

The Strategy for Chinese Brands

A series of two white papers

Part 1 – The Perception Challenge

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The Strategy for Chinese Brands

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Introduction

There are numerous papers, articles, books and television reports on the size and attractiveness of the Chinese market for foreign brands. Interbrand recognizes the interest and importance of the subject and is equally if not more intrigued with the impact Chinese brands will have outside of China. The various brand acquisitions Chinese companies are making globally represents a carefully orchestrated and coordinated strategy. In addition to acquiring recognized, valuable brands, they are absorbing the accompanying expertise in brand management that comes with each deal. So while many companies outside of China contemplate the riches to be made, they must be aware of the increasing competition originating from that country into global markets.

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This is a deliberate two-pronged strategy for China – organically grow brands that are imbued with new meaning reflecting the changes in China itself, while acquiring the talent, credibility, and equity of established brands. It reflects the transition from a country largely viewed as a land of original-equipment manufacturers (OEMs), one that remains in the background by supplying global brands with unbranded product, to one that creates and manages leading global brands.

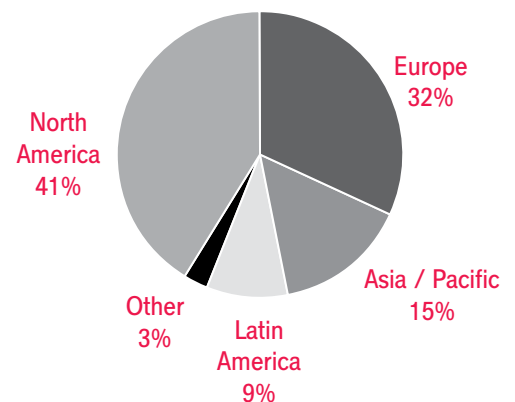
The strategy is sound and, if well executed, will go a great distance to achieving the policy objective set by the Chinese government. The People's Republic is executing a "go global" initiative with US\$15 billion set aside for acquisitions of leading companies and brands. This is enlightened policy and extremely progressive for any nation. Economist David Wall of Chatham House believes that by 2025, Chinese investors could own two dozen of the Fortune 500 companies.

This paper examines this "Chinese Brand Strategy," current perception issues, lessons from the best global brands, and the impact of leading Chinese brands. A second paper will examine what Chinese brands must do to be globally successful and how entrenched players must respond to the increasing competition. Our information is based on Interbrand's work in China, work with leading global brands, the annual Interbrand Best Global Brands study, and a survey of branding professionals on the subject of Chinese brands.

The Chinese Brand Survey

For a period of two weeks in the first quarter of 2005, an online survey was made available via www.brandchannel.com. This is a global resource for branding professionals that offers papers, debates, articles and reviews. Over the course of the survey, 243 executive-level branding professionals completed the survey representing this geographic breakdown:

Survey Respondents by Region



In the interest of simplicity and focus, the survey asked four questions:

1. Do you believe “Made in China” helps or hurts Chinese brands?

The findings were both anticipated and surprising. The majority of respondents (79%) believe that a “Made in China” label hurts Chinese brands. Mr. Zhang Ruimin, CEO of the Haier Group understands the severity of this image problem. He has undertaken a strategy of acquiring household name brands in America as part of Haier’s stated tactic of leaving its “Chinese-ness” behind in expansion markets. His goal is to have Haier brands be positioned as local. This is to avoid unflattering perceptions of brands of Chinese origin.

2. Provide three words that represent your impression of Chinese brands today.

It is clear from this very first question that Chinese brands suffer from negative perceptions, and perhaps, negative realities. Survey respondents were very uniform in their current impressions of Chinese brands. From the 243 surveys returned, here are the top ten responses in order:

Ranking of response	Attribute
1	Cheap
2	Poor value
3	Poor quality
4	Unreliable
5	Unsophisticated
6	Innovative
7	Lack of track record
8	Dated / old
9	Largely unknown
10	Aggressive

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Clearly, global brand practitioners believe that Chinese brands do not score well on many of the dimensions most often associated with leading brands. Factors of trust, reliability and overall value are critical missing associations. The respondents make some acknowledgement that Chinese brands lack awareness and credibility. So once their managers more effectively promote them, there may be opportunity for more positive associations. And there are glimmers of hope with “innovative” and “aggressive” – two strong attributes in the realm of branding.

3. Rank the following Chinese industries on a scale of 1–5 against certain criteria:

INDUSTRIES

Automotive	Appliances
Furniture	Clothing
Food and beverage	Computers
Cellular phones	Toys
Professional services	

CRITERIA

Price	Prestige
Service	Innovation
Trust	Safety
Reliability	Overall value

The overwhelming takeaway is that global brand practitioners rate all of these Chinese industries below acceptable global standards (not one industry scored above a “3” on any of the criteria). Automotive scored most poorly, with prestige, service and reliability receiving the lowest ranking. Surprisingly, professional services fared well on most of the criteria, suggesting the growing sophistication in the business of advice, both from China and another emerging nation, India. The reality is that Chinese companies must quickly become more sophisticated in the practice of branding.

4. Provide any comments on Chinese brands and their future for competing internationally.

The comments were incredibly consistent. The main themes include:

- The need to overcome the lack of quality perception
- The need to enhance communications to grow awareness
- The comparison of China today to Japan 50 years ago, indicating that China is well-positioned for brand success
- The need to practice ethically in regards to corporate espionage, worker's rights and patent infringement (knock-offs)
- The need to quickly become brand professionals

Overall, respondents felt that China will do extremely well in foreign markets based on the current actions of the government and business.

Survey Conclusions

The survey results produce some clear insights and conclusions:

- Chinese brands suffer from negative perceptions regarding quality. However, Chinese brands have the ability to threaten entrenched brands within specific industries.
- Central to their model is a need to move away from being low-cost original equipment manufacturers towards creating and managing dominant global brands.
- Attributes of prestige, trust and safety are not associated with Chinese brands, yet innovation and reliability fare well.
- Chinese brands are competing solely on tangible dimensions like quality and price. They will compete more effectively once they inject personality and emotion into their products and services.
- By selecting certain industries, Chinese brands stand a better chance of developing a portfolio of leading global brands rather than investing in a wide spectrum of industries.

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Lessons Learned from Best Global Brands

For the past five years, Interbrand has employed its proprietary brand valuation methodology to rank the “Best Global Brands.” This study lists the top 100 by brand value. Our work with global brands and this ranking has identified a consistent set of practices shared by successful global brands.

Top 10 Global Brands	Top 5 Climbers	Top 5 Decliners
Coca-Cola	eBay	Sony
Microsoft	HSBC	Morgan Stanley
IBM	Samsung	Volkswagen
GE	Apple	Levi's
Intel	UBS	Hewlett-Packard
Nokia		
Disney		
McDonald's		
Toyota		
Marlboro		

Many Chinese brands are quickly embracing these practices:

Recognition

Well-performing brands enjoy strong awareness among consumers and opinion leaders. These brands lead their industry or industries. Think BMW. Car aficionados, reviewers and loyal customers laud it with equal enthusiasm. It has come to symbolize performance in engineering and design while signifying that the owner has “arrived” on a personal and professional level. This type of recognition represents the nexus of perception and reality, enabling brands to rapidly establish credibility in new markets.

Consistency

These brands achieve a high degree of consistency in visual, verbal, sonic and tactile identity across geographies. They deliver a consistent customer experience worldwide, often supported by an integrated global marketing effort. McDonald's is a

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tremendous example of a brand that has returned to its roots by shedding distracting acquisitions, simplifying their core offer, and adhering to a shared message globally. At the same time, McDonald's appropriately modifies its approaches for greater regional relevance. Restaurants in France are more "café-like" in appearance and the menu is tailored to the local culture. Espresso is in quick supply and the chairs are neither molded plastic nor bolted to the floor.

Emotion

A brand is not a brand unless it competes along emotional dimensions. It must symbolize a promise that people believe can be delivered and one they desire to be part of. Through emotion, brands can achieve the loyalty of consumers by tapping into human values and aspirations that cut across cultural differences. Nike has appealed to the athlete in all, regardless of true physical ability, allowing for a focused, yet mass-market offer. This has elevated the discussion beyond tangible aspects of the shoe or apparel to what the customer feels when wearing and performing in Nike gear.

Uniqueness

Great brands represent great ideas. These brands express a unique position to all internal and external audiences. They effectively use all elements in the communications mix to position within and across international markets. Apple has creatively addressed its marketing mix while consistently ensuring that its people embody its most ownable and beneficial brand attribute – innovation. The company has once again come to represent leading edge technology solutions that become a part of day-to-day life. Apple is embedded tangibly and emotionally in their customers' habits and practices with the greatest example being the ubiquitous iPod.

Adaptability

Global brands must respect local needs, wants and tastes. These brands adapt to the local marketplace while fulfilling a global mission. HSBC has invested in that very message by conveying its excellence in financial services with its deep knowledge of local custom and practice. In essence, it is communicating a "glocal" advantage.

Management

The organization's senior leadership must champion the brand, ideally with the CEO leading the initiative. A leader's continual articulation of the brand philosophy and the brand's view of the world is meant to give the business strategy a recognizable face. The commitment is crucial, allowing for a unique positioning that transcends local idiosyncrasies and appeals to a universal aspect of human nature and experience. Howard Schultz embodies the heart and soul of Starbucks, he ensures that their corporate culture puts the brand at the heart of everything they do.

The preceding list is by no means complete. There are many other factors that must be considered, including superior products, processes and people, a strong track record of being customer-centric in the country of origin, uncompromised ethical practices, and continual focus on creativity and innovation.

Chinese Brands Going Global

The number of leading global brands owned by Chinese entities will climb in the next five years. This will be attributed to either acquisitions or accelerated brand-building. Lenovo, Haier and Bird represent aggressive and impressive entities that understand the economic advantage offered by well managed brands.

Lenovo impresses because they accurately reflect the dual strategy of acquiring leading brands while building their own capabilities in brand creation and management.

Lenovo

In 2003, Legend changed its brand name to Lenovo, taking the “Le” from Legend to honor its roots and added “novo,” the Latin word for “new,” to represent the innovation at the core of the company. In December 2004, Lenovo acquired IBM’s worldwide PC division, helping to put it on the global map. The acquisition plan calls for five years of continued use of the IBM logo to market its products while simultaneously building the Lenovo brand. This allows them time to migrate to a new positioning and brand values for Lenovo.

Lenovo has four company values that act as the foundation for all that they do: customer service, innovative and entrepreneurial spirit, accuracy and truth-seeking, trustworthiness and integrity. These values have allowed Lenovo to dominate the PC market in China with a 27% share. The combination of home market dominance and the expansion outside of China through the IBM acquisition makes Lenovo a global brand with about 7.1% of world market share, compared to Dell’s 18.9% and Hewlett-Packard’s 15.4%.

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The Haier Group

Haier is a manufacturer of major appliances and electronics with a roster of products including wine cellars, refrigerators, freezers, air conditioners, dishwashers, laundry products, small appliances, electronics and televisions, including plasma and flat screen models. Once bankrupt as the Qingdao Refrigerator Plant, CEO Zhang Ruimin’s first act in that position in 1984 was to smash 76 poor-quality refrigerators with a hammer to publicly communicate his plan to address product quality.

Haier understands that it suffers from a lack of awareness. As part of its deliberate strategy to make the brand global, the company began sponsoring an Australian basketball team now known as the Melbourne Haier Tigers. Joint ventures with Fujitsu, Hitachi, Sanyo Electric and Samsung represent another way Haier is establishing itself through credible associations. This allows them to manage risk while establishing awareness.

Distribution forms a key part of the larger strategy of establishing the global brand. In the US, Haier products can be found at Wal-Mart, Lowe’s, Best Buy, Home Depot, Office Depot, Target, Sam’s Club, Fortunoff, Menards, and Bed Bath and Beyond. Haier now has 62 distributors and more than 30,000 outlets around the world. The ties with these retail brands boosts brand image.

The company’s strategic plan calls for the creation of a localized brand name in all markets in which it intends to compete. To win over consumers, they focus on speed and differentiation. Speed satisfies the consumers’ needs as quickly as possible while differentiation allows them to introduce new products to meet wants and needs. This is allowing Haier to move up-market and to sell their brands at a premium.

Bird

A market leader in China for five consecutive years, mobile phone company Bird has recently broken into the world’s top ten according to IC Insights, a market research agency. Bird has successfully positioned itself as the first and only Chinese brand to become one of the world’s top ten mobile phone brands, ranked number eight after Nokia, Motorola, Samsung, Siemens, Sony Ericsson, LG and Panasonic, ahead of Mitsubishi and NEC.

Chinese brands benefit from the ingrained positioning as low cost providers. In short, they win based on their business model. Once they become more brand sophisticated that combination will be difficult to beat.

Like Lenovo, Bird has demonstrated its leadership at home, building a strong platform to go global. Bird initiated a globalization strategy calling for domestic and overseas sales volumes to be equivalent after three to five years, with sales achieving 20 million handsets domestically and internationally. Tough competition in China has sharpened Bird's game allowing them to compete against entrenched global players.

Bird has embraced design and ergonomics as differentiators. Like South Korea's Samsung, Bird designs the majority of their own products. Bird makes nearly 60 varieties of GSM models, 20 GPRS models and four CDMA models, targeting a wide range of market segments, from fashion chasing youngsters ("Q" Series) to business users ("DoEasy" Series), from special design for female users ("F" Series) to rich features like built-in camera and voice recording ("G," "S" and "V" Series).

The rapid rise of Bird is attributed to its strong emphasis on product innovation, including five R&D facilities, partnership with foreign design firms, intimate knowledge of customer demand, fast response and a comprehensive distribution network.

Bird is a company capable of reaching new heights in sales and market share. Despite hardship, it maintained leadership position by launching nearly 50 new models in 2004. The challenge is to remain consistently relevant in an increasingly mature market. In addition to new models, Bird is pushing sales in India, Russia and Eastern Europe. A stumble in an OEM alliance with Siemens in Western Europe in 2004 reveals that Bird has some distance to come in branding.

Conclusions

Current commercial perceptions of China are clearly hurting Chinese enterprise. Yet this represents a fantastic opportunity to redefine what "Brand China" stands for now and going forward. Associations related to "trust" and "lack of quality" will not be overcome overnight but will take long-term, concerted communications to dispel and convince. The key will be determining the relevance of China and Chinese companies.

Chinese brands can leverage their dominance in their home market. It is a fact that Chinese brands face new entrants every day offering goods and services that had been previously unavailable. They compete extremely well against these companies and brands that have years of expansionist brand experience. Chinese brands benefit from the ingrained positioning as low cost providers. In short, they win based on their business model. Once they become more brand sophisticated that combination will be difficult to beat.

Part 2 of Chinese Brands will cover two areas: What are the next steps for Chinese brands going global? and, How should entrenched global players respond to this new competition?

Founded in 1974, Interbrand serves the world with over 30 offices in over 20 countries. Working in partnership with our clients we combine rigorous strategy and analysis with world-class design and creativity.

We recognize the importance of brand in this increasingly competitive business environment and tailor our services to client needs. Our services include brand analytics, brand valuation, strategy, naming and verbal identity, corporate identity, packaging design, retail design, integrated brand communications and digital branding tools.

We enable our clients to achieve greater success by helping them to create and manage brand value.

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