

Porter's Five Forces Analysis and Value Chain Analysis of AUX Air-conditioning Co., Ltd.

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Abstract

AUX air-conditioning brand is one of the leader of China's air-conditioning brands, which is created by AUX Air-conditioning Co., Ltd. This essay involves analyses using strategy tools and frameworks such as Porter's five forces analysis and Value chain analysis.

Keywords: Porter's five forces analysis, Value chain analysis, technology innovation, case study

1. Introduction

In October, 1994, AUX air-conditioning brand was created. With a short span of 22 years, AUX has become the leader of China's air-conditioning brands. AUX air-conditioning has won an equal social recognition with three traditional air-conditioning brands Haier, Midea and Gree, occupying the Chinese air conditioner front seats.

2. Porter's Five Forces Analysis

2.1 Intensity of Rivalry within the Industry

In general, currently there are over 40 air conditioning manufacturers in China, which pose a grave threat to the existence of AUX. To be more specific, first, three major brands—Haier, Midea, Gree account for around 50% market share in the national air conditioner market, which hinder the development of AUX. Furthermore, the competition between different manufacturers has become more complex and the brand power has been further demonstrated. Brands like Kelon, Hisense and Panasonic amount to about 30% market share in the national market. In addition, other brands sales occupy the rest market share percentage.

Multinational appliance companies, with their absolute advantages in capital, technology, size and management, have comeback, and they occupy a large market share in the appliances high-end market. In recent years, the market shares of multinational appliance companies show a growing trend in Chinese market, and they continue to integrate China's decentralized business, products and resources, making AUX faced with enormous challenges and more intense competition.

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2.2 Threat of Substitute Products or Services

The main products of AUX are home air conditioners, commercial air conditioners, etc. In general, the number of alternative products is small and the threat of substitute products is weak. Besides, the cost for customers switching to alternative products seems high, so the change intention is low, which means there is not much pressure on AUX.

However, it is obvious that electrical appliances are getting more intelligent and user-friendly, so the threat of substitute products is mainly from the upgrades of the function and technology.

First, the price and function of substitute products affects the consumers' purchasing choices to a large extent. For example, recently Haier has launched products with new decorative features, and the price is close to that of AUX, which means that customers can enjoy more benefits both in the beauty and utility with less cost. Therefore, in this case the similar product of AUX is very likely to be substituted and lose a certain number of market shares.

Attention also should be paid on the intensity of competition for substitute products' producers, the threat of substitutes mainly come from the innovative R & D capacity of industry giants, like Haier, Gree, etc. They occupy part of the low-end market, and then rapidly develop high-end products in the frequency air conditioning, home central air conditioning, thus posing a new threat to AUX.

2.3 Threat of New Entrants

First of all, because of the impact of economies of scale, the domestic home appliance industry has comparatively low entry barriers and latent competitors can enter the industry with low risk. At the same time, the huge potential demand in the domestic appliance market is also an objective to attract more enterprises.

Second, with the development of "home appliances to the countryside" policy as well as appliance industry market segments, more and more new entrants will be encouraged to enter the home appliance industry, and promote the product differentiated and diversified.

In addition, foreign multinationals have tasted the sweetness of successfully following the squeeze of the Chinese beverage, cosmetic market, they begin to fixed on China's home appliance industry, This makes AUX, as the representative of local brands, face a greater impact.

However, although the entry barriers are low, financial and technical constraints make a lot of new entrants difficult to have a further development. Therefore, new entrants, of course, would have an impact on AUX's segments, but they are not expected to impact AUX's status.

2.4 Power of Buyer

Customers always prefer to buy products with the lowest price, but this price will make the suppliers obtain the minimum return on investment. Hence, the customers are always in the bargain, demanding higher quality and more services with lower costs. Besides, competition among enterprises in the industry also makes the buyer a profit.

In the home appliance industry especially air conditioning, the market has become a full buyer's market due to the overcapacity, where consumers have many choices because the

switching costs can be almost zero. Furthermore, the participation and development of appliance chain stores make the suppliers' compromise, the buyers' bargaining power have become one of the decisive factors. In addition, the appliance brand recognition also affects the competitive pattern of the industry.

In order to attract customers, producers compete with each other and cut prices and offer discounts actively. Moreover, customers can bargain on product guarantees and other services to a large extent.

2.5 Power of Supplier

The supply chain of AUX can be generally analyzed in the following aspects. First, the upstream industry conditions. AUX has a strong control over the controllers, compressors origin material manufacturers. Second, resource supply situation. The prices of iron, steel, copper and other basic raw materials fluctuate significantly, thus weaken the control of compressor control. Third, the substitutability and importance of supplies. Copper can be replaced by aluminum to reduce production costs reduce dependence on scarce resources.

As can be seen from the analysis, the suppliers' bargaining power of AUX is low. AUX's production scale and brand advantages make the company a stronger bargaining power. However, if the suppliers raise the price together, the brand elimination speeds up, and the Matthew effect is more prominent in the air conditioning industry, which will have an impact on AUX.

3 Value Chain Analysis

The value chain of the AUX air conditioning consists of operations, marketing and sales, logistics, services and other support activities have been laid a solid foundation in the brand enterprise, which is also the greatest wealth of the company.

3.1 Primary Activities

3.1.1 Operations

Among the serious competition, AUX air conditioning takes the strategy of production at lowest cost in production. Since 2000, AUX invests ten millions in constructing parts factories and it realized provide more than 90% parts by themselves except compressor and outside packing until 2002. Therefore, the costs of the key components are cut to 3/5 of the original cost in outsourcing.

Also, Aux introduces the world-class manufacturing equipment continuously to improve the productivity as well as reduce the production cost. For example, it imported two production lines from Japan, multifunctional CNC and "robot intelligence technology" punching and bending machines from Finland, EMC performance testers from Swiss and other advanced equipment. The efficiency of the automatic line imported from Japan is 3 times of the domestic manufacturers, that is to say Japanese automatic production line produces a set of air conditioning cost 1 minute, while it takes 3 minutes by using Chinese automatic production.

3.1.2 Marketing and Sales

Marketing is quite important to the highly competitive industry of electrical household

appliances in attracting customers, and AUX advocates various activities to face the fierce competition such as “open with award” activity join hands with Wahaha the king of the drink industry, or “China blue” with Zhejiang TV, or on-line shopping activity with Taobao company, the marketing of the AUX air conditioning always keep pace with the times.

In September 2009, as the first air conditioning company realized the strategy of marketing by network, AUX began to corporate with Taobao, which was the first company joined hands with the largest on-line retailer. Subsequently, the first AUX-Taobao flagship store opened in 25th January 2010, and the sales volume reached to 335 units, and in the later days, even sold 200 sets of air conditioning in one second. In addition, AUX joined the Jingdong on-line store to expand their network platform in April 2010.

Furthermore, AUX advocates the health concept from resources to operation, from responsibility to the consumers to safeguard the dealer relationship, from protect the environment to the development of the enterprises for expanding sales and marketing shares by valuable brand.

3.1.3 Logistics

AUX signed an agreement with the postal logistics in some areas, not only provide door-to-door service, but also lunched after sale services of the air conditionings. They also signed the distribution agreement with the individual transport drivers, incorporated into the unified management. On the part of the remote areas, AUX company sets up human distribution team to ensure that the products are delivered on time with high quality service.

3.1.4 Service

AUX insisted on more than two years in the activity of recurring “orphan air conditioning” that needs sales services and maintenance, and they are keep providing services to these air conditionings. At the same time, they will inspect freely to the Aux air conditioning users annually lasts for more than ten years, which demonstrates their strength and judgmatical services.

3.2 Support Activities

3.2.1 Technology Development

The invention of “hot pa air conditioning” also reflects the technical strength of AUX Company. It is universally acknowledged that air conditioning is easy to refrigerate, while it is difficult to heat due to the outdoor temperature is too low to compress adequate mechanism thermal. In view of this situation, AUX developed “hot par” technology, optimized the design of the gold duct and upgraded 20% of the average heat amount, 1/4 heating speed by using dual rotor compressor and special heating system EVI (flash steam), making the air conditioning is still able to produce strong heat even below the temperature of -20°. Once the technology department of the AUX air conditioning solved this problem, their profits are favorable and have a good start in 2016.

3.2.2 Human Resource Management

AUX air conditioning redesigned the staff training system to better fit into the overall team since April 2008. And it has been completed employees’ initial training including enterprise

culture, promotion platform, work shift and machine exercises. Also, AUX developed further training on the skills of products sales and channel management. Furthermore, for the talent training plan, AUX increases the “master” mechanism. That is some new employees will be directed by the senior engineers or project managers as master tutors of the regional center, and the evaluation of the master mechanism will be realized through the specific responsibility system.

3.2.3 Procurement

Before 1995, all the brass that AUX air conditioning need depends on procurement, and the suppliers were Yuhang and Cixi two parts production enterprises. Because there are not many domestic enterprises producing copper tubes for air conditionings at that time, it was very difficult to get the copper parts even at high price with low quality produces. Therefore, AUX started to construct the brass factory and took two ways of self-made and purchase at the same time, which has the lower price with the higher quality will be advocated.

4 Conclusion

AUX air-conditioning brand is one of the leader of China's air-conditioning brands, which is created by AUX Air-conditioning Co., Ltd. This essay involves analyses using strategy tools and frameworks such as Porter’s five forces analysis and Value chain analysis. Furthermore, for the talent training plan, AUX increases the “master” mechanism. That is some new employees will be directed by the senior engineers or project managers as master tutors of the regional center, and the evaluation of the master mechanism will be realized through the specific responsibility system.

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