“Money Down the (Brand) Drain”; An exploration of the constraints on the adoption of brand strategies and the adversity facing investment in brands by Chinese suppliers

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Abstract:
This paper explores the perception by Chinese marketing academics and consultants of benefits and constraints of the adoption of branding techniques. We explore the lived experience of Chinese branding experts to capture their experience of branding in China by means of 19 phenomenological interviews. There are differences between the Western and Chinese conception of brands, these in China serve a more social function and are associated with social processes.

The Chinese economy has the characteristics of a large state economy and has large state-owned conglomerates which have strong brands as a result of Government support. Non-state owned businesses have much more difficulties innovating and building brands because of scarce resources.

Business leaders in China seem to have a short term orientation, and there is evidence that they tend to select strategies based on imitation of leading brands, as well as that of manufacturing and marketing mass produced, low cost products. This proliferation of generic products and "me too" brands is complemented by a plethora of counterfeit goods.

Chinese leaders do not have incentives to invest in long term innovation and brands, nor in brand management as they feel these investments cannot be protected from counterfeiting; at the same time, the competitive climate means that Chinese non-state owned companies need to be very responsive and achieve fast returns in order to survive.

Policy makers should strengthen IPR protection legislation and counteract counterfeiting; foreign investors and local companies are advised to adopt mobile defense strategies for their brands.

Keywords: Brand; China; Counterfeiting; Imitation; Intellectual Property Protection; Product Marketing; Short Term Orientation;

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Introduction

This paper explores the perception of benefits of and constraints on the adoption of branding techniques by Chinese marketing executives and consultants. Branding techniques are the application of the theory of brands. For this paper, we adopt the classic definition of brand by Aaker (1991:7),

“A distinguishing name and/or symbol (such as logo, trademark, or pack design) intended to identify the goods and services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors”.

The research explored the issues of brand building within the Chinese market, although this has implications for companies aiming at building global brands, as Western companies could select China as a market for their brand; we aim to gain an insight into Chinese branding practice in the manufacturing sector, and explore the value of current brand management theory when compared with Chinese brand management practice.

Given China’s explosive growth, and taking into account the importance of branding, since joining the WTO both Chinese government and companies have been striving to transition from a mere manufacturing economy to one that can nurture its own global brands. In spite of this, it is still common to see re-branded products with a “Made in China” label in every corner of the world, but rare to see Chinese brands (Fan, 2006). At the same time, “Made in China” suffers from the negative perceptions of the world’s consumers and has been described as “cheap”, “poor quality” and “lacking in innovation” etc. (Interbrand 2005, 2007 and 2008). Our research question is “to what extent are Western style brand strategies applicable in the Chinese market?”

Our contribution is to explore some of the constraints on the development of brand competence in Chinese companies and the role of perceived and real structural and cultural barriers. The implications are a challenge to the viability of branding as a strategy in the Chinese market.
Conceptualization

The benefits of a brand strategy have been extensively promulgated by academics and practitioners. It is suggested that brand loyalty protects a company’s offering from the threat of competition; a brand has a personality, and communicates a company’s products and services’ features and benefits (Cunningham, 2006; Vranesevic and Stancec, 2003). Brands can facilitate the introduction of innovations by leveraging on their equity by introducing brand extensions (Pitta and Katzanis, 1995). The growing interest in brand management is due to the high costs associated with launching new brands and the high failure rate of new products (Crawford, 1993; Ourusoff, 1992). Brand building is considered a good response to the constant changes in the marketing environment (Aaker, 1996; Lannon, 1993; King, 1991). Brand management is considered a cornerstone of marketing theory, and is seen as a key discipline for Chinese companies to acquire. But, is branding according to the Western conception applicable to the Chinese market, and therefore globally?

Recent work on branding by Chinese scholars include four major brand management models, “Easy to Difficult 7 Forces Model” (Liang, 2002), “MBC (Marketing Branding Consulting) Model” (Chen, 2002), “720 degree Brand Management Model” (Su et al, 2002) and “Top Brand’s Seven Discipline” (Li, 2003). All these are evidence that Chinese brand management theories are inspired by the West, and are very similar to the concepts proposed by Western theorists and practitioners; all four models characterize brand building as a systemic project that needs a strong strategic foundation and sustainable investment. There is, however, paucity of literature on the connection between Chinese academic brand management theories and Chinese branding practice.

There are specific structural issues with the implementation of brand strategies in China: for example, local regulations do not grant suitable protection of intellectual property (e.g. Clark, 2000; Bender, 2006); the International Intellectual Property Alliance estimates losses to US companies through copyright piracy in China to be at least $1.8 bn annually (Siwek, 2004). It is therefore suggested that the applicability of all the knowledge on branding generated in the West to the Chinese market is at best problematic.
Methods

The research focused on lived experience and its meaning from the participants’ perspectives. Semi-structured in-depth interviews with leading Chinese branding consultants were conducted face-to-face, by telephone and on line. 19 interviewees were selected from leading Chinese branding consultancy firms in major cities in China, e.g. Beijing, Shanghai and Guangzhou which have better marketing and branding performance and better economic development compared to other regions. Two of these 19 brand consultants are also academic.

The Chinese background of the researcher enabled her to overcome cultural and linguistic barriers. All interview data were recorded and analyzed directly in Mandarin then translated into English. The researcher then analyzed the narratives using the phenomenological process described in “Researching Lived Experience” (Van Manen, 1990). Three approaches are used to identify thematic aspects within a text: highlighting phrases and words that capture the essences of the experience within each interview; selecting specific phrases or sentences in the text that capture the essence of the phenomena; and examining every sentence to determine what it reveals about the experience.

Finally, discussion of the findings with co-authors reduced somewhat the limitation of possible bias.

Main Findings

In searching an equivalent of the concept of brand in the Chinese culture, it is useful to go back to the original meaning of the Western word. To brand originally meant to burn a party’s name or symbol on the hide of cattle with a hot iron stamp, in order to designate it as that party’s property (Oxford Dictionary, 2012). In spite of examples of “brand names” used for commercial purposes from antiquity, as in the case of the ancient Roman wine “Falernum”, the concept was originally associated with ownership. Ownership, the private property of an object, was regarded in the western culture as bestowing symbolic, hedonic and exchange value as well as functional value (Hohti 2010). In other words, ownership of that object could mean control and security, and hence the importance of the brand in Western culture. In effect some version of brands has been used since the dawn of civilization (Wengrow, 2008; Richardson, 2008; Eckhardt and Bengtsson, 2010).
China also has a long history of brands and branding. Dating back to 2700 BC, the ancient Chinese marked their pottery with the manufacturers’ identity (Greenberg, 1951). Brands and branding systems were sophisticated and well developed during the “consumerist” culture in Imperial China, and were important agents of consumer culture (Eckhardt and Bengtsson, 2010), where gaining and maintaining status through consumption was a common preoccupation. People used material symbols to show their social position or to find their place in society.

Some of the brands established in pre-modern China survive today, e.g. the “Laozihao” (translated as “old trademark”). It refers to a trade name for extant Chinese shops and was used for those shops originating in the Beijing area after the capital was relocated during the Ming Dynasty. China’s first complete brand with a name and symbolic logos has been traced back to the Song Dynasty (960-1127) (Wang, 2010).

However, today many of China’s old famous brands fail the test of market competition. According to Economist Intelligence Unit (2004), just 10% of famous and old brands (certified by Chinese government in 1990) generate profits. Meanwhile, having been able to assess market conditions and distinguishing the best investment opportunities, foreign investors from developed market economies have quickly penetrated the Chinese market (Ouyang and Fu, 2012). Building on advanced experience, financial resources and effective tactics, foreign companies gained a sustainable foothold for their brands and have successfully influenced the Chinese market (Degen, 2009). Consumers’ changing habits and culture have been creating opportunities for brands in China, and Chinese consumers have developed loyalty to preferred brands, which have become more important in the consumers’ purchase decision. However, Chinese consumers have a strong preference for foreign brands (Kwok et al, 2006). There is conspicuous consumption of these, rather than Chinese ones, by Chinese consumers living in the major cities, especially young and educated consumers (Dickson et al, 2004).

So what are the reasons for the scarce success of Chinese brands today?

There are differences between the modern Western conception of a brand, that refers to product identification and differentiation and is driven by mass media communications, and traditional brands from Imperial China, which served a more social function, involving consumers and the Government in their brand building rather than being simply an instrument of commerce (Eckhardt and Bengtsson,
In contrast with the management of Western brands based on communications supported by mass media, where organizations are neatly separated from individuals (Ai, 2006), traditional Chinese brands were associated with social processes based on social network relationships, a business model known as Guanxi, which can be translated as “relationships” or “connections” (Ai, 2006).

Most of the participants that were interviewed as part of this research expressed regret at the disappearance of some of the Chinese national brands. However, there were also a few interviewees who believe that most Chinese national brands have no brand value in the long-term, and that their value was reflected in the distribution channels and government relations, the Guanxi factor mentioned above.

*The disappearance of these brands can only show they lacked a competitive edge or the strength to survive; they failed to update themselves.*

--- Branding Consultant

The Chinese economy, due to the political history and background, has the characteristics of a state managed economy and is characterized by large state-owned conglomerates, such as Cofco, the largest agribusiness supplier and owner of the China Tea and with a track record of quasi monopolistic operation. Although the political system has been reformed, the old political system still has impact on economic activities and many industries are still influenced by the centrally planned economic system. The privatization of state-owned companies has been considered; however, in most cases the government has the sole minority stake in the companies, thus retaining effective control (Kalish, 2006). To keep overall control, the Chinese Communist party is particularly keen to retain a stake in large listed companies on the stock market as well as the major commercial banks (Yu, 2006).

The structure of the market is very polarized, with large corporations owned by the state and privately owned Small and Medium Enterprises (SMEs). This means that the industry is underdeveloped in some respects and possibly has been affected by scarce domestic competitiveness, it is a market in transition and this will take time, of which marketing experts are fully aware,

“...it takes time to transit from an economic model mainly dominated by a planned economy totally under the control of the government to an
economic model basically dominated by the market and to set up a complete supporting mechanism. Some people invest in business for the sake of short-term benefit. This is like stock trading. Though everyone knows the “value investing” theory of Buffett, few put it into practice. Every industry is shuffling all the time. Every time a new project comes into being, as long as there is an attractive profit, people will swarm in and then be washed out in competition. Only a few brand enterprises with the strongest comprehensive ability will survive.”

--- Academic

Over the past few decades, China has been a manufacturing economy but local enterprises ignored brand building. More recently, with the remarkable development of China’s economy and social and cultural changes, the role of branding has become more important and brand building has emerged. The Chinese government is now urging some of China’s biggest companies to “go global” and has called on Chinese companies to start exporting their own brands (Ingram, 2006). A governmental Department for brand strategy was established in 2002, demonstrating the government’s ambition to assist Chinese companies in building brands, especially global brands.

As a result, many Chinese brands have recently appeared in different global top brand ranking lists, for example, Financial Times (2011), BranZ (2010), World Brand Lab (2009), and Brand Finance (2012). However, most interviewees confirmed that these Chinese brands on the lists were those with a monopoly within China, or benefited from state ownership support. Without these advantages these brands are believed not to have any intrinsic value. In spite of management and marketing innovation and an increasing budget for market-oriented competitive brands, these state owned or controlled brands are comparatively weaker than many non-state owned companies and foreign-investment.

*Despite the achievement in Chinese brand building and promotion in recent years, we should not neglect the fact that most of the Chinese brands listed among the world’s top 500 are monopoly industries, build on an enormous consumer population and limited choice of consumption. They do not have much value.*

--- Branding consultant
For non state-owned companies the road to develop their business and build brands is much harder due to limited resources (Zeng and Williamson, 2003; Kalish, 2006). Additionally, apart from some superior non state-owned companies, most are at a disadvantage in market competition due to undeveloped technology, poor capacity for innovation, low additional value of products, high consumption of resources, serious environmental pollution and a high homogeneity of products (Du et al, 2007).

Interviewees seem to believe that company leaders are only concerned with short-term gains and profits, and lack awareness and understanding of the value of brands, which explains the resistance by companies to the notion of professional brand management plans. What companies seem to want from experts is help in selling greater quantities of their product in the short term, with the foremost attention to the bottom line.

*Most domestic brands owners take profit as the first goal and have no strategic outlook. They pay little regard to business planning for the next 5 years, 10 years or 20 years.*

--- Academic

In effect most local brands in modern China seem to have a short life cycle; the average life cycle of a brand is seven and a half years (Fan, 2005). The environment of market and customer having changed so rapidly, a fundamental reason for the short life cycle of Chinese brand is their inability to renew themselves (Zeng, 2005).

A level of inertia seems to affect change from manufacturing company leaders' “traditional” short-term profit orientation. Those managers who understand the benefits of investment in brand strategies seem not to have the patience required to nurture a brand. They are eager to learn from Western practices, and they seek help from experts or overseas Merger and Acquisitions, but they lack professional brand knowledge and skill-sets, and they still perceive branding as primarily related to brand name and advertising costs, hence as an expenditure rather than as an investment.

*At present, Chinese enterprises obviously have two misunderstandings about brands. Firstly, they mistake name brand for good brand and are anxious to build the so-called brand through advertising in a short time. Secondly, they think brand building is a complicate program and beyond their reach, and therefore have a dread of brands and are reluctant to try
and start from the most basic things under the excuse of survival. These two misunderstandings can mostly be attributed to insufficient knowledge of brand management.

--- Academic

This short term orientation can be a need that Chinese companies really have to accept, according to some participants, because of the disadvantages that constrain them,

To survive, companies, especially small and middle size companies must maintain the initiative; otherwise there is no chance of survival. In pursuit of survival, chaos is inevitable. We are not like those powerful foreign enterprises who emphasize steady and prudent development. At the present stage, survival is the key to the development of Chinese enterprises.

--- Branding consultant

These disadvantages include the “quality crisis” of Chinese products which had a negative impact on the perception of “Made in China” and Chinese brands; it is suggested that this undermines the rationale for creating and nurturing any brand which is readily recognized as Chinese. They therefore elect to chose a low cost, high volume generic product strategy,

Chinese companies are selling products not brands. In the process of assisting companies’ brand building, some companies may say they do not have the strength to develop brands and they only expect our guidance on how to make efforts sell more goods. They do not realize the true value of the brand.

---Branding Consultant

There is also some skepticism towards some of the management theories originating from Western economies,

Chinese enterprises are the most subject to the improper influence of theories. I don't mean these theories are wrong. Whether the emphasis is on brands requiring innovation or personality, if Chinese enterprises
cannot survive now, however bright it is, the future will just be an unrealized dream.

--- Branding consultant

An issue which can give rise to anti-competitive practices that could harm the ability especially of SMEs to grow and develop marketing skills is the somewhat incestuous relationship between big business and politics,

The leaders of those big enterprises are politicians. SME owners are money-oriented businessmen. China is not short of businessmen, but short of real entrepreneurs.

--- Branding consultant

From this it can be deduced that these “business leaders” have little incentive to develop marketing skills and invest in brand strategies comparable to those of Western countries. For similar reasons, there is also little incentive for companies to invest in innovation, be this technical or linked to new business models. Managers to some extent are aware of the value of innovation but have doubts on their ability to capitalize on it. Some interviewees believe that Chinese consumers like to follow trends and are affected by impulse purchase, and this results in many companies not wanting to waste resources on product development, and “follow the leader” instead, as they lack the confidence and patience required for this long term work. Under the pressure of survival and a lack of skills at brand building, they are just simply drifting in the market.

We should make breakthroughs and innovations in the course of following and gradually build the core value of our own brand. However, I don’t advocate innovation from the outset, because this approach will probably lead to a dead end. Enterprises must make decisions based on the particular features of the market.

--- Academic

In addition to the factors explained above, interviewees cite further constraints such as industry structure, government policy and regulations, and the market environment for this short term orientation.
The data also suggests that the alternative strategies to product innovation and brand building most Chinese companies, especially SMEs, adopt to survive and gain fast returns, is to imitate successful brands. This low cost strategy often enables companies to access markets and to make profits comparable to those of brand leaders.

*In the marketing circles of China, there is a kind of marketing policy called “strategy of following others”. This is a shortcut for rapid start-up and growth for SMEs. In China, as long as you don’t infringe upon somebody’s right, it is legal and not deemed as plagiarism. In my view, at the right time and to the right degree the “follow policy” is correct.*

--- Academic

Business leaders therefore prefer selecting strategies based on imitation of successful market players, in part perhaps due to inertia and unwillingness to engage with innovation,

*Yes, SMEs are “lazy”, “too lazy to innovate”. Also they lack confidence and patience to build the brands; they are just simply participating in the market.*

--- Branding consultant

*Many Chinese companies indeed have no brand awareness and think brand building is equivalent to manufacturing and advertising, which is of course a lopsided view.*

--- Branding consultant

Some interviewees felt that imitation might be a strategy which is different from piracy, but they also pointed out that imitation is not conducive to the establishment of a company’s own brands. Chinese brands need to establish their own personality. With imitation approach, Chinese companies will be forever in a backward state with weak competitive power.

*Whether drawing tiger or panda after cat, Chinese enterprises must have an innovative and pioneering outlook and spirit in order to build their own
brands. Only in this way, can we excel others and help “Made in China” achieve popularity around the world.

--- Branding consultant

However, two interviewees disagreed with the above statement. They argued that it is not the fact that Chinese companies did not focus on R&D and brand building. The imitation issue is caused by the pressure of survival and inability in brand building.

*Imitation is mainly a result of survival pressures and lack of skill in brand building, coupled with the lack of a long-term brand plan in most enterprises, the demonstration effect of speculative success caused by the defective market economy system of China, volatile consumption attributes under the circumstance of rapid development of the economy and inadequate understanding of consumers by enterprises. Due to these factors, brand building is a long-term tough task.*

--- Branding consultant

*To survive, companies, especially small and middle size companies must move quickly otherwise there is no chance of survival.*

--- Branding consultant

As some interviewees agreed, imitation might be a shortcut for rapid start-up and growth for companies, especially SMEs, but counterfeiting is illegal. Imitation and counterfeiting are two issues of a different nature. However, in counterfeit business, China has been identified as a major player (Bender, 2006). The Chinese Government has traditionally and intentionally refrained from establishing adequate IPR protection in order to encourage low-cost imitation, in line with La Croix and Konan’s (2002) findings. In spite of recent changes, such as the efforts by the Chinese Government to crack down on piracy and low-quality products in response to recent incidents, such as the shocking poisonous milk powder scandal in 2008 with more than 300,000 infants becoming ill from milk powder contaminated with industrial chemical melamine, regulation remains inadequate.

Most interviewees believe that the Government has not set rigorous enough standards to balance the interests of all in dealing with quality violations and piracy.
cases, and the action taken so far looks like an attempt at “window dressing”. This finding is in line with Bender (2006) and Clark (2000) who argued that the poor enforcement of IPR in China is due to low administrative penalties and lack of avenues for enforcement. The resulting confusion between similar “me-too” brands would have serious implications for consumers’ confidence in domestic products. Weak IPR enforcement damages foreign companies and brands, but will also hurt China’s own inventors and IP product manufacturers. In practice all these issues suggest that the Chinese business leaders’ lack of faith in branding is associated with their fear that this lack of protection means that any efforts they might put into brand building and technical innovation would be wasted.

There is no basis for a debate regarding the serious problem of plagiarism in China. If anybody can sell bootleg books and CDs openly in stores on streets and needn’t worry about being caught, you may tell him he should be more innovative but you will be wasting your breath.

--- Brand consultant

Market failure and weak regulation have negative effects on brand development, so that genuine brands face chaotic, unfair competition from imitations and piracy caused by pressure of survival and lack of necessary resources. Because of inadequate intellectual property protection, the trademarks of brands are often counterfeited and imitated, or face other forms of infringement, with great losses to well-known brands.

Discussion

The brand development from imperial China has been well documented and brands played a vital part in ancient Chinese’s social life. With China’s remarkable economic development and changing habits of consumers, brands have become more important in the modern Chinese market and to Chinese consumers. Also brands have become important to China to accelerate entry into international markets, especially since China joined the WTO. Although there is a positive attitude regarding the future development of Chinese brands, achieving success will not be a simple task for Chinese companies.

All interviewees in this research have a thorough understanding of branding/marketing and willingness to assist Chinese companies to build brands. However,
most interviewees felt that it is difficult to apply theories into the practice due to the companies’ management/owners’ impatience and imperfect market environment. Chinese companies are eager to learn from Western practice, and expect help from experts. However, the research findings show that Chinese companies lack a clear brand-oriented culture and suitable investment in branding. External factors in terms of industry structure, government policy/regulations, and the market environment also have further specific impacts on Chinese companies’ brand building.

Although there are many successful branding models/theories in the West, Chinese companies have to design branding systems in accordance with the local market situation and culture. State-owned companies enjoy the benefit from state ownership support and less competitiveness while most manufacturing companies face limitations from lack of specialist expertise and limited resources. The owner/management of these manufacturing companies make business decisions in response to current opportunities with hope of quick success and quick profits. They focus on price competition, and promotional activities are their major marketing practices. So brand building become more difficult in these companies, especially under the impact of famous and foreign brands. Additionally, imperfect intellectual property protection and unfair competition discouraged innovation and ambition of companies’ brand building. Thus, complex-branding theories may not be suitable for most of Chinese companies, especially manufacturing companies, and probably would not help in the understanding of their market.

Implications

So, what is “the trouble with brands” in China? The application of Western style marketing knowledge to the Chinese market is so problematic that concerns are raised regarding the applicability of brand theories in the Chinese market. Our contribution includes an alarm bell for Western companies as well as Chinese ones that plan to invest significantly in brands in this market. The difficulties in protecting brands, and the presumed inability of Chinese consumers to discriminate between genuine brands and counterfeits because of impulse purchase, means that these investments might not be worthwhile and are really “money down the (brand) drain”. Differentiated brand strategies are called for.

Both foreign investors and local companies for example might want to consider adopting a mobile defensive strategy for their brands, with the use of an umbrella brand, but with frequent introduction of new sub-brands, changes in style – e.g. fonts
used in the brand name and logos – in order to make it more difficult for counterfeiters to plagiarize their brands. In addition, marketers might want to consider the use of more relational strategies in line with the Guanxi tradition. Frequent technical innovation would also support this mobile defence.

As a recommendation for policy makers, the government should strengthen IPR protection legislation and severely punish counterfeiting. This will promote a better brand-building environment and encourage Chinese companies’ independent innovation. It is also necessary for the Government to team up with marketing and branding specialists to popularize branding knowledge and skills in order to increase awareness of branding among companies.

A development of brand knowledge within the domestic market could provide opportunities for Chinese companies to learn to grow gradually by developing their ability to build brands enough to leverage them in Western markets.

**Directions for research**

We suggest that further investigation is necessary in the mechanisms to build both knowledge of brand strategy and techniques and associated skills, and managers’ confidence in their own abilities to innovate and protect their assets. Aspects that could be interesting are such issues as the existing collaboration activities between the Chinese academic sector and industry, and to what extent they could be enhanced; it might be that it reveals opportunities both for the Chinese academic sector and others. Further questions include the extent to which the Chinese business sector is able to capture the knowledge and skills of Chinese students returning to China after study abroad; and the extent to which specific knowledge of brand strategy and technique is transferred from Western organizations as a result of FDI operations.
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