various regions such as Southeast Asia and North America. In its pursuit of global growth, Qingdao Haier recognized the potential in the European market and seized the opportunity to acquire Candy, a move that has significantly enhanced its influence in Europe. This strategic acquisition not only contributes to the global presence of the Qingdao Haier brand but also provides a gateway to explore new business opportunities and reap substantial benefits in Europe. By expanding its operations in the European market, Qingdao Haier aims to solidify its reputation and achieve higher returns [7]. The company remains dedicated to promoting its brand's globalization process, ensuring that consumers worldwide can access high-quality products and services. With an unwavering commitment to excellence, Qingdao Haier continues to strive towards delivering superior offerings and meeting the evolving needs of consumers.

## 4. The Performance Analysis Of M&A

According to the Euromonitor International, Haier has ranked first in the retail volume of large home appliance brands for 13 consecutive years [8]. From 2008 to 2022, China's famous electric appliance brand Haier has become the sales of the world's main electric appliance brand in the retail volume of refrigerator and washing machine for 15 years. The number of champions, among which the refrigerator's sales were ranked first for 14 years. This achievement fully shows Haier's strong strength and market approval in the refrigerator and washing machine [9-16]. Haier group's global turnover overall steady rising trend, only slightly decreased in 2015, 2016 achieved the group's expected turnover of 2016 billion yuan, create a new height in 2018, the global turnover of 2661, one hundred million yuan, five years from 2014 to 2018 years, the global turnover from 200.7 billion yuan to 266.1 billion yuan, the overall increase by 30% [9-11]. In the long run, after the cross-border acquisition of Haier Group, the global turnover has increased substantially, and the overall trend is in a good development. Haier has successively acquired Sanyo White Electric, Fisher-Paykel, GEA and Candy companies. By continuously optimizing resource integration ability, Haier's overseas revenue accounted for 42% by 2018, approximately 100% was its own brand revenue [11].

The turnover of Qingdao Haier has experienced sustained growth from 2015 to 2022, from 188.7 billion yuan in 2015 to 350 billion yuan in 2022 [9, 16]. Among them, from 2016 to 2021, the turnover increase rate accelerated to reach 20%, and the speculated reasons include mergers and acquisitions of other home appliance enterprises. After that, the turnover has continued to grow, but at a slower pace.

In 2015, Qingdao Haier's operating revenue reached 89.748 billion yuan [9]. In 2012, the operating income of Qingdao Haier was 79.817 billion, and the net profit was only 16.95; in 2018, it was 183.3 billion, and the net profit was nearly 5 times that of 2012. In the seven years from 2012 to 2018, Qingdao Haier's operating income grew rapidly, and in 2016, it exceeded the 100 billion mark for the first time. In this year, Haier acquired gm's home appliance business, and the following two years grew rapidly. The net profit decreased in 2015, but increased in other years year by year. It can be simply seen that Haier has a certain strength before the acquisition of General Home Appliances, and its own profitability has not been affected after the acquisition.

The return on total assets fell first and then rose from 2015 to 2019 [9-13]. The return on equity decreased significantly in 2015, but after the acquisition of General Home Appliances in 2016, Haier's return on equity rose to 20.38% in 2016, and continued to rise to 22.89% in 2017 [10]. In 2018 and 2019, Haier's return on equity decreased, but the decline was less. This shows that Haier's acquisition of general home appliances has enhanced Haier's overall profitability. For the net interest rate on sales, it decreased from 6.60% in 2015 to 5.38% in 2018, and then increased to 6.14% in 2019, a significant increase. Qingdao Haier merged due to the related financial expenses and sales expenses. The

recovery of net interest rate in 2019 is due to the gradual release of synergies of mergers and acquisitions, which gradually reduced various expenses, thus enhancing the profitability of the enterprise.

## 5. Conclusion

Admittedly, although mergers and acquisitions are undoubtedly the best choice for the saturated home appliance market in contemporary times, it is quite difficult for a company to achieve successful mergers and acquisitions. However, the multiple successful mergers and acquisitions by Haijier Group also demonstrate its excellent strategic goals and long-term good communication with the enterprise. Haier's merger and acquisition targets are mostly loss-making enterprises, and it has also often used to expand a company's share in the international market. In addition, there are also some important factors and methods that determine the success of an excellent merger and acquisition. Firstly, clarify the motives for mergers and acquisitions, adopt a strategy of "difficulty first, then easy", adhere to the development strategy of private brands, first enter developed markets such as the European Union, gradually achieve localized operations, and then enter developing countries. Secondly, enterprises should conduct due diligence, understand local policy trends, and properly prepare the necessary documents for mergers and acquisitions. These will all affect the success or failure of the acquisition and future development. Finally, strengthening resource integration is also an indispensable part. The smooth delivery of merger and acquisition documents does not necessarily mean that the merger is completely successful. The integration of resources between both companies after the merger is a determining factor that affects the success or failure of the merger. The reason why most home appliance companies fail in mergers and acquisitions is that they have not integrated the acquired companies well.

## References

- [1] Zhang Ming, Chen Weihong, LAN Hailin. Why Chinese Enterprises Completely Acquire Overseas High-Tech Enterprises: A Fuzzy Set Qualitative Comparative Analysis Based on 94 Cases (fsQCA). *China Industrial Economy*, 2019 (04): 117-135.
- [2] Yu Xiaohui. Research on the Motivation and Performance of Haier's Cross border Merger and Acquisition of Candy. Northeastern University of Finance and Economics, 2022.
- [3] Xu Shiyu. Case Study on the Performance of Qingdao Haier's Cross Border Merger and Acquisition of Candy in Italy. Lanzhou University, 2022.
- [4] Lu Chunyan. Motivation and Performance Analysis of Haier Group's Cross Border Mergers and Acquisitions. Tianjin University of Commerce, 2020.
- [5] Zhao Peng, Liu Hanqing. Literature Review on the Performance and Influencing Factors of Cross border Mergers and Acquisitions. *Northern Economy and Trade*, 2019 (11): 48-50.
- [6] Yu Xiaohui. Research on the Motivation and Performance of Haier's Cross border Merger and Acquisition of Candy. Northeastern University of Finance and Economics, 2022.
- [7] Zhang Ming, Chen Weihong, LAN Hailin. Why Chinese Enterprises Completely Acquire Overseas High-Tech Enterprises: A Fuzzy Set Qualitative Comparative Analysis Based on 94 Cases (fsQCA). *China Industrial Economy*, 2019 (04): 117-135.
- [8] Wei Jiang, Wang Ding, Liu Yang. Source Country Weaknesses and Legalization Strategies: A Case Study of Cross border Mergers and Acquisitions of Emerging Economy Enterprises. *Journal of Management World*, 2020,36 (03): 101-120.
- [9] Shandong Hixin Certified Public Accountants LLP. (2016, April 29). Haier Smart Home Co., Ltd. 2015 Annual Report. <http://static.cninfo.com.cn/finalpage/2016-04-29/1202268243.PDF>
- [10] Shandong Hixin Certified Public Accountants LLP. (2017, April 29). Haier Smart Home Co., Ltd. 2016 Annual Report. <http://static.cninfo.com.cn/finalpage/2017-04-29/1203428901.PDF>

- [11] Shandong Hexin Certified Public Accountants LLP. (2018, April 26). Haier Smart Home Co., Ltd. 2017 Annual Report. <http://static.cninfo.com.cn/finalpage/2018-04-26/1204797433.PDF>
- [12] Shandong Hexin Certified Public Accountants LLP. (2019, April 30). Haier Smart Home Co., Ltd. 2018 Annual Report. <http://static.cninfo.com.cn/finalpage/2019-04-30/1206167384.PDF>
- [13] Shandong Hexin Certified Public Accountants LLP. (2020, April 30). Haier Smart Home Co., Ltd. 2019 Annual Report. <http://static.cninfo.com.cn/finalpage/2020-04-30/1207693342.PDF>
- [14] Shandong Hexin Certified Public Accountants LLP. (2021, March 31). Haier Smart Home Co., Ltd. 2020 Annual Report. <http://static.cninfo.com.cn/finalpage/2021-03-31/1209489942.PDF>
- [15] Shandong Hexin Certified Public Accountants LLP. (2022, March 31). Haier Smart Home Co., Ltd. 2021 Annual Report. <http://static.cninfo.com.cn/finalpage/2022-03-31/1212752481.PDF>
- [16] Shandong Hexin Certified Public Accountants LLP. (2023, March 31). Haier Smart Home Co., Ltd. 2022 Annual Report. <http://static.cninfo.com.cn/finalpage/2023-03-31/1216279243.PDF>