Building Trustworthy Brands in China

Why Trust is important and more so, in this day and age?

“It takes years to build up trust, and it only takes suspicion, not proof, to destroy it”. “People ask why it’s so hard to trust people, and I ask them why is it so hard to keep a promise” ANONYMOUS

Trust is indeed scarce in this day and age. And not a surprise, considering widespread scandals that have made headlines and vitiated the general sentiment of trust among people. Whether it is the recent LIBOR financial scandal (dubbed the crime of the century) or jet setting Monk in Thailand embroiled in religious scandal, hundreds of Harvard students cheating on a take-home exam or fall from grace of Rajat Gupta (convicted of insider trading)! This inevitable sense of betrayal pervades among people and in fact permeates across all industries and brands.

Closer home, China is not bereft of these phenomena!

In fact, trust in products and brands gains even more prominence and importance in an environment that is rife with food scandals around tainted milk, chicken laced with high level of antibiotics, artificial green peas, kebabs from cat meat, contaminated chives, chlorine showing up in soft drinks.

Source: International Herald Tribune June 21, 2012

The result – an erosion of consumer trust that spans across industries. According to Millward Brown analysis of BrandZ™ data, brand trust scores for both Top 50 Most Valuable Chinese Brands and China’s 30 most trusted brands have decreased continuously since 2011.

International brands have managed to fend off this loss of faith to some extent with local Chinese brands facing the brunt of consumer’s ire.

Trustworthy Score of the Top 30 Most Trusted Brands

<table>
<thead>
<tr>
<th>Year</th>
<th>Trustworthy Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>50%</td>
</tr>
<tr>
<td>2011</td>
<td>42%</td>
</tr>
<tr>
<td>2012</td>
<td>37%</td>
</tr>
</tbody>
</table>

Source: BrandZ™ / Millward Brown

Trustworthy Score

<table>
<thead>
<tr>
<th>Year</th>
<th>Top20 International Power Brands in China</th>
<th>Top20 Chinese Power Brands in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>50%</td>
<td>38%</td>
</tr>
<tr>
<td>2011</td>
<td>38%</td>
<td>35%</td>
</tr>
<tr>
<td>2012</td>
<td>35%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: BrandZ™ / Millward Brown
Chinese consumers show strong allegiance to products manufactured internationally as opposed to those produced within the country, even by global brands. Imported products still rule because of perceived higher quality assurance.

And seek real-time update with most tracking the latest on food outrage through a new iPhone app which sends out daily updates and was reportedly downloaded more than 200,000 times in the first week.

Chinese consumers are in a continuously heightened state of alert exhibiting extreme caution in purchase of beverage and food (based on a recent MB consumer survey).
In fact, when asked what is their key consideration when purchasing a brand, “trust / reputation” came up right next to quality and value for money (Millward Brown Online research).

**Trust – The Common Denominator for Sustained Growth**

Trust is a powerful currency, but building it requires considerable effort at the brand as well as corporate level.

Analysis of Millward Brown BrandDynamics database reveals that most powerful brands are meaningful, different and salient in consumers’ minds. Our research over time has shown that on average meaningfully different brands capture 5 times more VOLUME, are 4 times more likely to GROW, and can command 13% PRICE PREMIUM.
These successful brands are pioneers of innovation, thought leaders, and provide excellent returns to their stakeholders. Most importantly, these brands are TRUSTED by consumers.

Today, corporate reputation and brand reputation are reunited in the mind of the consumer where it counts. To achieve a high level of corporate reputation, it is imperative to combine the “hard” and practical business considerations like Success and Fair Practices with other “soft” but important factors seen as less core to business achievement such as Corporate Responsibility and Trust.

From Millward Brown’s BrandZ database, we have found that companies with high corporate reputation (RepZ score) typically possess higher market share, have a deeper connection with consumers, and therefore a stronger ability to withstand crisis situations.

**Source:** BrandZ™ / Millward Brown
Let us look at some great and perhaps not so great performance of brands in China to see what we can learn from them…

1. Nongfu Spring – Leveraging Trust to Manage Crisis Situations

Nongfu Spring – a strong local packaged water brand, has built up an enviable reputation in Chinese market over the past decade, outperforming on key factors driving corporate reputation.

![Nongfu Spring](image)

**Nongfu Spring**

**REPZ SCORE**

- **Success**: Innovative/ Leading the way
  - Offer investors a good financial return
  - Market performance: 133

- **Fairness**: Charge fair prices
  - Deal fairly with suppliers and other companies
  - Fairness: 137

- **Responsibility**: Socially responsible
  - Treat employees well
  - Environmentally responsible
  - Responsibility: 139

- **Trust**: Can be trusted
  - Superior Strength: 105 and above
  - Strong: 101 to 104
  - Average: 100
  - Weak: 96 to 99
  - Excessive Weakness: 95 and below
  - Trust: 124

Source: BrandZ™ / Millward Brown
In May 2013, media coverage in Beijing reported that Nongfu Spring did not meet national water quality standards. Confident about their product quality and the brand’s great relationship with consumers, Nongfu Spring decided to cease production and exit the Beijing market.

Despite this hiccup, the brand is still growing strong and sustaining its stature at a national level with consumer confidence unimpaired.

Reputation or trust is a great treasure to have, but once under suspicion, it is very difficult to recoup even for well-established global brands.

Evian, a global mineral water brand, is positioned as a premium bottled water in China and sold at 6 to 7 times higher than local brands.

However, it has been plagued with numerous quality issues, and its RepZ score is a testament to its debilitating relationship with Chinese consumers.

Allegations of high nitrite content have been repeatedly made with this brand. Despite reassurance claims from the company, the reputation lost has not been regained. This is a classic case, and one of the first of its kind, where imported brands have come under consumer angst. The Evian brand has been popular in Chinese high-end foodservice establishments for a long period. However, after frequently reported food safety problems, some luxury hotels and restaurants stopped selling the brand. Besides, in the retail channels, consumers turned to other imported bottled water.

Let’s look at an example where a global brand faltered.

We saw an example of a local brand doing a great job in managing crisis.
2. Ping’an – Brand and Corporate in Perfect Sync

Corporate reputation and brand reputation are inter-dependent. To the consumer, they are indivisible. Ping’an Insurance Group is an example of a company where both these aspects are in harmony.

It has a wide array of companies and divisions under its umbrella, but the group takes a holistic approach in brand management – corporate brand story and messaging are decided at “group” level and rolled out consistently at each company or division level, projecting a unified trustworthy face to its customers.

In fact the brand is well differentiated, meaningful and has good consumer bonding.

Hence, not a surprise that it is among the Top 10 most reputable brands of China and leader of the Insurance category with a very high and sustained RepZ score.
3. KSF – Unique Proposition with Strong Local Relevance

Kangshifu, a regional food and beverage conglomerate, is giving Cokes and Pepsis of the world a run for their money by adopting a “meaningfully different” route. Its portfolio of brands is rooted in local consumer psyche, especially its tea products with clear first-mover advantage and strong local renditions. This has resulted in the brand being the most reputable in the soft drinks category.

The success extends beyond its leadership in Tea – its recent uniquely positioned variants in the Juice series include traditional Chinese flavors focused on health and nutrition, leading to a growing footprint on the nutrition plank.
4. Olay – Innovation personified

Olay shows us a great example of consistent innovations in the Chinese market. The brand has been around for over two decades and has offerings across all price tiers and distribution channels. It is loved by consumers because of its trend setting approach. It upgrades its product line every 2-3 years with new initiatives created every year. In 2012 alone, Olay launched 5 variants and 2 totally new series. Through innovation, it has built a very strong reputation which continues to grow (RepZ score: 123 in 2012, 118 in 2010).

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>% vs Category</th>
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</thead>
<tbody>
<tr>
<td>Unaided awareness</td>
<td>33</td>
<td>10</td>
</tr>
<tr>
<td>Most popular</td>
<td>42</td>
<td>12</td>
</tr>
<tr>
<td>Want to be seen</td>
<td>62</td>
<td>9</td>
</tr>
<tr>
<td>Setting trends</td>
<td>72</td>
<td>9</td>
</tr>
<tr>
<td>Growing popular</td>
<td>68</td>
<td>7</td>
</tr>
<tr>
<td>Higher opinion</td>
<td>68</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: BrandZ™ / Millward Brown
5. KFC & McDonald’s – Global Brands Changing the Game Locally

There cannot be enough said about how successful these two brands are in the Chinese market. Both have high RepZ scores in 2012 (137 and 122 respectively). Most importantly, they have CHANGED the Chinese palate and food consumption habits by offering localized flavors, convenience and value for money. Chinese consumers have rewarded them generously by patronizing their outlets which are growing at a furious pace.

Over 3,000, in 650 cities, with one new restaurant opened a day

Plans to expand to 2,000 outlets by the end of 2013

Source: Millward Brown market intelligence
Recipes for Success

Trust or corporate reputation is the cornerstone for brand success. Learnings from extensive research of global and local brands establishes the importance of trust building with consumers. In the current day and age where consumers expect betrayal, it has become imperative for brands and companies to exemplify fair and best practices continuously.

Trust as an asset becomes even more critical in China with widespread food and safety concerns.

In fact, people’s trust in the Top 30 Chinese brands has continuously been eroded. The impact seems to be more acute among the local brands rather than global brands. Despite safety scandals associated with global brands, they have managed to sustain their reputation riding on positive perceptions about imported products. The consumers tend to be a little more forgiving towards these international brands. However, their patience is not infinite as seen in the Evian case.

Brand and corporate trust is increasingly becoming unified, as consumers view them as one. Companies with high corporate reputation (built through indefatigable efforts on fair practices and being a good corporate citizen) tend to reap rewards in multiple ways. Not only do they drive a stronger market presence by nurturing power brands with distinct competitive advantages and providing excellent ROI, but also are able to withstand crisis situations through deep consumer relationships built on unflinching trust!

Recipe 1. Build a deep relationship with consumers to sail through trouble times.

Nongfu Spring has built up superior strength across all key factors of success, fairness, responsibility and trust to achieve a phenomenal reputation score. It also ranks amongst the Top 5 of Chinese Power Brands. This helped it to maintain its relationship with consumers even under suspicion of substandard water quality and allegations by competition which was proven wrong later. Evian, on the other hand, is a classic case of taking the consumers for granted. Repeated poor quality news has resulted in loss of faith and the brand has not recovered since.

Recipe 2. Be single minded in your communications.

Ping’an has consciously over the years projected a single face to its consumers. All its divisions and companies operate on a unified approach, striving for one look, one voice, one face with its consumers. It has become the undisputed leader of China’s insurance industry, and also among the top across industries.

Recipe 3. Get under the skin of consumers.

KSF has done a marvelous job in catering to local palates through its uniquely positioned Tea and Juice offerings. First-mover advantage along with having a pulse on the market has helped the brand forge an enviable bond with the consumers.

Recipe 4. Excite the consumers.

Olay has consistently delivered “new” news to its consumers in the form of innovative products, and hence seen as the trend setter. Its users swear by it and look forward to the next Olay product.

Recipe 5. Be “glocal”.

KFC and McDonald’s are classic cases of global brands achieving success in China by behaving like a local brand – localized menus and ambiance but applying global standards of quality control. As a result, both brands have achieved superior trust among Chinese consumers.