



Operation strategy at Galanz

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Abstract

In this research, we investigate the growth of Galanz as a simple industry to become one of the mostly common manufacturers in the world. In this research, we aim to introduce students to the concept of the order of the winner to classifiers, operations priorities / goals. Another goal is to show how the operation priorities should reflect the requirements of the customers and influence on the company wants to compete. Further, we demonstrated how a company can gain a competitive advantage through lower costs and a strategy on how to support the business strategy with the strategy and operations capabilities. The research also showed the students how a company can build several opportunities over time, and how the strategy and operational capabilities of the company may change over time. We also provided students with the opportunity to analyze the trade-offs in the strategic, operational and marketing decisions as the business expanded from domestic to international market and from OEM to ODM and OBM. The challenges of students to develop coherent plans of action that relate to future growth objectives are also involved. Finally, we help student to understand the great opportunities and challenges, and the management of the activities of the supply chain in China.

Keywords: Galanz, operation priorities, OEM, ODM, OBM.



Introduction

Galanz has rapidly grown that transformed from simple manufacturer to become one of the world class manufacturers of microwave ovens. It is a member of Shunde Galanz Enterprises Group Co. Ltd. Galanz is the producer of fifty percent of microwave ovens in the world in 2003.

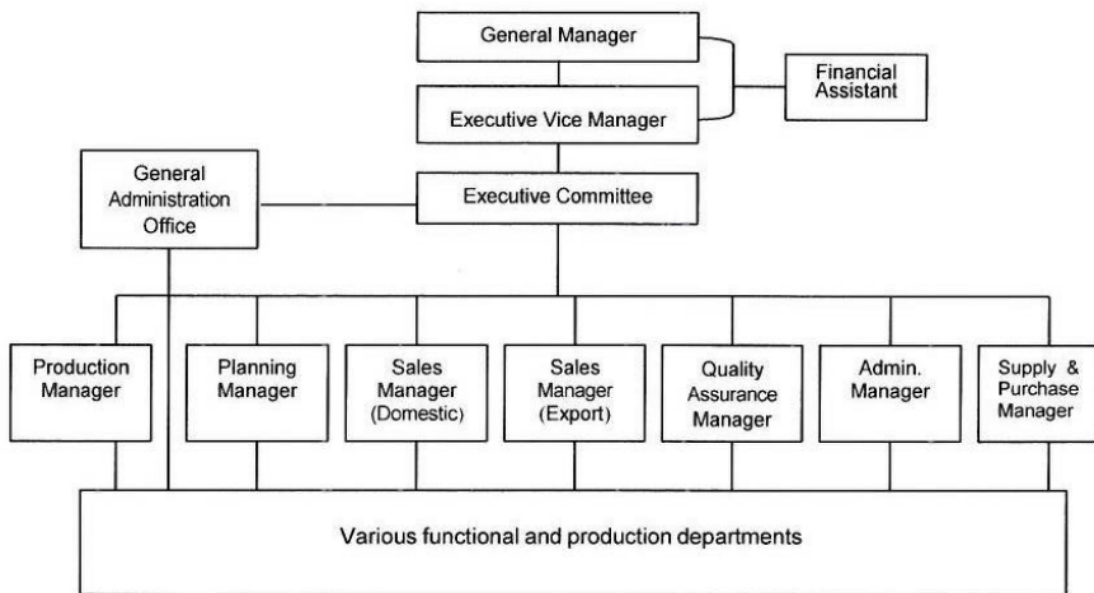
Galanz started its business with a rich competitive strategy developed based on cost control, economies of scale, and full utilization of operating resources and capacities. The case of Galanz introduces new concepts of winning and shows how to reflect the needs of customers based on priorities of operations that influence the competitive advantage of the company[1].

Galanz has achieved economy of scale through combining OEM, ODM, and OBM. It also has achieved 60%-70% of the local production in 2002, and 50% of the world-wide market in 2007. The increasing production lines refer to many reasons: first, free production line transfer; second, the obtained right of using additional capacities for production; third, the encouraged component suppliers of Galanz' manufacturing facilities.

In this case, the operational and competitive aspects of Galanz require us to trigger different kinds of growing strategies. Many reasons stand beside the withdraw of many industry players from the market such as the adoption of penetration pricing leveraging economies of scale, the expansion of production capability to exceed market demand, and the aggressive pricing strategy.



Company structure of Galanz group in 2002



Objectives

1. Introduce students to the concept of the order of the winner to classifiers, operations priorities / goals.
2. Show how the operation priorities should reflect the requirements of the customers and influence on the company wants to compete.
3. Demonstrate how a company can gain a competitive advantage through lower costs and a strategy on how to support the business strategy with the strategy and operations capabilities.



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4. Show the students how a company can build several opportunities over time, and how the strategy and operational capabilities of the company may change over time.
5. Provide students with the opportunity to analyze the trade-offs in the strategic, operational and marketing decisions as the business expanded from domestic to international market and from OEM to ODM and OBM.
6. Challenge students to develop coherent plans of action that relate to future growth objectives.
7. Help you understand the great opportunities and challenges, and the management of the activities of the supply chain in China.

Why microwave ovens?

In 1980, microwave ovens market was in its infancy in china since the competition and demand size was small from the perspective of the competitive environment. The microwave ovens had become common in modern cities in China in 1991, introducing an opportunity for an excellent business. Beside the development of manufacturing microwave ovens, the price of the microwave ovens was high and unaffordable to the most Chinese[2].

Galanz has transformed its manufacturing from world factory to world brand after it entered as a dominant player in the global home appliance market of microwave ovens. In Galanz management, a highly-centralized decision making and execution system has been adopted. It included three layers: senior executives, general management, and operational staff. From communication and information flow perspective, the strategies were hard to implement since they are unclear and slow.



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The start-up

Many Chinese businesspersons utilized the opportunity in manufacturing microwave ovens. Whoever, starting a microwave oven production business was not completely emphasized without any challenge, despite the technical ease of producing microwave ovens. At that time, the only person that had the determination of working to outperform business challenges was Liang Senior that first import equipment and technology from overseas during the initial stages of Galanz. In early stages, Galanz has searched of engineering professionals knowledgeable of microwave oven technologies to help to set up factor[3].

In rapid way, Galanz used the Japanese company as outsourcing of the production technology to produce oven for domestic market under Galanz brand name. This was to solve the problem of outsourcing part of magnetron production to other companies. Although it has used outsourcing for production, it produced ovens with low cost based on enhanced ability of competing against leading, successful players such as LG, Panasonic, and Toshiba.

The early success

The role of technology has played a critical role in the success of Galanz. This is caused by the enhanced technologies that make the management of large set of information to become much easier. In special case, the manufacturing of Magnetron used as equipment in producing microwave ovens was the main proficiency and expertise of Galanz Company as the time passed[4].

The microwave oven business had many winners' qualifiers during the earlier stages of development. The characteristics or traits of business refer to the orders winners that perform a critical activity in competitive advantage of the Galanz Company. Competitive



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advantage helps the company to differentiate itself from the others. However, order qualifiers act as characteristics of compulsorily exhibiting the competitive advantage of the company to differentiate itself in the market.

The case of Galanz indicated that it was owned by the foreign trade department of Guangdong province and it has successfully gotten its desired exports of products larger than 23 million in 1992. At that time, it has converted its business from manufacturing feather products into manufacturing microwave ovens[5].

OEM production line

The first method that Galanz has implemented to achieve low cost of production and to intensify its production capability was through a free production line transfer. After a few years, Galanz continued to quickly enlarge its production scale with quality of products as a result of providing staff training, production site enhancements, and parts customization. Furthermore, the increased production capacity of Galanz has been improved by utilizing the labour resources and production facilities. The operations were divided into three shifts per day (24 hours a day), seven days a week, and 365 days a year. In sum, the company through reduced cost achieved an increasing in its production scale[4].

One of the main causes of fierce competition of branded products is globalization. There is a conflict in the interest in OEM and OBM. In OEM, service business and setup sales depend on the channel partner that lead to have a great competition to OEM customers.

Price war

Price could fully dominate the internal microwave oven market, which stimulates Galanz to sustain the cost leadership. Consequently, Galanz decided to reduce its prices to obtain



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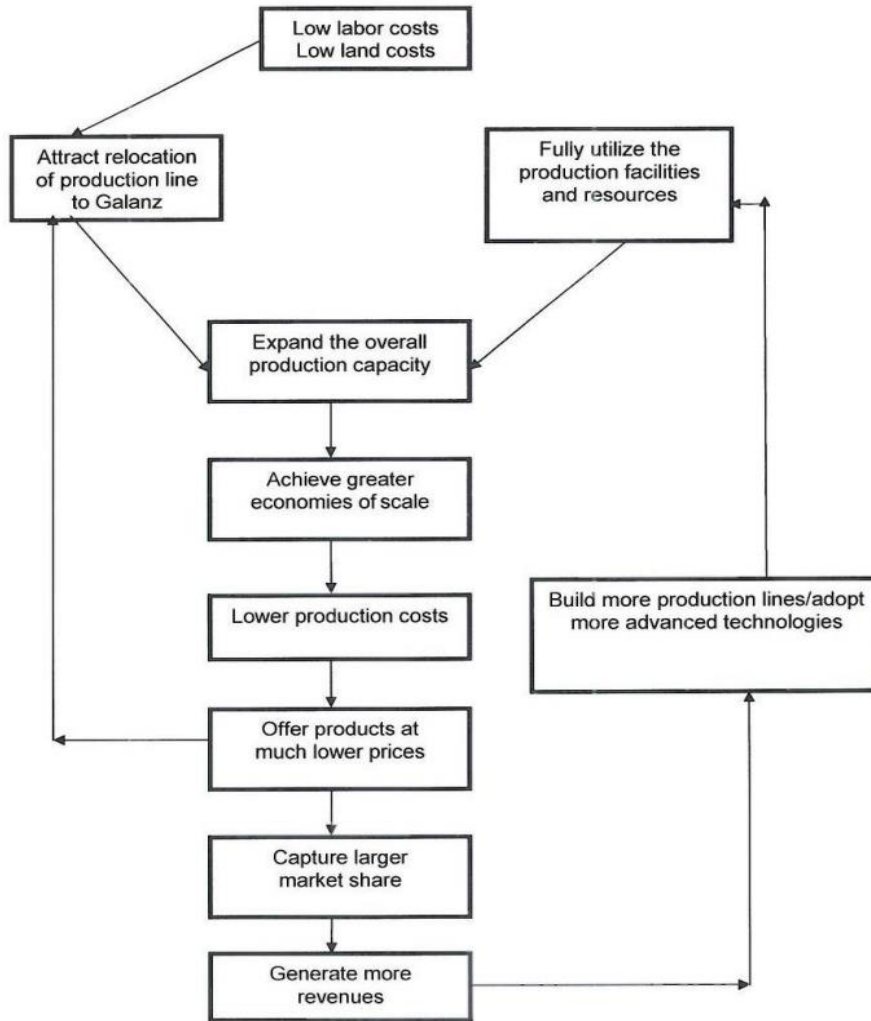
more market share than other competitor and to lead a position in global markets. This price-cutting method was relied on by Galanz to set the average unit cost of production required for growth. The company pushed its sales team to work harder since it enjoyed tremendous economies of scale for low cost production and additional inventory[6].

The main objective of price war was to damage the confidence of other competitors in market with little investment value. Some backwards that were utilized for improving the efficiency of the business targets for product pricing and profit margins.

Galanz Price cutting cycle



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Transformation from OEM to ODM

One of the main success factors of Galanz is its entrance to the global market using OEM business that enabled the company to utilize resources such as manufacturing equipment. Thus, it has exceeded other Chinese companies that export microwave ovens with no brand recognition to users. In short, the transformation of Galanz from OEM to ODM after magnetrons' production has increased the demand of branded products. These products are with good quality and low cost.



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In many cases, the transformation from OEM to ODM has emerged because of the lack of magnetron and retrenchment of the suppliers. Thus, Galanz has designed and developed its own magnetron started mass production. However, foreign market was not extremely familiar with the brand Galanz[7].

Development of production of own magnetron

Galanz has converted its business directions from “made in china” to “created in china”. The import of advanced technologies from overseas partners inspired Galanz to establish technical capabilities for equipment to design and develop its own magnetron [8].

The most important objective to Galanz was cost, but it has a plentiful labour supply. Further, it can deliver quality products better than the rest of leading companies in the market. One of the big challenges faced by Galanz Company was the refusal of supplying of the most important components magnetron used in production, stimulating it to design and develop its own innovation. Subsequently, Galanz has initiated major investment in magnetron in 1997, as well as it was able to design and produce magnetron by 2000. After that, the demand on magnetron was 25 million in 2003, while its capacity was only 16 million[9].

Enhancement of R&D capability and production innovation

Galanz started to raise up the investment in R&D activities after touching many benefits from gained from the design and production of magnetron based on R&D activities. It aimed to enhance the internal R&D structure and to facilitate the design and development of new product. Further, the investment in R&D has given more than 3% of annual revenue. The new technological invention of light wave ovens has improved the technical capability of Galanz through investment in R&D and import of technologies from



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overseas partners. This led the company to provide more ODM service to its large OEM clients and to receive more orders for Galanz brand products[10].

In addition, Galanz imported new technologies and investments in R&D to achieve differentiation and reduced cost. Moreover, the enhanced R&D capacity and production that have been setup with focus on new features and technologies have more than 3% of annual revenue.

The driver of self sufficiency

Galanz has begun to integrate its supply chain through adding more manufacturers to the original components to improve quality and reduce costs at the same time. This has resulted Galanz to produce 90% of the total components of microwave ovens[11].

Low price strategy that has been previously implemented by Galanz to deal with win orders was based on selling products in lower costs than the competitors. Additionally, the company has achieved economies of scale and increase in demand due to the successfully achievement of cost reduction and with the aid of low price strategy. Consequently, the company was able to sell products at lower prices than competitors and it has always been up for the price wars to achieve economies of scale. In short term, Galanz company has successfully made full utilization in terms of production capability among foreign manufacturers[12,10].

The flexibility, cost, innovation, and delivery service objectives are the main important operations goals of Galanz Company. Initially, the company did not face any competition in the industry during the initial years. After a few years, the company was engaged in outsourcing the equipment used in manufacturing microwave ovens, and it continued to do this process to sell products to many countries around the world. Subsequently, it also



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was engaged in both producing and selling the equipment used to produce microwave ovens and to sell them to the manufacturer at worldwide level[13].

The company gained the competitive advantage by cheap access to land and labour. Further, the company has utilized raw materials with added value for manufacturing products to be sold in high prices. At result, the company has followed low price strategy as a main objective to gain market share and make money. The most important operations objectives to the company during its early stages of development were cost, quality, and timely delivery. Recently, the whole country has transformed to modernize strategies. Therefore, the priorities of these important operational objectives have been evolved and changed over time by focusing on both low cost and quality of innovation.

OEM/ODM vs. OBM in the overseas market

The quality of products of Galanz earned approval between the global industry players of microwave ovens. However, Galanz stayed on top among microwave oven players in the domestic market. The primary business of Galanz in 2003 was OEM microwave ovens but without any brand known to the users. Therefore, the experience of Galanz in changing the strategic relationship between international companies with the causes of globalization in terms of competition [14].

The percentage of Galanz OBM and OEM microwave ovens has raised noticeably from 1997 to 2003. On the other hand, Galanz was careful when it puts its effort to expand OBM sales without harming the interests in OEM customers to maintain OEM business [15].

The company has faced many challenges especially when it ordered the priorities to decide which production order among OEM, OBM, and ODM. The company overlooked the significance of compliance with principles of practice to manage the



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efficiency of production with respect to the training of employees. The management of Galanz has recognized the importance of technical and management skills, work efficiency and attitudes, as well as the low cost labour[16].

Through OBM business, users can explore the brand name of Galanz, at the same time price reduction is affected by cost leadership. The combination of small and inefficient industrial players in price war had given a great chance to discourage new entrants to the market. Therefore, an excessive entry is encouraged by low risk, low cost, and united acquisition to gain high profit margin in the industry.

Production planning

Galanz has adopted large scale production with high efficiency and low cost compared to past products that were low quality in the domestic OBM market. At that time, the company has put little effort on strengthening the capacity of forecasting and planning for production scale. The company wanted to accurately forecast the demand to produce the requested products with required quantity and quality. However, the company might suffer from the shortage of products wanted by customers or unsold inventory [17].

In the mode of OEM, the customer can place his/her order and pay to the company only on delivery. However, this mode resulted in poor planning and forecasting. Whereas the OBM business allowed Galanz to get more accuracy in forecast that plays a core role in the success of the company. Conversely, the customers can request different product configurations at any time due to the increased product variety and the shortened product lifecycle. OBM business in the overseas market enabled Galanz to adapt mass production systems in meeting high variety products and the demand of customers, as well as the low volumes [18].



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High quality, fast delivery, reliable delivery, and flexibility are the main priorities to achieve competitive advantage. These priorities formulate the success factors to lead company to greater success and execute a combined scheme in an international expansion. Hence, many advantages have been occupied with forming a joint venture in Galanz. Moreover, the combination of OEM, OBM, and ODM businesses draws the future of competitive strategy for Galanz. The competitive strategy involves an effective sharing of value chain activities, effective resource allocation for competitive advantage, and vertical relationship for product management adoption.

The future of the company

Galanz has faced many challenges concerned in low cost competitive strategy and due to many critical changes despite its spectacular growth. The success and the strategic company direction is influenced by many issues such as the competitive strategy [19].

Galanz company dumps its products based on an efficient production planning to produce proper number of products compatible with the demands. Therefore, it follows production planning capabilities and sales forecasting.

The abundant supply of cheap labour and land has permitted an increased market share with cost leadership strategy. This also has allowed Galanz to fully utilize resources toward product-oriented process and increased in production sale, as well as decreases production cost. Galanz has focused on enhancing the distribution of product and improving the design and development of products. It also has strategic partnerships with different companies in international market mainly in OEM business. The employment of OEM method was one of the success factors of Galanz Company.



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STAGES OF GALANZ PRICE WAR IN CHINA (1996-2002)

Month/Year	Product	Price Reduction	Result
Aug. 1996	Full range	40% discount	<ul style="list-style-type: none"> • Sales rose to 650,000 • Domestic market share more than 35%
Oct. 1997	Full range	29-40% discount	<ul style="list-style-type: none"> • Sales rose to 1,980,000 • Domestic market share more than 47.6%
May 1998	Full range	30% discount	<ul style="list-style-type: none"> • Sales rose to 4,500,000 • Domestic market share more than 60%
June 2000	Fine Golden Flower Series (mid-ranged products)	40% discount	<ul style="list-style-type: none"> • Sales rose to 1,000,000 in the two product lines • Domestic market share more than 76%
Oct. 2000	Black Edition Series (high-end products)	40% discount	<ul style="list-style-type: none"> • International market share more than 30%
Apr. 2001	Products below RMB 300	30% discount	<ul style="list-style-type: none"> • Products were popular in the low season
Jan. 2002	Digital Temperature Control Series	30% discount	<ul style="list-style-type: none"> • Galanz dominated the microwave oven market

Galanz was formed by Liang Zhaoxian's father, Liang Qingde in 1978. It's headquarter is located in Shunde in the province of Guangdong. The company has initially created for manufacturing down feather products as a primary business. The name of Galanz company at that time was Guizhou down product factory [20].

Galanz hold order qualifiers in terms of the delivery of quality of service of products delivery. Conversely, order winners of the company have been shown through the low coat and low price of products. During the early stage of development, the classification of order qualifiers and winner qualifiers were on the basis of development.



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Conclusion

In this research, we can conclude that Galanz has transformed its manufacturing from world factory to world brand after it entered as a dominant player in the global home appliance market of microwave ovens. In rapid way, Galanz used the Japanese company as outsourcing of the production technology to produce oven for domestic market under Galanz brand name. At that time, it has converted its business from manufacturing feather products into manufacturing microwave ovens. The most important objective to Galanz was cost, but it has a plentiful labour supply. In short term, Galanz company has successfully made full utilization in terms of production capability among foreign manufacturers.



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