



# Branding China: From Maker To Innovator

Imagine a time when you are shopping for a television, refrigerator, car, or personal care product, and you find that the brand you aspire to own (not the one you choose because it is offered at the lowest price) is a Chinese-designed brand



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Given the deeply entrenched views people hold about Chinese product quality, it may be hard for those who live outside of China to conceive of such a scenario. But it's a scenario that quite a number of Chinese CEOs would like to bring to pass. So would the Chinese government, as it works to shift the country's focus from efficient production and exporting to successful creation and innovation.

It's obvious that China's present competitive advantage — making things cheaply — isn't sustainable, so building brands is high on Beijing's agenda. The central government has seriously upped the ante in education and science and is doing all it can to lure expatriate Chinese scholars and experts back to the mainland. China's investment in its space program is estimated to be \$1.3 billion, and its supercomputer, the Tianhe-1A, has 1.4 times the horsepower of the previously fastest computer (a U.S. model). The Brand Development Fund, run by the Ministry of Commerce, gives preferential treatment to local companies that seek to grow their brands internationally. All of these actions clearly signal China's intention to become something other than a producer of cheap goods.

According to Millward Brown Optimor's "Top 100 Most Valuable Global Brands 2010" ranking, China already has some of the world's most valuable brands. China Mobile, valued at \$56 billion, ranks first among global mobile operators. ICBC, valued at \$38 billion, is the most valuable bank brand. Haier manufactures more appliances than any other white goods maker. A special edition of the Millward Brown Optimor ranking, the "Top 50 Most Valuable Chinese Brands," made its debut in 2010. It shows that, collectively, China's top 50 indigenous brands are worth a whopping \$280 billion, thus representing over 5 percent of the world's second-largest economy.

As Leonie Ki, head of private equity fund New World Liberty China Ventures, said, "It will happen. If they can send people into space, they can build a world brand."<sup>1</sup> We agree with Mr. Ki. The opportunity and the imperative exist — so what else is needed to make a great Chinese global brand? Brand building may not be rocket science, but it does take a lot more than advertising and distribution. A global brand is built on superb brand stewardship, meaningful differentiation, and a strong base in the home country. Those are the factors that ambitious Chinese brands must focus on.

**Actions taken by the government in Beijing clearly signal China's intention to become something other than a producer of cheap goods.**

<sup>1</sup><http://www.esomar.org/uploads/website/rw/Research-World-issue19-April-2010.pdf>



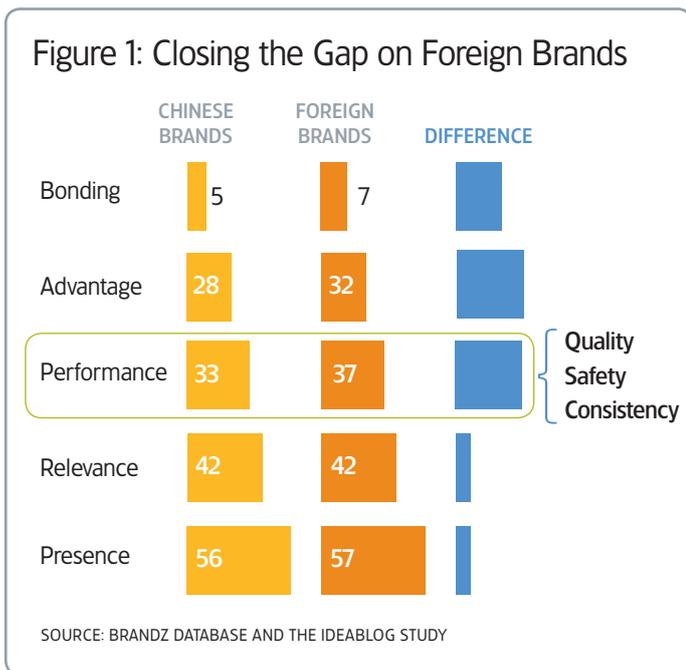
**Superb Brand Stewardship**

Successful brand owners know that trust is the foundation upon which brands exist. A brand builds and sustains trust by offering a consistent product that delivers on its promises. The makers of a trustworthy brand also openly address problems as they occur.

Trust is the Achilles heel of Chinese brands. Global product recalls involving tires, milk powder, and toys have all served to undermine trust in products from China, and consumers can't be expected to bond with a brand if the product delivered isn't safe and of consistent quality. Thus for Chinese brands, brand stewardship is of paramount importance. The process of building and rebuilding trust can't be relegated to the marketing department; it must start in the top levels of management and from there it must permeate down through all levels of the company. The entire organization must be aligned around the task.

*Bridging the performance gap*

Figure 1, created using data from the BrandZ database, helps us to see that there are significant differences in perceptions of quality between Chinese brands and foreign brands. Chinese brands have overcome deficiencies in awareness and relevance, but product performance is still a major barrier



to preference for Chinese consumers. In a Millward Brown study carried out in 2010, 40 percent of Chinese consumers expressed concern about the safety of domestic brands.

Consumers outside of China are also concerned about the quality and safety of Chinese products. The same study found that 78 percent of U.S. respondents had safety concerns about products from China, and only 20 percent agreed that they have confidence in Chinese-made products.

In 1985, Haier CEO Zhang Ruimin publicly destroyed refrigerators that didn't meet the company's new quality standard. It was an unusual action at the time, to publicly admit Haier's shortcomings, but it was the start of a journey to excellence. Through his dramatic performance, Zhang Ruimin communicated to every employee at Haier that the company was serious about making good quality products and building customer trust. Haier is still a developing brand, but the white goods giant is indeed going global and cleverly using design, production efficiency, and inventive channel partnerships to compete effectively.

Most Chinese brands are positioned as value propositions, but "cheap" can't be the future for all brands, because at some point someone will be able to sell it for less.

Another Chinese company, COFCO, owns two brands that appear in the China Top 50: Fulinmen (edible oil) and Great Wall (table wine). Because COFCO's management understands that the brands that succeed in the future will be the ones that win and sustain consumer trust early, they have adopted a strategy of controlling the entire production line, promising quality from farm gate to dinner plate. COFCO knows very well that without trust there can be no brand, and is embedding this philosophy into its corporate culture. No organization is flawless, and COFCO will undoubtedly hit bumps in the road, but it's admirable to see this Chinese state-owned enterprise (SOE) acting as a brand steward.

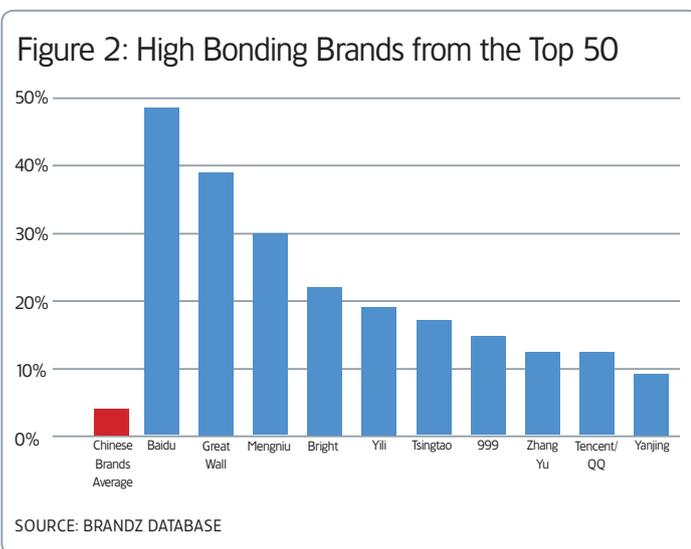


### Meaningful Differentiation

Most Chinese brands are positioned as value propositions. Inside China's huge developing consumer economy, this is an inevitable starting place for local products. But "cheap" can't be the future for all brands, because at some point someone will be able to sell it for less. Investment guru Warren Buffett asserts that strong brands are "price commanders," possessing advantages that enable them to increase their prices year after year. Yet a brand can only achieve such a position if it is meaningfully differentiated from the other brands that are available. A brand that aspires to premium status must not only deliver a product that meets consumer expectations, but also offer something that is relevant and unique. This might be an aspect of a product's performance or an intangible emotional benefit, but it must be something that is perceived by the buyer as an advantage.

### Success Factors for China's Top Brands

Figure 2 shows the bonding levels of 10 of China's most valuable brands. These brands are all clearly defined in consumers' minds, and consequently, they are all leaders in their respective categories.



Baidu, the brand with the highest bonding level, is China's largest search engine, controlling over 80 percent of the market. Baidu has achieved this dominance by delivering a good product experience and by being most salient. If you're Chinese and you're searching online for something, you'll

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automatically think of Baidu. Great Wall, a well-known table wine, delivers on the quality it promises. Mengniu has succeeded by advancing its dairy products and carefully segmenting its brand variants. Its sub-brand, Mengniu Deluxe, targets affluent households and sells at almost three times the price of the standard brand. Tsingtao is China's most famous beer and competes with over 200 labels in a cluttered and thirsty market. Tsingtao uses its brewing heritage to taste great, yet stays fresh with young beer drinkers through imaginative and brand-relevant sports sponsorships.

The bottom line for Chinese brands is that if they can meaningfully differentiate and deliver to expectations, they will have the credentials to get bigger. The alternative course as a "me too" brand will be contingent on offering a low price; this strategy will leave a brand vulnerable in the long term.

### Succeed at Home First

China is a huge market, potentially equal in size to the consumer markets of North America and Europe combined. Therefore, there is no good reason for a Chinese brand to leave home before it has succeeded in establishing strong relationships with Chinese consumers. It's hard to think of any of today's successful global brands that started weak domestically yet made it big on foreign soil. Coca-Cola, BMW, and Nike were all successful and well-established in their home markets before they expanded internationally. In the future, the speed of technology development may alter this rule to some extent, but the principle is certainly relevant to China's present brand landscape.

Some Chinese companies have already developed the capabilities required to be strong domestically, while others are in the process of developing them. For the Chinese state-owned enterprises, remaining strong at home will be



essential for their long-term survival. Though these SOEs have enjoyed both ubiquity and near-monopolies in their respective markets, they have still invested massively in their brands. ICBC has invested significantly in its “banking at home” technology. Air China is pursuing international airline status with its service proposition. And China’s most valuable brand, China Mobile, spends \$700 million annually in support of its brand lineup. These brands, along with China’s other state-owned giants, have benefited from their exclusive access to China’s enormous marketplace, but as competition evolves and markets change, they will need to maintain strong bonds with consumers if they want to continue to thrive.

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BYD has big ambitions to crack the U.S. car market with its emission-friendly F3DM, which is currently awaiting U.S. industry certification. But even though BYD sold over half a million cars in China last year and Warren Buffett has invested \$232 million in the company, BYD isn’t yet competitive versus the imported competition in China. The company’s established expertise in batteries seem to make it well-positioned to enter the emerging electric car segment, but in China the brand depends on having a price advantage. It is not yet the “price commander” described by Buffett.

Yunnan Baiyao (valued at \$1.3 billion and No. 27 in China’s Top 50 ranking) was originally known as a remedy that controlled bleeding. The brand transferred those credentials to the fields of bandages and toothpaste (where it offers a product for sensitive gums). Its success with this strategy in China is likely to be a useful template to apply in other markets that are oriented toward traditional Chinese medicine.

### “Brand China” Is On The Way

Skeptics still abound when the idea of “Brand China” is raised, but in recent decades, as Chinese manufacturers have been busy producing brands for foreign companies, they have obtained the competencies necessary to become formidable global competitors in their own right. Technology brands like Huawei and Lenovo clearly have the potential to be household names around the world, and it will be fascinating to see how Geely transforms from its acquisition of Volvo.

Brand China is evolving and will continue to evolve. Some brands will fail, and there will be missteps along the way, but we believe it is inevitable that Chinese brands will gain consumer esteem and preference. And as already crowded markets become even more competitive, it would behoove all brand owners — whether their brands are global or not — to focus on the basics: meaningful differentiation and responsible brand stewardship.

To read more about branding and China, visit our blog at [www.mb-blog.com](http://www.mb-blog.com).

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