



BRAND CHALLENGE

Chinese brands must work hard to improve differentiation and overseas recognition



Ten years ago this month, China joined the World Trade Organization, and some observers say that a hundred years worth of societal and economic transformation has occurred in the decade. Millions of Chinese citizens have evolved into consumers, and China's contribution to the world economy is now universally acknowledged.

Chinese brands have evolved too. The 2012 BrandZ™ Top 50 Most Valuable Chinese Brands ranking was published on December 13, 2011 by WPP and Millward Brown. Six of the brands in the ranking, collectively worth \$50 billion USD, didn't even exist 10 years ago. In the 2011 BrandZ Top 100 Global Brands ranking, 12 of the brands are from China.

But it is not all smooth sailing for Chinese brands. They not only encounter competition from multinational brands on the domestic front, but they also face challenges in launching themselves overseas.

The Gap Between Chinese Brands and Foreign Brands is Narrowing

Over the past decade, Chinese brands steadily increased in value, and the proportion of earnings driven by brand and consumer preference edged upward. In comparing the 2011 and 2012 Top 50 rankings, we observe that 16 brands had improved their brand contribution scores (which indicate the extent to which the brand is responsible for earnings), and none declined. This shift demonstrates the achievements of Chinese brand building: improvements in innovation, marketing, image building and the ability to keep pace with rapidly changing consumer expectations for improved products and services. An example is the online portal Sina, which created Sina Microblog in response to growing and evolving communication needs in the Internet era. Not simply a Twitter clone, Sina Microblog is adapting to the market, and its success is reflected in its ranking this year. Mengniu, a dairy brand, tackles food safety fears head



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on by emphasizing the healthiness of its offering. Fulinmen, a producer of edible oil and rice, conveys a brand personality that evokes a mother's concern over the health of her family.

Multinational brands have already felt the increasing success of Chinese brands. One recent survey by The Economist, conducted among 328 senior executives at non-Chinese MNCs, found that only 22 percent of respondents considered Chinese firms "not a threat." That's one third of the level that was unconcerned about Chinese brands in 2004.

The BrandZ database, the world largest brand equity database, created by WPP and Millward Brown, shows similar findings. Conducted since 1998 in China, the BrandZ study has surveyed over 350,000 consumers on more than 1,000 brands, and over time the data shows that the gap between Chinese and foreign brands is narrowing. This is especially apparent in the

"Meaningful Difference" is Still the Biggest Weakness

Educated by their increased exposure to both overseas and domestic brands, Chinese consumers are becoming more demanding and discerning in their brand expectations. They are increasingly judging Chinese brands directly against the large array of foreign brands that now exist in China, and they are starting to expect them to deliver more than just price and category entry benefits.

However, even though BrandZ shows that the gap between Chinese and foreign brands is narrowing in China, a gap still exists. For example, Chinese brands are less likely to achieve high scores on having a clear image and being different. Among the Chinese Top 50, half the brands achieved a score in the top tertile on one or both of those dimensions, while among the BrandZ Global Top 100, 70 percent achieved such scores. In broad terms, Chinese brands are still seen to be cheaper, while foreign brands are seen to be different in a meaningful way.

Every brand must have a purpose. It must resolve a consumer need, which may be functional, emotional, aspirational, or increasingly societal. And brands that resolve these needs in ways that are meaningfully different from other brands have the opportunity to build significant value. A meaningful difference can enable a brand to command a price premium or to capture a higher proportion of sales.

Yunnan Baiyao, a brand with a century long heritage of traditional medicine, is an example of a brand that is meaningfully different. Yunnan Baiyao shows that brand value increases accrue not just from heritage, but also from the differentiation that heritage can confer. Brands that can genuinely claim a long and unique history, and combine that history with meaningful differentiation can build brand



Recognition gives globally famous brands an advantage over their Chinese challengers

second- and third-tier markets, where Chinese brands dominate many categories. Brands such as Anta and 361° have achieved massive brand salience and thus have a formidable headstart on multinational brands such as Nike and Adidas in lower-tier cities.



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relationships with consumers that are strong enough to sustain premium prices as well as threats from imitators. Pingan, China Merchant Bank and Hainan Airlines are also good examples of brands that are differentiating from local competition by emphasizing customer service.

Increasing Familiarity is the First Challenge in Going Global

Success in their enormous domestic market has allowed many Chinese brands to gain enough strength to enter international markets. Nearly half of the brands in the 2012 Top 50 have overseas revenue that account for more than 5 percent of their total revenue. Lenovo, one of the most well-developed of China's global brands, has about 50 percent of its income coming from overseas, and is now the world's second-largest PC maker.

However, the fact is that Chinese brands still have very low awareness among foreign consumers. Beginning in 2010, Millward Brown conducted two large-scale studies to understand the performance of Chinese brands in overseas markets. When people outside of China were asked to name a Chinese brand, 83 percent could not name one. Clearly the main problem facing Chinese brands abroad is familiarity.

And looking at the results from BrandZ studies in other countries, the problem is more obvious. BrandZ results indicate that in any market, to become a leading brand, an awareness level of at least 90 percent is necessary. So Chinese brands still have a long way to go in international markets.

Interestingly, developed and developing countries did not show much difference in their familiarity of Chinese brands. Apart from neighboring Malaysia and Australia, countries that are relatively familiar with Chinese brands, other developing and developed countries have very limited knowledge of brands from China.

Change the Mindset and Choose the Appropriate "Entry Point"

However, our global study found differences between developing countries and developed countries in some categories such as mobile communications, financial institutions and insurance. Chinese brands in these categories are not accepted in developed markets but do have some success in less-developed countries. Chinese brand owners should think carefully about their brand's status, the competitive environment and consumer sentiment, and choose markets accordingly.

To be successful in overseas markets, Chinese brand managers need to recognize that foreign consumers have a different mindset than Chinese consumers. Chinese brand managers will need to develop a global perspective, and adjust their thinking and strategies if they want to make foreign consumers feel comfortable with Chinese brands.

One of the common misconceptions held by Chinese brand managers is that the unique cultural elements that support their brands' success in China can be rolled out globally. This is not often practical. Chinese provenance may be acceptable in some categories such as apparel, where China's heritage may be an advantage, but in other categories such as consumer electronics, China is still perceived as an OEM. Chinese brand owners need to develop an objective view in order to prioritise their expansion.

Chinese brands also face another challenge: Consumer-brand relationships are driven by different factors in different countries. In China, consumer loyalty is driven by perceptions of popularity and what the brand communicates to the world about the consumer. Products and marketing campaigns are crafted to convey this. However, in developed markets in the west and elsewhere consumer loyalty is derived from a more personal



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relationship with a brand. Consumers care less about status than about having their own personal needs met.

There are always exceptions, but Chinese brand managers only need to look at the mistakes that MNC brands made in their early days in China to understand that misunderstanding consumers can hurt brand building.

If they are to succeed overseas, Chinese brands must develop emotional connections with foreign consumers. Take a recent campaign for Haier in Australia. In a series of advertising campaigns for refrigerators, washing machines, and other products, Haier had leveraged its brand image of low price into an advantage that addressed the needs of more practical customers. It conveyed the idea that Haier allows consumers to have more money to spend on other pleasures, since they don't have to pay a premium for the brand.

Chinese brands have made remarkable progress over the past 10 years. Chinese consumers appreciate the quality and innovation now available to them, and those who manage MNC brands in China and elsewhere have developed a healthy respect for competitive brands from China.

Though their growth has been impressive, Chinese brands have more work to do if they are to compete effectively in global markets. Their work must start at home, where among their own customers in China they need to build perceptions of meaningful difference. They need to raise awareness among

foreign consumers, and they need to recognize the varying mindsets and attitudes toward brands that exist in developed and developing countries. A one-size-fits-all marketing plan will not be effective. However, the China Top 50 ranking showcases a number of Chinese brands that are acquiring and honing the skills that will make them successful overseas.

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