CHINESE BRANDS AND BRANDING STRATEGIES

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ABSTRACT

The purpose of this study is to gain an insight into Chinese brands and branding strategies, with a particular focus on the manufacturing sector. This study will explore the value of existing brand management theory as related to Chinese brand building. In order to gain answers to the research questions, analyses of the secondary data and in-depth interviews with top Chinese branding consultants are conducted. The data is then analyzed using constant comparative and coding methods.

This study comprehensively analyzes all the possible factors which directly or indirectly influence Chinese brand building. The research findings show that Chinese companies, especially manufacturing companies, lack a clear brand-oriented culture and sustainable investment in branding. Chinese companies’ brand building lacks a systematic theoretical system, as well as lack professional brand knowledge, experience and skills-set. Moreover, external factors in terms of industry structure, government policy/regulations, and the market environment also have further specific impacts on Chinese companies’ brand building.

This research highlights that currently the most important aims for Chinese companies are to remove their production-orientated mind-set, and to change the poor image of ‘Made in China’ in terms of poor quality, weak R&D and a poor level of marketing skills. In addition to such self-discipline, the government should strengthen relevant legislation in order to promote a better brand-building environment and to encourage independent innovation. Furthermore, this research suggests that Chinese companies should not be too hasty to enter foreign markets unless they are fully prepared. The domestic market provides a good opportunity for Chinese companies to learn to grow gradually by developing their ability to build brands.

This study generates a better understanding of the current situation of Chinese brands and branding, which could result in positive improvements for those Chinese companies and policy makers, in that they will be able to undertake more effective action and employ greater sophistication in future brand creation. The research findings have also complemented the previous literature, and lay the foundation for future research focusing on Chinese brand building. Meanwhile, the research findings support existing theories of brand management. This study addresses the importance of the application of brand management theory in Chinese branding practices. The existing brand management theories provide a comprehensive systematic guideline for Chinese companies, and they are fundamental to Chinese companies’ brand building.
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<td>SOE</td>
<td>State owned Enterprise</td>
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<td>Non-SOE</td>
<td>Non-State owned Enterprise</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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<tr>
<td>IPR</td>
<td>Intellectual Property Rights</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Production</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>M&amp;As</td>
<td>Mergers and Acquisitions</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>SME</td>
<td>Small &amp; Medium Enterprise</td>
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<td>OEM</td>
<td>Original Equipment Manufacturer</td>
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<tr>
<td>SHC</td>
<td>State-Holding Company</td>
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<td>PC</td>
<td>Public Company</td>
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Chapter One

Introduction

1.0 Introduction

This research set out to investigate Chinese brands and branding strategies with particular attention paid to the manufacturing sector. This research aims to contribute to both business and academia. On the business side, this research aims to provide a clear view of the Chinese market and the branding situation; not only for Chinese companies, (specifically manufacturing companies who intend to improve their branding), but also for those foreign companies or consumers who want to understand more about the Chinese market and brand building. The research also aims to examine how recent branding theory can make a significant contribution to Chinese brand building.

The main purpose of this chapter is to introduce the structure of this thesis. This chapter consists of five main parts: the first states the background of the study; the second discusses the main research problems; the third outlines the research questions, aims and objectives; the fourth discusses the scope of the study and the fifth finally provides an outline of the study.
1.1 Background of the Study

In the past few decades, China has concentrated mainly on manufacturing and somewhat ignored brand creation and promotion (Shan, 2006). China is now the world’s number one producer in 172 categories of different consumer and industrial products (Barboza, 2006).

Given China’s remarkable economic development and taking into account importance of branding, both the Chinese government and Chinese companies are making great efforts to create and promote their own brands. ‘Brand strategy’ as a buzz word appears everywhere in China, indicating China’s ambition to make its own brands global. Since joining the WTO, China has entered a stage where it is striving to transform itself from being a mere manufacturer to creating its own global brands.

However, it is 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; Gu, 2007; Interbrand, 2005&2007). At the same time, ‘Made in China’ suffers from negative perceptions by the world’s consumers and has been described as ‘cheap’, ‘poor quality’ and ‘lacking in innovation’ etc. (Interbrand 2005, 2007, and 2008). It is difficult for consumers from developed markets to name any Chinese brands.

With a vast market and rapidly-increasing demand, China has become one of the markets with most potential, and has received huge amounts of FDI. There are an increasing number of foreign companies with their brands entering Chinese markets, and they occupy an enormous market share in many industries (Zhu, 2004). Meanwhile, the growing middle classes have growing purchasing power and their buying behaviour tends to be increasingly affected by brand awareness and the perceived quality of foreign brands, especially
multinational brands (Kwok et al 2006). Compared to the foreign brands’ performance in the domestic market, Chinese brands are neither dynamic nor competitive.

In contrast to the above points, many Chinese brands have recently appeared in the top 500 global brand ranking list. According to Global-WPP research agency Millward Brown Optimor (BrandZ, 2010) the brand value and reputation of Chinese brands are on the rise.

There exists now the opportunity to investigate precisely what is happening with Chinese brands and branding both domestically and globally. Studying this emerging involvement of branding in China, as a developing country, is crucial, especially when considering the fact that China is the country with the most rapid economic development in the world, but nevertheless has a lack of brands.

1.2 The Main Research Problem

As the fastest growing economy in the world, China has no global brand to match her economic power and is still reliant on exports of non-value-added products to earn small profits while huge profits go to foreign companies. It is urgent and imperative to ascertain the reasons for the lack of Chinese brands, and to establish precisely what is happening in China as well as within Chinese companies and the Chinese government with regards to the development of brand building.

It seems surprising that no study has apparently been carried out providing a comprehensive analysis of current issues in Chinese branding, especially manufacturing company brand building. Most previous studies focus on
different single aspects of elements which could affect Chinese brand building, such as technology and innovation (Stones, 2003; Wu, 2005; Chris, 2006; Chen, 2006), marketing and branding practice (Gao et al, 2003; Ramos, 2005; Barham, 2006; Interbrand, 2007), consumer buying behaviour towards brands (Ewing, et al, 2002; Wu, 2005; Business Week, 2006 Kwok et al, 2006), management systems (Chris, 2006; Zeng, 2005), industry structure and policies (Trebilcock and Iacobucci, 2003; Kalish, 2006, Yu, 2006) and global expansion through overseas M&As (Liao, 2007; Ramos, 2005).

An understanding of individual aspects of branding literature does not imply an overall understanding of the Chinese branding situation and problems. For the purposes of exploration, an in-depth investigation is needed to assist with a comprehensive view of Chinese manufacturing brands and the branding situation, in order to provide recommendations for future Chinese brand building.

In this research, various factors which may directly or indirectly influence Chinese branding are combined in order to illustrate a clear perspective on the current issues in Chinese manufacturing brand building, and also to develop clear directions for further research.

1.3 Questions, Aims and Objectives

The main aim of this research is to investigate the current situation of Chinese brands and brand management in the domestic market and attempts to go global, with particularly attention paid to the manufacturing sector. Therefore, the research questions are as follows: (the first research question is divided into various working questions that reflect how this research transpired.)
Research question:

1. What is the current situation with Chinese brands and branding strategies within both the domestic and global markets?
   a. What factors directly or indirectly influence Chinese brand building?
   b. To what extent have multinational brands impacted on Chinese companies and brands in Chinese markets?
   c. To what extent have Chinese brands successfully penetrated developed markets, and what challenges do they face in becoming global brands?
2. How can recent theories shed light on the observed practices of Chinese brand building?
3. How do the findings from research questions 1 and 2 affect brand management theory with regard to Chinese brand building practice?
4. Are there any techniques to facilitate Chinese brand building in the future?

In order to answer the above questions, three objectives are formulated as follows:

a) To provide a comprehensive understanding of the current situation of Chinese brands and brand management in the domestic market and their attempts to go global.

b. To explore the value of existing brand management theory to Chinese brand building.

c. To identify the techniques to facilitate Chinese brand building.

1.4 The Scope of the Study

The main aim of this research is to investigate the current situation of Chinese brands and brand management, with particular attention paid to the
manufacturing sector. The different variables of Chinese brands and brand building investigated in this research are selected based on the secondary research and in-depth interviews with nineteen top Chinese branding experts conducted by the researcher.

This research concentrates on manufacturing brands and brand building in the Chinese market, as well as their attention to attempts to achieve globalization. The current situation of Chinese brands and branding strategies are identified and further tested with domestic branding experts. The findings helped with suggestions for the future development of Chinese brand building.

National brands from the domestic market and various manufacturing brands who have already moved into developed markets are selected. The automobile industry, a rapidly developing industry, and the garment industry, a traditional industry, were selected to gain further insights into Chinese manufacturing brand building. Nineteen top domestic branding experts were selected to assist the exploration of the Chinese branding overview. The criteria for choosing interviewees were carefully considered.

With strong aspirations to be an economic power, China has suffered from negative perception of its brands and products and also suffers from a lack of global brands. Therefore, the need for this research is great. The current lack of information on this area indicates a need for an urgent evaluation. This research attempts to build on the empirical and theoretical evidence available on Chinese manufacturing brand building in both domestic and developed markets.

It is anticipated that the results of this research will help researchers, Chinese manufacturing companies and policy makers to define what Chinese branding performance is, and which techniques exist to facilitate Chinese brand building
there are. The results have the further potential to enhance the legal system which could assist Chinese brand building.

In addition, several limitations also were also identified. Firstly, this research focuses on Chinese brands’ performance in the domestic and developed markets, rather than in developing markets where Chinese brands have a better record of performance. Secondly, as early research in this subject area, this research focuses on providing an overview of Chinese branding, including all possible factors which could directly or indirectly affect Chinese brand building. As previously noted each individual aspect lacks in-depth analysis. In addition, this research has focused on the views of experts to explore the issues of Chinese brand building, rather than on the views of manufacturers. This is due to limitation of time and cost, as well difficulty of reaching manufacturers and subsequent concerns about the quality of the data collected. Nevertheless, these limitations might well indicate further research areas that could usefully be exploited in the new future.

1.5 Research Outline

The thesis is organized into the following nine chapters:

Chapter One: Introduction

This chapter introduces the key points that the research investigates which include research background, research problems, research objectives and research scope.

Chapter Two: Research Setting
In order to have a deep, clear understanding of Chinese bands and the branding situation, a comprehensive review of different aspects of Chinese brand building is presented and discussed in this chapter. Various aspects of relevant sources covered in this chapter include: the current Chinese business environment, market, government’s role in business, policies, marketing and branding practice and globalization by Chinese companies via overseas M&As. This chapter focuses on providing a clear picture of the issues in the Chinese market environment which could directly or indirectly affect Chinese brands and brand building. All the findings guide the direction of the research questions and objectives.

Chapter Three: Literature Review

This chapter reviews the main literature, that is, theories that have been employed over a period of time to explain the paradigm shift in brand management over the last two decades. This chapter mainly refers to Heding et al (2009) recent publication as a guideline (Brand Management and Research, Theory and Practice).

Chapter Four: Methodology

This chapter discusses the research’s methodological approach along with justifications. It consists of several main areas: the research philosophy, research design, research approach, sampling procedures, data collection techniques and data processing and analysis. It details the research via a qualitative method through investigations from secondary research and in-depth interviews with Chinese branding experts.

Chapter Five: Whether China has Real Brands
This section explores the Chinese branding situation inside China. It begins with investigating whether Chinese companies really can compete on the global stage, particularly with reference to manufacturing brands, and whether they already established global brands. A number of Chinese brands such as Lenovo, Haier and Li Ning, which are considered to be the most successful Chinese manufacturing brands, are taken as examples to provide an insight into the Chinese brand situation. An investigation into the national brand situation in the face of strong foreign competitors in the domestic market and foreign brands’ performance in the Chinese market follows. Additionally, this chapter seeks to address the current situation of Chinese brands in both domestic and global markets by reporting on nineteen semi-structured in-depth interviews with leading experts from China.

Chapter Six: Globalization through Overseas M&As-Automobile Industry Case

Without strong brands and prestige, ‘going global’ rapidly has been extremely difficult for Chinese manufacturers. Therefore, many Chinese companies consider overseas M&As as a short cut to quickly accessing overseas markets and to obtaining well-established brands. The purpose of this chapter is to investigate previous major cases of overseas M&As by Chinese manufacturing companies, especially in the automobile industry. This chapter first attempts to investigate the current situation of overseas M&As by Chinese companies, especially manufacturing companies. Both problems and challenges are analyzed. In addition, nineteen leading Chinese branding experts share their views and opinions on the overseas M&As by Chinese companies which helps to further understand the current situation, problems and challenges for overseas M&As by Chinese companies.
Chapter Seven: The Garment Brands

As the world’s biggest exporter of garments, China has long been a main supplier for many developed markets and has been both the world’s largest garment consumer and producer. However, behind the huge volume, the fact remains that the Chinese garment industry has no world-class brand, and it is just a factory for the world. This chapter investigates the branding story of the Chinese garment industry in the domestic market, in particular men’s and women’s garment brands. The situation and problems of current branding in the garment industry are identified. In addition, in-depth interviews with three local garment branding experts help to gain further insights into Chinese garment branding together with recommendations.

Chapter Eight: What Experts Say

To extend the previous discussion, interviewees further shared their views on various specific issues such as the quality issues, technology, marketing and branding skills of Chinese companies, all of which are relevant to Chinese companies’ brand building. The discussion topics are based on the previous findings. The aim is to explore whether the previous findings are consistent with the interview data or any additional information the experts can provide on Chinese brand building. The data collected from experts for each question is transcribed, interpreted and presented. Descriptive data analysis is used as the main method to present data collected, and direct quotations are highlighted to illustrate and support the findings.

Chapter Nine: Discussion

The purpose of this chapter is to summarize all the data collected from different methods with constant comparative and coding methods. It provides
the reader with a comprehensive understanding of current Chinese brands and branding strategies. Apart from the current situation analysis, suggestions and recommendations for future Chinese brand building are discussed, based on previous studies and interviews with experts from the field.

Chapter Ten: Conclusion

This Chapter summarizes and concludes the research. It shows which of the aims and objectives have been achieved together with an outline of the areas which may require future research. Research contributions and limitations are also included as we
Chapter Two
Research Setting

2.0 Introduction

The aim of this chapter is to present a general background to China, the country used as the research setting. This chapter also aims to provide an overview of the nature of markets and businesses in China. Various relevant topics covered in this chapter include: the current Chinese business environment, the market, the government’s role in business, governmental policies, marketing/branding practice and globalization by Chinese companies via overseas M&As. The sources for the discussion include both Chinese and English publications. This chapter focuses on providing a clear picture of the issues in the Chinese market environment which could directly or indirectly affect Chinese brands and brand building. All the findings guide the direction of the research questions and objectives.
2.1 Chinese Market Overview

China, with an enormous emerging market consisting of the world’s largest population, enormous geographical area, significant regional disparities and multicultural consumer groups, is one of the fastest developing nations, and its huge market potential is waiting to be exploited. Since 1979, China has reformed its economy from a centrally-planned economy to a market-oriented economy. Following massive foreign investment and rapid productivity growth, China’s economy is growing fast (Morrison, 2006).

With the introduction of liberalization, the reduction of tariffs and other trade barriers, majority foreign ownership has been permitted in many services and industries since China joined the WTO. International marketers have increasingly targeted Chinese markets and created new opportunities to sell in the Chinese market. (Simmons and Schindler, 2003; Kalish, 2006). The Chinese financial market continues its process of deregulation, and many new foreign companies and brands have entered the market. With 20 percent of the world’s population and an increasing demand in consumption, China still has the potential to grow.

For many multinationals, there is a growing realization that China is emerging as an important market for consumer goods; however, they still underestimate how large it will be and how quickly this is happening (Grant, 2006). It is therefore worth ascertaining what exactly is happening in this emerging market, the role of the Chinese government in business, and the features of Chinese brands and customers in the domestic market.

The spatial topographical advantages of coastal provinces have been the main reasons for capital investment being concentrated in such provinces in the early 80s during market reforms and the open door policy. Following the high
returns to capital investment in the coastal provinces, more FDI and migrant labour settled in these areas, which caused a growth disparity between the coastal provinces and the rest of country (Bao et al. 2002).

Cui and Liu, (2000) demonstrated there are significant differences across the regional markets of China and their consumers: southern and eastern China are more advanced in terms of economic development. People from southern China have great purchasing power and are adopting new and luxury goods, while consumers in eastern China are the trendsetters as regards ‘life style’ products. Meanwhile, the ‘emerging markets’ of northern, central and southwest China, with rich natural resources and improving transportation infrastructures are trying to energize their economies and catch up with the coastal areas. Furthermore, the markets of the northeast and northwest are still relatively untapped. Consumers from these different regions have variations in income, values, life-style and the degree of contact with the outside world.

Ouyang and Fu (2012) further assert that geographical advantage is the main reason for the different levels of regional development. The Chinese government’s adoption of a strategy of giving development priority to East China, which has ports and harbours for sea transportation to many developed economies, demonstrates the hope that the development of East China can in turn generate a positive impact on other regions.

As a result of this strategy, 85% of annual FDI has been invested in eastern coastal regions, while other regions such as Central and West China have only 8.75% and 4.1% respectively even after the central government provided a set of preferential policies to attract FDI to these regions (Ouyang and Fu, 2012). The rise of the FDI-GDP ratio has increased East China’s share of national value added, and it has also had positive effects on regional income growth in East China (Ouyang and Fu, 2012).
2.1.1 Domestic Competition

Foreign companies learn fast when they enter the Chinese market (Lyatuu et al, 2007). 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).

As Interbrand’s (2006) analysis indicates, foreign brands with maturity use their products as a key differentiator of performance compared to local brands, and may adopt niche-marketing strategies to gain a sustainable local foothold. Due to the high quality of their products, their mature marketing skills and their good reputation, foreign brands have occupied a large market share in the Chinese market in many industries (Express China News, 2004).

The automobile industry can be taken as an example. A report was published on 6th January by the National Bureau of Statistics of China (2007) about the fifteen most popular car brands chosen by Chinese customers. There were only two Chinese brands in the list. German brands such as BMW, Volkswagen, Audi and others made up the majority of this list. As regards the Chinese cosmetics market, foreign brands, mainly from the United States, France, Germany, Japan, and Korea, had almost 80% of the market share (Li, 2003, Li & Fung Research Centre, 2005). According to the Hong Kong Trade Development Council (2007), there were six foreign brands in the list of the top ten skin care products, and nine foreign brands in the list of the top ten best-selling beauty products in China.

The Chinese mobile phone market is another example which illustrates foreign brands’ strong performance in the Chinese market. CCIDC Consulting (Gao,
2007) found that although there are six domestic brands in the list of top ten Chinese mobile phone brands, they nevertheless had only a 7% market share. Foreign brands such as Nokia and Motorola dominate the Chinese mobile phone market with a 67% and 22.7% share respectively. In the television market, the combined profits of more than 20 domestic television manufacturers are still less than those of Sony (Fan, 2006). In such a competitive environment with so many global companies, how to achieve high performance is logically of great interest to both local producers and the government.

The strong performance of foreign brands in the Chinese market has activated the domestic market. However, domestic brands are suffering from low performance, and market share, and they struggle to compete with foreign brands. Local firms will see their profit margins squeezed and this will ‘push’ them to look for offshore growth opportunities (Wu, 2005). There is no doubt that large-scale foreign investment assists China's economic growth, as it brings more efficient production of goods and the supply of services with better technology. However, the increasing number of foreign products and brands entering the Chinese market puts domestic producers and brands under pressure.

2.1.2 The Government’s Role

The Chinese government is an important player in the process of developing key business ventures in China (Fang, 2006). As Ahmad et al (2003) pointed out, brands are not simply economic entities but also have social and political aspects. Over a long period, Chinese manufacturers working for many global companies had their own products re-branded with foreign names, with huge profit being taken by the foreign companies; consequently, the Chinese
manufacturers’ profits were too small for them to be able to afford spending on marketing and branding. The Chinese government is now urging some of China's biggest companies to 'go global' and has called on Chinese enterprises to start exporting their own brands; each industry needs to have its own famous brands for export (Chris, 2006). A governmental Department for brand strategy was established in 2002, demonstrating the government’s ambition to assist Chinese companies in building global brands.

Although the political system has been reformed, the old political system still has an impact on economic activities and many industries are still influenced by the centrally planned economic system (Luo and Park, 2001). The privatization of SOEs in China has been considerable; 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 maintain control of large listed companies on the stock market as well as the major commercial banks (Yu, 2006).

Kalish (2006) has argued China should have grown even faster than it has. Much of China’s investment was undertaken by SOEs borrowing from state-owned banks. However these companies frequently made investments on the basis of political goals rather than economic considerations. As Yu (2003) has demonstrated, while China has enjoyed a very high rate of GDP growth over the last two decades, its financial sector, remains relatively poorly developed. China’s state-run companies consumed much of the country’s domestic savings. In other words, state-owned enterprises do not face ‘hard’ budgetary constraints (Trebilcock and Iacobucci, 2003).

The Chinese government assists its state-owned industry groups to move into international markets by offering high levels of protection, generous state
financial support and special rights in management autonomy, profit retention and investment decisions (Nolan, 2001; Fan, 2006; Morrison, 2006). Meanwhile, the Chinese government has supported the overseas expansion of Chinese companies (Zeng and Williamson, 2003, and The Asian Street Journal, 2004, 2005). The Chinese government uses extensive subsidies to support SOEs in financing takeover bids (Morrison, 2006). However, Morrison (2006) claims over half of the SOEs lose money and must be supported largely by state banks. China's banking system is controlled by the central government, and offers low-interest loans to SOEs. Without subsidies, many Chinese SOEs would probably go bankrupt.

2.1.3 Non-SOE

The growth of Chinese non-SOE is often heavily reliant on internally generated funds due to a lack of access to bank loans (Kalish 2006) and foreign investment can also provide the capital that Chinese entrepreneurs fail to obtain from Chinese banks. The Chinese government usually denied private companies permission to sell equity shares in the capital market or to borrow from commercial banks (Zeng and Williamson, 2003). With limited resources, the road to global brand building is much harder for non-SOE. There are many private companies with the ambition to 'go global' and according to Zha (2010), 76% - 85% of inventions have originated from SMEs.

Since 1979, non-SOE have improved considerably and they have become the main driving force for the industrial sector, with the non-state economy accounting for 50 percent in 27 of the 40 industrial sectors and more than 70 percent in some sectors (Zhong, 2007). However, most non-SOE in China are at a great disadvantage in market competition due to undeveloped technology equipment, poor capacity for innovation, low additional value of products,
high consumption of resources, serious environmental pollution and a high homogeneity of products (Lü and Hou, 2005). Apart from some superior non-SOEs in China, most non-SOEs lack creativity and differentiation. They mainly concentrate on production quantity but not quality, particularly some small-scale non-SOEs.

2.1.4 IP Rights

Intellectual property rights (IPR) is one of the most important challenges for government and business (Li, 2006). Counterfeiting and pirating of IPR-protected works is a global problem, leading not only to a decrease in a company's profits, but also in tax revenue (Bender, 2006). In this “fakes” business, China is a major player, and weak IPR enforcement in China damages foreign companies' operations (Bender, 2006).

For example, the International Intellectual Property Alliance estimates that losses to US companies through copyright piracy in China constitute at least $1.8 billion annually (Siwek, 2004). Piracy, however, also hurts China's own inventors and IP product manufacturers (Baker and McKenzie, 2002).

In the increasingly open economy of China of the early 1990s, exports and domestic sales of counterfeit products started to increase dramatically. Clark (2000) summarised a number of aspects of this phenomenon (Figure 2.1)
China has traditionally maintained low IPR protection to encourage low-cost imitation (La Croix and Konan, 2002). There is a large amount of pirated and counterfeited goods on sale in the domestic market (EU Chamber of Commerce in China, 2005), such as CDs, DVDs, software, branded hand bags and clothes. Chinese enterprises do not produce fake and pirated goods solely for the domestic market but for export as well (Bender, 2006).
government has attempted to investigate and prosecute IP infringements, but this has remained ineffective. Bender (2006) and Clark (2000) have highlighted the poor enforcement of IPR in China as being due to low administrative penalties and the lack of avenues for enforcement, meaning civil actions for monetary damages and injunctive relief have proliferated.

As China's economy has developed, both internal and international pressure has increased on China to improve the enforcement of its IP laws, and the problem should eventually subside (Clark, 2000). An increasing number of domestic innovators are appearing and they demand IPR protection and stronger enforcement to protect their own investment in research and development. Effective IPR are the best safeguard to protect these innovators (Taubman, 2003). As La Croix and Konan (2002) stated, innovative and creative works may benefit China by adding to the variety of products available, improving the quality and attributes of existing products and enriching the culture. Weak IPR protection discourages creative activity and limits the variety of products available. The international pressure on China to improve its IP protection has also forced the central authorities to ‘bring the worst cases of local protectionism to heel’ (Clark, 2000).

2.2. Brand Development

Over the past few decades, China has been a manufacturer but has somehow ignored brand creation and promotion. With the remarkable development of China's economy and the impressive changes in China, the role of branding is becoming increasingly important; 'Made in China' is widely discussed both within and without China. Brand building has emerged in China in recent years, while foreign brands continue to occupy a huge domestic market share in many industries.
After practice in joint ventures and supplying many of the world's corporations, China is already at the stage where it is trying to transform itself from being simply a manufacturer to creating its own brands globally. In China, 'Brand strategy' as a slogan has appeared in various media to show China's ambition to make its own brands global (Zhu, 2007). Whether or not now is a good time for China to build its own successful brands, and which techniques might facilitate Chinese brand building, have both been widely discussed.

### 2.2.1 The Main Types of the Chinese Brands

In China, branding plays an important role in the purchasing process, following increasing capital disposable incomes and a wider range of goods and services from which to choose. However, compared with world-class brands, Chinese brand values still constitute a smaller proportion of market capitalizations (Interbrand, 2007). 95% of enterprises in China have products but no brands (Zeng, 2005). In the domestic market of China, there are 547 brands with government support, but they failed the test of market competition. Almost one in five of the 1,600 ‘famous and old brands’ certified by the government in 1990 are now on the verge of bankruptcy, and only one in ten consistently generates profits (EIU, 2004).

Chinese brands are divided into two primary forms (Zeng, 2005; Interbrand, 2006, 2007).

1. **Non-SOE Brands**

These brands developed from collective enterprises, private enterprises and
Minying enterprises which emerge from an intense competitive market and are operating in a wider geographic market, such as Haier and TCL. Minying enterprises refer more to the organizational structure of the enterprises and less with the issue of property right or ownership (Segal, 2004). These are known as ‘non-state owned’ enterprises. However, compared to collective enterprises and private enterprises, Minying enterprises have some differences. Minying enterprises have a great deal of government involvement, such as those of Lenovo and Wanxiang. The Chinese government has significant shares in these enterprises.

These home-appliance and consumer-electronics manufacturers’ brands are hoping to gain a foothold in foreign markets, especially in the United States and the EU (Wu, 2005). The company mechanism of these brands is already similar to those of overseas enterprises and the competitive power of these brands is strong compared to many other Chinese brands. Currently many Chinese enterprises, such as technology companies, are trying to gain a foothold in foreign markets with different strategies. Some send their employees overseas to set up subsidiaries and to open sales offices so they can deal with customers directly (Ramos, 2005). However, the scale of these operation is inadequate and the challenge for these brands is how to compete against global giants which have spent many years building their brands and have high reliability.

2. Large-scale State-owned Monopoly Brands with Strong National Performance Led by the Government.

In 2006, of the Chinese enterprises which ranked in the world’s top 500 companies, China’s 19 mainland enterprises were all state-owned (Zhong, 2007) and of China’s own top 500 enterprises, the majority were state-owned and state stock-holding enterprises. State-owned and state stock-holding
enterprises are the main force behind the Chinese economy, with business revenues amounting to 77.6 percent of GDP (Zhong/ Foreign Languages Press, 2007). SOEs which are large enough to compete on a global scale yet enjoy monopolies, are not globally competitive (Zeng and Williamson, 2003).

SOEs use a proportionally higher amount of financial resources; however, with management innovation, marketing innovation and an increasing budget for market-oriented competitive brands, state-owned brands are comparatively weaker than non-SOEs and foreign-invested enterprises (Yu, 2006; Interbrand, 2007). In recent years, state-owned brands have split and separated into several parts and compete with each other, one example being China Telecom.

2.2.2 Life Cycle of Chinese Brands

Most local brands in China seem to have a short life-cycle; the average life cycle of a brand is seven and a half years (Fan, 2005), although this was only two or three years for some brands in leading positions (Zeng, 2005). With the environment of the international market having changed so rapidly, it is common for many brands to experience a rise and fall. Nevertheless, some brands such as Coca-Cola, Pepsi, Nike and Sony, have survived in the market for decades, particularly Coca-Cola for more than hundred years and Pepsi for more than eighty years. The market is moving and customers are changing, but innovation and marketing have contributed to the success of these global brands. A fundamental reason for the short life-cycle of Chinese brands is their inability to renew themselves (Zeng, 2005). In other words, they lack innovation. To ensure the continuity of its life cycle, a company or a brand should pay particular attention to innovation.
2.2.3 Consumers’ Choice

It is generally believed that consumers in less-developed countries favour products and brands from more developed countries (Batra et al, 2000). Chinese consumers are no exception. Today’s consumers have developed loyalty to preferred brands and they are not just concerned with price, quality, service and choice. There is a higher rate of habitual behaviour in the purchase of national brands than in the purchase of store brands (Lin and Chang, 2003), and in China brand awareness has an obvious effective on habitual behaviour towards both leading brands and national brands, while perceived quality and price exert little influence.

The Chinese tend to be more brand loyal than Westerners. A comparison between Chinese and Australians showed that a new product with a familiar brand name is more influential in the purchase making process for the mainland Chinese than for Australians (Low and Corkindale, 1998). Chinese consumers have a strong preference for foreign brands (Sin, et al, 2000). There is a high consumption of foreign brands by Chinese consumers living in the major cities, especially young and educated consumers (Dickson et, al, 2004). MNCs with their brands have successfully influenced the Chinese market (Degen, 2009).

Despite this, there is evidence to the contrary which shows that foreign brands are not necessarily preferred (Cui and Liu, 2001; Zhu et al, 2003). There is a rising rate of sales of local brands within many product categories in China (Zhou and Hui, 2003). Improving the quality of products, sophisticated marketing and government protection has led local brands to gain competitive force in the Chinese market (Cui et al, 2004) and nationalistic beliefs also motivate Chinese consumers (Zhou and Belk, 2004). Foreign brands may lose their appeal as Chinese brands increase in quality and become more attractive.
(Li, 2004). The rise of Chinese brands is not only evident within China, but is seen as a global phenomenon (Vence, 2005). Meanwhile Tai (2007) has shown most Chinese place the highest value on low price and reliability.

With these mixed results, Kwok et al (2006) carried out research to update and extend the understanding of country-of-origin effects in China. The results demonstrate that Chinese consumers generally say they prefer to buy local Chinese grocery brands, claiming it is important to buy local brands for a range of Chinese-style and Western-style product categories. However, the stated preference for Chinese brands was generally not reflected in the actual purchase behaviour which means that foreign brands are still preferred by Chinese customers during a buying decision. Chinese branding faces the challenge of suffering from a domestic image that foreign brands are of better quality than local brands (Ewing, et al, 2002; Wu, 2005; Business Week, 2004).

Meanwhile, various studies have focused on the emerging middle classes in China. Following the boom in the Chinese economy, the living standards of the Chinese has improved, enabling hundreds of millions of households to climb out of poverty. In China, millions of people have moved up into a new middle class of ‘real spenders’ who are willing to buy foreign brands. In Shanghai and Beijing, customers stick to the brands they like (Tai, 2007). The appearance of a far larger, more complex urban middle class with spending power will soon redefine the Chinese market (Farrell, et al, 2006). China is the world's third largest consumer of luxury goods, accounting for 12% of global sales (Goldman, 2004).

China must be considered a low/middle income country with a per capita GDP roughly one seventh of that of the US (Kalish, 2006). However, while the number of wealthy Chinese remains a tiny proportion of the overall population their percentages are on the rise (Ghosh, 2007). With the continuing growth of
the Chinese economy, the number of millionaires and upper-middle-class Chinese will increase, meaning there is a significant market potential for luxury goods. Some global brands have already begun creating models to target this group - for example, Coca-Cola and P&G. There will be 520 million upper-middle-class consumers by 2025 (Farrell, et al, 2006). Goldman (2004) predicts that the Chinese upper-middle-class will represent the majority of the nation's populace (59.4%) by 2015. Furthermore, in China luxury brands are not just sought by the super-rich but also others (Ghosh, 2007).

2.2.4 Ambition to ‘go Global’

Competition is fierce in the domestic market with many foreign brands invading and local enterprises aiming to go global. It remains to be seen whether Chinese companies can make good standard products and develop marketing strategies for branded goods from a growing pool of skilled engineers and investment in new products (Gao et al, 2003). There are a few Chinese brands that are already in the Europe and US markets with better performance compared to other Chinese brands, for instance Lenvo and Haier. However both brands were considered as just brand names and aspire to be brands (Business Week, 2004). In addition, these Chinese brands lack prestige (Business Week, 2004).

Arnun (2005) even argued these early successes do little to alter the true challenge facing China. It is the case that Chinese enterprises not big enough or profitable enough to compete overseas? Some authors have argued that Chinese companies want to understand what a brand is but they lack experience and it is hard for them to comprehend this if they have not grown up with brands (Business Week, 2004). Nurturing brands takes time; however, Chinese companies are impatient and eager to keep building sales (Chris,
Chinese companies lack investment in brand building activities (Ewing, et, al, 2002) and they put speed before consumer research, creativity and innovation, and have a shaky understanding of branding (Tai, 2007). Various aspects of Chinese branding found in the literature can be summarized in Tables 2.1 & 2.2.

Table 2.1 Problems of Chinese brands/branding

<table>
<thead>
<tr>
<th>Environmental influence</th>
<th>Poor Product’s attributes</th>
<th>Poor branding skill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-SOE &amp; SOE quality</td>
<td>Bank in the system</td>
<td>Poor marketing skill</td>
</tr>
<tr>
<td>Political system</td>
<td>Usage choice</td>
<td>Management skill</td>
</tr>
<tr>
<td>IP Right</td>
<td>Production</td>
<td></td>
</tr>
<tr>
<td>Customers buying behavior</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2.2 Suggestions for Chinese brands/branding

<table>
<thead>
<tr>
<th>Organic growth</th>
<th>Buying your way in M&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve production</td>
<td>a popular strategy</td>
</tr>
<tr>
<td>Improve marketing branding skill</td>
<td>a fast track for growth</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Shortcoming</th>
<th>Advantages</th>
<th>Shortcoming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop core technology</td>
<td>Time scale</td>
<td>Large consumer market</td>
<td>Poor strategic formulating</td>
</tr>
<tr>
<td>For long term development</td>
<td>Resource</td>
<td>Improve technical skill</td>
<td>Environmental constraints</td>
</tr>
</tbody>
</table>
2.2.5 Perception of Chinese Brands

‘Made in China’ can be found in every corner of the world; however, it is inevitable associated with cheapness and low quality (Stones, 2003; Fan, 2006), and does not gain respect from global consumers (Gu, 2007). Interbrand (Swystun, et al, 2005) and Interbrand (2007) conducted two surveys regarding the perception of Chinese brands and the results are as follows (Figure 2.3):

Figure 2.2 Answers for Survey
Do you believe ‘Made in China’ helps or hurts Chinese brands

<table>
<thead>
<tr>
<th>Regions of survey respondents</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>41%</td>
<td>46%</td>
</tr>
<tr>
<td>Europe</td>
<td>32%</td>
<td>24%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>Latin America</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>


Chinese brands suffered from a negative perception which can not be described as cheap, poor value, poor quality, unreliable, unsophisticated,
lacking innovation, lacking a track record, dated old, largely unknown and aggressive. The conclusion from the survey is that Chinese brands lack awareness and credibility.

The quality of Chinese products is of concern to consumers. Recently, 20 million Chinese-made toys were recalled from the US market due to quality problems. The news of recalled toys not only shocked American consumers, but also Chinese manufacturers. Although the American company issued an official apology to China for overreacting and damaging the reputation of Chinese-made toys following an investigation of these recalled toys the results released by the General Administration of Quality Supervision, Inspection and Quarantine Ministry of the People's Republic of China in November 2007 that showed the toys contained unsafe components. The news of the Chinese-made toy recall was described by Time Magazine as one of the top ten news stories of 2007. Obviously, this further damaged the image and reputation of Chinese products. It caused the Chinese government to promise that action would be taken if any export activity was illegal. A challenge ahead for Chinese companies when building brands is to change their association with low-cost manufacturing and low quality (Chris, 2006).

In 2008, China rebuilt its image through the Olympic Games in Beijing, showing the world a newly-branded China. However, the milk scandal further harmed the perception of China. After the milk scandal, Interband (2008) updated their research on the perception of Chinese products and brands, and this researched indicated that the image had not changed, and ‘Made in China’ still harms Chinese brands (Exhibit 1&2&3).

As in previous findings, the ‘cheap and low quality’ image still dominates perceptions of ‘Made in China’, which is the main challenge for Chinese brands going global. As Smith and Taylor (2004) argued, a poor quality
A number of studies suggest that experience of using products, rather than any marketing activity, leads consumers to associate attributes with brands. Castleberry and Ehrenberg (2001) conclude that consumers’ beliefs about a brand are generally developed not as result of the image created through marketing activities, but through experience of usage. This implies that consumers’ poor experience of using Chinese products has a negative impact on Chinese brand building.

Exhibit 1
I like to buy products made in China.

- Disagree: 56%
- Neutral: 38%
- Agree: 6%

I am interested in buying brands from China.

- Disagree: 55%
- Neutral: 39%
- Agree: 6%

Exhibit 2
How well do the following describe products made in China?

- Cheap: 66%
- Good value: 28%
- Practical: 14%
- Smart: 8%
- Innovative: 7%
- Friendly: 7%
- Fun: 6%
- Youthful: 6%
- Attractive: 5%
- High quality: 5%
- Fashionable: 4%
- Well-designed: 4%
- World class: 3%
- Safe: 2%
- Luxurious: 2%
With a continuously growing economy, China’s technology has demonstrated achievements that have attracted worldwide attention. The Chinese government has proposed adjustments in the economic structure that have encouraged innovation. Zeng and Williamson (2003) argue that there exists a misconception among many Western managers who believe that Chinese companies and manufacturers lack innovation and that high-tech businesses are immune to competition from Chinese companies. Chinese technology and science are developing fast. Increasing efforts only rarely materialize in cutting-edge innovations, but it is believed that innovation compatibilities will increase soon among Chinese companies should capital accumulation proceed at its current pace (Altenbury et al, 2008).

However, some suggest that China lacks innovation and simply does things on a large scale, while Chinese companies spend little on research and development and design, relying heavily on imitating the West (Stones, 2003; Chris, 2006; Wu, 2005). Europe and Japan still have a technological edge over China (Ramos, 2005). For many years China has imported advanced technology from overseas, and while this undoubtedly has helped to improve
productivity and quality, yet, as Chen (2006) pointed out, there is a high degree of dependency for China on foreign technology, reaching as high as 50%.

The OECD (2005) pointed out that 80% of China’s hi-tech is imported from foreign firms. For example, standards in the Chinese manufacturing equipment industry are very low compared with international standards. Two thirds of Chinese equipment investment depends on imports (Figure 2.3)

Figure 2.3 Import rate of Chinese manufacturing equipment industry

The core technologies are held by foreign enterprises and huge benefits have been taken by them, such as in automobile manufacturing. The parts for most Chinese own brand cars are imported, for example the engines and design, and Chinese automobile enterprises seem to act simply as assembly plants for foreign car enterprises. For example, Zhonghua, one of the best Chinese car
brands which is already in the Europe market, apart from its Mitsubishi engine, has all its other components come from Europe, and its design is European too. Many Chinese companies see diversification as the only route to further growth, and they do not concentrate on their core business or products, so this may explain why China is struggling to create reputable brands (Economist, 2004).

Compared with developed nations, Chinese enterprises’ capacity for innovation is weak. The research and development (R&D) budget of developed nations represents 3% or so of GNP (Gross National Product), but China only devotes 0.3% of GNP to this area. Furthermore the great majority of European and American enterprises have established their own technical development institutions. In contrast, the great majority of Chinese business enterprises neglect this aspect (Zeng, 2005). For example, in twenty thousand large and medium-sized Chinese enterprises, only 25% of them have R&D institutions, and only 30% of them carry out R&D activities. The fruits of R&D occupied only 0.39% of their sales, with only 0.6% in high technology enterprises – less than 1/10 of the percentage of that in developed countries (Chen, 2006).

Exporting products and earning foreign currency alone may not help Chinese manufacturing companies to ‘go global’ and gain more profits. Core technologies cannot be bought, and Chinese manufacturers need independent innovation. Only mastering these core technologies can help China to establish brands and brand reputation.

2.2.7 Poor Marketing Skills

Marketing is a social process by which individuals and groups obtain what
they need and want through creating, offering and freely exchanging products and services of value with others (Kotler, 2003). Lack of vital marketing skills is the biggest obstacle for Chinese manufacturers (Gao et al, 2003; Interbrand, 2007). Most Chinese marketers are not used to long-term investment in marketing with no initial returns (Rendon, 2004). For example, a survey (Siu, 2000) has demonstrated this with a comparison of higher-performing small firms in mainland China with similar firms in the UK. British high-performance small firms have annual marketing plans, but Chinese high-performance small firms follow the planning practices of the central planning system, and consequently little marketing analysis is undertaken.

Although Chinese companies realize the importance and necessity of marketing, they do not know how to carry it out. Many Chinese companies have still not truly grasped the art of marketing and branding in the Western sense of the word (Stones, 2003). Moreover, Chinese enterprises have no overseas distribution channels or service networks, few promotional or advertising activities and limited pricing skills, so it is unlikely these companies can rapidly develop a feel for the design and feature preferences of Western customers (Gao, et al, 2003). The main problems with marketing skills are identified as follows:

**Ignoring Marketing Research and Understanding Customers**

Local companies ignore the importance of marketing research (Zeng, 2005). Siu, (2000) has shown that the higher-performing small firms in mainland China do little in-house market research. However, British high-performing small firms use in-house research to collect information, place emphasis on product performance, product quality, company or brand reputation and distribution in marketing strategy formulation. Chinese companies are likely to allocate large budgets to advertising activities, and tend to make decisions that
are not supported by adequate market research (Tai, 2007). Chinese companies need to invest in market research.

Chinese companies fail to understand their customers; marketing was perceived as a sales function and an order-getting activity, rather than being customer-driven (Siu, 2000; Ramos, 2005; Interbrand 2006). Marketing is about giving customers what they want, and creating customer value and satisfaction are at the very heart of modern marketing thinking and practice (Kotler et al, 2002: Brassington and Pettitt, 2006). If customers’ requirements are not fulfilled, then marketing has failed both the customer and the organization (Brassington and Pettitt, 2006:7).

Confusing Advertising with Branding

Chinese companies tend to be sales driven and employ only tactical advertising; they confuse advertising with branding, believing more spending on advertising will create brands, and that sales will automatically follow (Normandy, 2001 Fan, 2005). In China there is no brand competition but sales competition, which often leads to vicious price wars. Advertising is the most powerful weapon after pricing in the Chinese market, yet most advertising does not work (Barham, 2006); in addition, advertising in China is unimaginative. China is the third largest advertising market in the world at about $30.5 billion in 2005 (Tai, 2007). However, 50% of the money that companies spend on advertising is wasted, as it fails to translate into consumer spending (Tai, 2007).

Poor Naming Skills

The naming of Chinese brands does not work when they go aboard. Many
Chinese brands are named only in Chinese or in Pinyin\(^1\) (Zeng, 2005), which may lead Chinese brands to be misunderstood by Latin-based consumers in the global market (Interbrand, 2007). When ‘going global’, Chinese brands need a global image and a global sound. A good brand name can save millions of dollars, bring a high level of consumer brand awareness and command strong consumer preference (Chan and Huang, 1997).

**Lack of Management Skills**

Chinese companies lack talented people in general management and marketing (Chris, 2006). Zeng (2005) suggests that Chinese brand building needs a group of talented people who know the international economic rules of the game. Management is the leadership of a business, which plays an essential role in further growth. It may offer a firm a competitive advantage, which in turn supports an organization’s business strategies (Shearer et al, 2001). Due to the different culture and background, HRM practice is very different in China and the West. There is a growing recognition in China that western management techniques can confer competitive advantage (Zhang, 2003). However transferring Chinese HRM to the west would be extremely difficult (Easterby et al., 1995; Lan and Young, 1996; Warner, 1997).

### 2.3 Suggestions for Chinese Brand Building

Of the problems of Chinese branding, some authors have emphasized that the most important of all is to redefine the poor image of the ‘Made in China’ tag (Stone, 2003, Fuchs, 2003 and Swystun, 2006). Recognition is one of the best

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\(^1\) Pinyin: Pinyin, more formally Hanyu Pinyin, is the most common **Standard Mandarin Romanization** system in use. Pinyin uses the **Latin alphabet** to represent sounds in Standard Mandarin.
practices which can represent the nexus of perception and reality, enabling brands to rapidly establish credibility in new markets (Interbrand, 2006). China’s national image is both poor and misaligned with the complex reality of daily life (Fuchs, 2003; Ramo, 2007). Companies and brands need to build and maintain an identity or personality which can replace this image (Fuchs, 2003).

The poor image of ‘Made in China’ is one of the obstacles for Chinese brands going global; however, it is not easy to change this image overnight, and there are additionally many tasks for Chinese enterprises to undertake before going global. Higher margins come from success in brand and channel acquisition, investment in product innovation, global brand design and marketing research, not from low pricing (Fan, 2006). There are two main strategies suggested below, and it is expected that these strategies may help China to build an improved reputation and to create her own brands globally.

2.3.1 A Step-by-Step Approach

To Improve Production

Some have suggested that, based on their attractive price advantages, Chinese branded products may gain a place in developed foreign markets if the products are also accompanied by good service and first-rate technology (Gao, et al, 2003; Swystun, 2006). Authors have argued that China should take advantage of its inexpensive labour while investing in innovation focused on design and quality. In view of this, it seems probable that a product with an attractive price, excellent service, superior design and technology exceeding that of competitors will gain customers quickly.

Due to its relatively low labour costs, cheaper land and longer working hours,
China has long been a ‘world factory’ and has carried out processing for others, but for a very small profit. Yet, these advantages could be easily copied by other countries, especially those in the third world. With its economic development, wage rates are rising in China and companies in China are moving to India and Vietnam (McClenahen, 2006). For global manufacturers, rising wages in China and an increasingly crowded market mean that global manufacturers cannot rely on low-cost Chinese labour as a competitive advantage (Grant, 2006).

India is another vast market. The economy of India is already the fifth largest in the world. Its GDP growth has been more than 6 percent annually since 1991 (Panigrahi and Calcich, 2002). China’s labour force is the largest of any country in the world; however, most of them work in the agricultural sector. India, however, has a huge skilled and semi-skilled labour force, with a massive reservoir of professionals including engineers, computer programmers and skilled technicians (Ede and Calcich, 2002). In a rapidly changing and highly competitive world, low labour cost manufacturing may not help China to win the game all the time. Only mastering core technologies will help Chinese manufacturing companies to gain competitive and long-lasting advantages.

China needs true innovation and to learn from the example of Samsung (Swystun, 2005). Chinese manufacturers may learn from them but need time to gain more skills. Due to the rapid pace of globalization, can Chinese companies improve production and design in a short period? They do not have the luxury of time as Japan and South Korean did (New York Times, 2005). For the further development of Chinese non-SOE, they particularly need to possess some unique and new qualities, such as scientific and technological competence (Lü and Hou, 2007); thus, in time they may transfer themselves to the developed market.
The Western market is mature and is very complex, and it is expensive to create brands in a developed market. (Gao et al, 2003; Wu, 2005; Interbrand, 2007). Although Chinese products have the advantage of lower prices, the standard of technology of production is at the copy and learning level. The improvement in Chinese science and technology has been notable over the past few years. However, Western technology continues to develop rapidly and the global market is now quickly won and lost. There is a belief that China can develop global brands and that it is just a matter of time (Stone, 2003), yet the time available to Chinese manufacturing companies is limited (Interbrand, 2006).

To Build up Marketing Capacity

The Kotler Marketing Group (2002) has shown that China needs a state marketing policy in order to change the Chinese mindset from production manufacturing to brand and channel ownership and management. They also argued that a state marketing policy is the key to Chinese economic growth after WTO entry. Chinese manufacturers should have a sense of marketing. Sales may not help Chinese companies to go global (Fuchs, 2003). They have to recognize that marketing is not just a process of satisfying customer’s needs, leading customers to be willing to buy, but also about finding out the customers’ future needs and wants. These future wants and needs are often discovered through market research. Understanding the relationship between consumers and a brand is the key to successfully building that brand, regardless of the viewpoint of advertisers or advertising agencies (Tai, 2007).

Communication plays a vital role in conveying the essence of the personality of the brand and in providing the continuity for any relationship, a necessity for a brand to be built through time (Fill, 2003, pp. 342). Currently, the
communication budget has moved away from mass media and traditional advertising to integrated marketing communication (IMC) (Kitchen, 2003). IMC has become a powerful idea within the marketing field and beyond (Christensen, et al, 2006). As Holm (2006) stated, only strategically-oriented, integrated brand communications can help businesses to reach a sustainable competitive position and to move forward. Many communication channels can be applied to position a brand, and these are not solely advertising or selling (Kotler et al, 2002). Chinese marketers might rethink their decisions about message creativity, media selection and market research to improve their brand performance (Tai, 2007).

Without question, a deep understanding of its target markets can help China to develop distinct and ownable value propositions, and to offer a consistent and holistic experience which can then lead to loyalty (Swystun, 2006). Before Chinese manufacturing companies begin selling in foreign market, they should learn and understand different cultures and behaviors. They additionally need to understand local customers’ needs and wants, and learn how to build relationships. Due to the poor image of ‘Made in China’, China needs to consider transforming its activities in locations, such as New York, London, Washington and Tokyo into opportunities for foreigners to interact with China (Ramo, 2007). There is lot of work to do to narrow the perception and value gaps with international brands.

In addition, the approach of niche market strategies has occasionally been suggested to help Chinese brands go global easily (Swyatun, 2005). A niche was defined by Kotler, (2003) as ‘a more narrowly-defined group seeking a distinctive mix of benefits’. Research by Parrish et al (2006) suggests two ways to implement niche strategy: with a push strategy, which means creating a product and finding a market for it, or with a pull strategy i.e. to find a market and develop a product to meet its needs. Research has also touched
upon the three successful factors of niche marketing: consumer base, market research and other important factors, such as offering a specific service to the market which could differentiate a firm from its competition. This research emphasizes that the most important factor for a successful niche market is knowledge of the consumer, and market research is essential to identify customers’ needs, or to create a feature that the competition does not offer.

With the capacity to be the world’s number one producer in 172 categories of different consumer and industrial products (Barboza, 2006), the question is whether Chinese manufacturers can use a niche market strategy to find a market for their products, creating specific products for the specific markets. Although a niche market strategy has been suggested for Chinese brand building, there is no related academic paper which deals with how to apply it.

2.3.2 Buying Your Way In

Judging from the discussion, with a step-by-step strategy, Chinese manufacturers need to build up their capability to improve branding and technology, and grow brands in-house. However, organic growth requires multi-billion dollar investment in the long term, as demonstrated by Japan and Korea (Wu, 2005). Therefore, many Chinese companies consider a foreign acquisition a short cut to going global, and the Chinese government also encourages companies to go abroad through mergers and acquisitions (M&A).

Before 2001, M&As were small in scale and few in number, mainly carried out by wealthy SOEs. Since China’s entrance into the WTO, overseas M&As have become not only a strategy for many Chinese enterprises to ‘go global’, but also to quickly for China to integrate into the world economy (Liao, 2007), including the Minying enterprises. China’s Wanxiang Group was the first
Minying Company to join in overseas M&As in 2001. With a strategy of horizontal M&As, the targets of Chinese overseas M&As are primarily Asia, Europe and America - mainly in home appliances, telecommunications, automobiles, resource development and other fields. Despite the character and background of Chinese overseas M&As, the benefits and problems of Chinese overseas M&As have been analyzed as follows:

Benefits

The basic reason for China to ‘go global’ through overseas M&As is to gain advanced technology, while other reasons include the need to extend markets, sales, to gain advanced managerial experience and methods and also to seek resources (Liao, 2007; Ramos, 2005; Business China, 2005; New York Times, 2005). Undoubtedly, China will build on its strengths and shore up weaknesses through buying assets and customers. Buying recognized brand names assists Chinese manufacturers to move from a cheap and low-quality image to global recognition, and to obtain access to global distribution networks. One such example was Lenovo who recently sold PCs under IBM’s name. In addition, cross border M&As may help Chinese companies to minimize culture clashes (Ramos, 2005).

Problems of Current Chinese overseas M&As

Compared to the ways of traditional investment, M&As have been considered a significant way for enterprises to expand. Yet it is very difficult to make such overseas acquisitions. Around half of the mergers made had a negative impact on share values (Lynch and Lind, 2002) and there were low success rates associated with these acquisitions (Lawrence, 2002). China is no exception. Some analysts have argued there have been no proven examples of mainland companies buying major foreign assets and making a success of their purchase,
whereas there have been a number of examples of failure (Business China, 2005; New York Time, 2005). Liao (2007) discussed the five main problems that Chinese overseas M&As face as follows:

*Flaws in the Management Structure of SOEs, which Cause Low Efficiency*

For the SOEs, the issue of imperfections of corporate governance structure manifests itself in getting rid of ‘internal control’. China’s government-led system of SOEs gives greater consideration to the issue of politics, society and international security than economic benefits. The overseas M&As are often pursued and operated as political projects for SOEs, and blind investment has increased the burden on enterprises, which may threaten an enterprise’s further development.

*Consequences of Blind Investment*

Many Chinese enterprises are eager to join international markets and take overseas M&As as a shortcut. To find a way to ‘go global’, Chinese enterprises usually pay unreasonable prices (Liao, 2007). Chinese companies have been able to acquire brands due to large Western companies’ tendency to sell off ‘non-core’ businesses (Laio, 2007; Business China, 2005). Generally Chinese enterprises pay vast sums of to acquire these loss-making or bankrupt enterprises. After mergers or acquisitions, another problem for Chinese enterprises is how to reverse the losses, and how much money is needed to save this ‘non-core’ business, which may influence its own business performance in the home country. Over-paying is the worst and most frequent mistake made by buyers, and the funding required for additional working capital, plant and equipment or research and development to attain the projected growth is too frequently underestimated (Huang and Kleiner, 2004). This may explain why acquisitions fail or drag down the buyer’s business.
Target Regions and Industries for Chinese Overseas M&As are not Suitable

The target markets of M&As for Chinese enterprises are almost all in the developed regions, such as America and Europe. Meanwhile, target industries often have high-tech requirements, such as home appliances, telecommunications and automobiles. As demonstrated previously, Chinese enterprises are weaker in high-tech skills than developed countries. It might not be conducive to play to China’s own advantages. Chinese buyers and acquirers, in some cases, have attempted to purchase large foreign companies (Morrison, 2006). Normally, larger, high-performing companies making smaller acquisitions of less successful companies perform better than average (Early, 2004). For Chinese buyers, the bigger the business merger or acquisition target, the greater the difficulties and risks.

China Lacks Legislation for Overseas M&As

The history of Chinese overseas M&As is short, and China lacks laws and a protection system for overseas investment. In mainland China, it has been suggested that rules and regulations are generally not consistent or transparent; contracts are not easily enforced, and intellectual property rights are not protected (Morrison, 2006). Overseas M&A activity is a more complex process. With different political, economic systems and ways of doing business, this lack of the rule of law, it seems, may put Chinese enterprises at risk.

Chinese Organizations Lack Capacity in Integrating after Overseas M&As

Integrating remains difficult after M&As (Huang and Kleiner, 2004); for Chinese organizations, it seems more complex due to their lack of experience. With poor experience of overseas M&As (New York Times, 2005; Business
China, 2005), Chinese enterprises usually underestimate the difficulties of merger integration, such as cultural integration and high costs for business integration. Management deficiencies, cultural differences, rapidly changing markets, competitors and technological changes mean less actual return on investment than had been planned (Huang and Kleiner, 2004). In acquired companies, 47 percent of executives leave within the first year, and 75 per cent leave within the first three years (Huang and Kleiner, 2004). People and cultural issues are the top factors in failed integrations (Galpin and Herndon, 2000; Bijlsma-Frankema, 2001).

Cultural incompatibility has been defined as the greatest barrier to successful integration, and it is the successful combining of corporate cultures that makes mergers and acquisitions work (Galpin and Herndon, 2000:3, 27; Shearer et al, 2001; Huang and Kleiner, 2004; Evans and Mendenhall, 2004). This plays a key role in the integration process, and consequently the overall success of M&As (Lodorfos and Boateng, 2006). The management style, culture and business background of China are different from those of western businesses, so the most important factor in any deal is that the two companies share a common culture of how to conduct business.

Despite the evidence that M&As often fail, they will continue to be popular (Gopinath, 2003). Business China, (2005) predicted that there will be more acquisitions in the next five years, but there will be limitations on this route, otherwise Chinese businesses will have to compete with the cash burning a hole in the pocket of the private equity funds.

**Suggestions**

Transnational M&As have become a shortcut for business expansion. They
constitute a time saving, low-cost and low-risk investment. Yet big is not always good. A failure of an M&A may cost billions of dollars and market value. Clearly, at current time, the problems of Chinese overseas M&As seem to outweigh the benefits. Liao (2007) finally suggested that the targets of Chinese overseas M&As must be selected carefully and dispassionately; companies should not be eager to embark on overseas activities if they are not prepared. As Gao, et al (2003) argued, suitable targets with valuable assets-brands, customer bases, technology, and channels-should be chosen for overseas M&As.

2.4 Conclusion

China’s economic and political reforms have supported capacity development (Richerzagen and Scholz, 2008). However there are still some problems, such as inefficient SOEs and poor IP rights. The economic and policy systems need thorough reform, yet this is not easy. As Sorrell (2007) pointed out, the problems of an inefficient state-directed capitalist economy, achieving balanced growth and the need for the banking system to develop state enterprises cannot be overcome. For China, there is a long way to go.

Previous literature has not only analyzed the status and problems of Chinese branding, but also suggested countermeasures. Previous studies have mainly concentrated on two ways of Chinese brand building: organic growth and buying assets through overseas M&As. A lack of global branding power and advanced technology are the two deficits which Chinese consumer-product manufacturers have to contend with (Wu, 2005). With regard to organic growth, Chinese manufacturers have to improve in two ways: first, to improve the functional characteristics of the product; second, to improve marketing and branding skills. China is expected to continue to grow as an economic
superpower. With continued economic growth and more international participation, Chinese manufacturing companies will doubtless develop their capacity to build strong brands. Yet as Wu (2005) argues, building these capabilities in-house and achieving organic growth requires billions of dollars and a long period of time. Overseas M&A is one way to grow, but currently most Chinese manufacturing does not have the capacity to go down this route.

Aside from the methods of organic growth and buying-in, the question of whether there is a strategy which Chinese manufacturers can apply to start building brands with their existing advantages, rather than merely competing with western brands on the functional level, needs to be raised. As one of the major producers and providers of services for the global market, China has a vast range of products. It is essential to find the right target market for Chinese products.

Competition in the domestic market is fierce due to the participation of foreign companies. Chinese companies rush into foreign markets, yet rarely consider their own enormous domestic market. Chinese manufacturers and enterprises might consider the huge potential of the domestic market before attempting to enter foreign markets. There are huge regional markets which are still untapped. In the developed regions of China, customers’ preference for foreign brands is a challenge for Chinese manufacturers. China’s per capital income has grown, yet it is still classified as low by world standards.

With the advantage of low price, local products still can win their own place in the domestic market. At this stage, another question needs to be raised: How can Chinese manufacturing companies develop in domestic markets, and how are Chinese products to attract domestic customers away from foreign brands?

The previous literature focuses on different single aspects of Chinese branding
elements. Each group of aspects reflects a particular aspect of Chinese branding, such as technological innovation, marketing and branding skills, customers’ buying behaviour for brands and government policies. Previous literature fails to fully cover the Chinese branding situation and its problems. No study has been carried out on a comprehensive analysis of the current issues in Chinese branding. In this chapter, various factors which may directly or in-directly influence Chinese brand building have been combined in order to provide the reader with some knowledge of the Chinese market and brand building.

China, an attractive market for foreign companies and brands, lacks its own brands. It is necessary to conduct research involving a holistic approach to explore the problems of the lack of brands within Chinese companies, in particular manufacturers. Based on the above findings from previous literature, a further investigation into the Chinese market and industries is now conducted to gain a deep and broad insight into Chinese brand building, investigating the links and interactions between different aspects of branding.
Chapter Three

Literature Review

3.0. Introduction

This chapter reviews the main literature, that is, the theories that have, over a period of time, been employed to explain the paradigm shift in brand management in the last two decades. Brand management theories have been developed as a subject of theory since 1985, and this topic encompasses a substantial research field. Thus, this research looks to Heding et al’s (2009) recent publication as a guideline (Brand Management and Research, Theory and Practice). From a positivist paradigm with a more functionalistic brand perspective to an interpretive paradigm with a constructivist perspective, seven brand management approaches have been proposed by Heding et al (2009). All seven approaches have different perspectives on branding and how brands should be managed.

This chapter starts with a general discussion on the background of brands, branding and brand management. Then, the following sections discuss all seven brand management approaches individually, along with the key assumptions and theoretical background of each approach. It will also discuss how environmental drives and changes have triggered brand management evolution. Finally, it addresses the gap in current literature and the necessity of carrying out this research.
3.1 Brand Concept

The brand has been defined in many different ways depending on the perspective from which the brand is perceived by different academics (e.g. de Chernatony and Riley (1998; Keller, 2008). But the classical definition of brand from the AMA (The American Marketing Association) is linked to the identification of a product and the differentiation from its competitors, through the use of a certain name, logo, design or other visual signs and symbols.

*A name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers.*

AMA (1990)

A brand is a business asset and the value to a business of owning strong brands is incontestable (Ahmad, et al, 2003). The benefits of owning a brand are known and widely discussed. For example, the benefits that a brand can bring include: helping to create loyalty, defending a brand from the threat of competition, communicating features and benefits and creating a character for the product (Cunningham, 2006; Vranesevic and Stancec, 2003).

The concept of brand evolved in the 18th century when manufacturers’ names used to be identified with products. In the 1980s, the value of brands was ironically brought to the attention of marketers by the financial community when some companies (e.g. Suchard’s and Nestle’s fight for the ownership of Rowntree) added the value of their brand to their balance sheet. According to De Chernatony and McDonald (2003), manufacturers learnt from the market of mass-produced consumer goods that products labeled with a trusted brand could be sold at a premium price. However, brand management theory emerged in 1950s and has been developing as a subject of theory since 1985.
(Bjerre et al, 2008).

There are various reasons for the growing interest in brand management: the high costs associated with the launching of new brands and the high failure rate of new products (Cawford, 1993; Ourusoff, 1992) as well as the increasing costs of advertising and distribution (Aaker, 1991). Evidently, building strong brands is one of the most important strategies for a successful business (Gao, et al, 2006), and it is considered as the best way of doing business because of the constant changes in the marketing environment (Aaker, 1996; Lannon, 1993; King, 1991). There are many global brands which are operated and managed successfully, and there are very good examples which prove the value of brands, such as Coca Cola, Nike and McDonald's.

The modern world and markets are moving fast and can change overnight, and although brand building is not the answer to all the problems facing businesses today, as Miller and Muir (2004) have argued, brands help businesses build and maintain market share and therefore profits. A brand is an intangible asset to firms and has a positive impact on the survival of their foreign subsidiaries (Delios and Beamish, 2001). It can be summarized as ‘who owns the brand owns the wealth’ (Cass Creative Report, 2004).

Aside from the business perspective, brands also play a crucial role from the consumers’ perspective. With a brand identity, the consumer can assign responsibility to a particular manufacturer, and brands also allow consumers to lower search costs for products both internationally and internally from an economic perspective. Brands are diverse and offer different benefits in different ways to different consumers at different times (Ambler, 1997). In a word, brands not only provide economic value for money for consumers, but also solve consumer problems and provide psychological satisfaction with the requisite quality of products. Mody-Kamdar (2005) highlights why brands
really matter for both consumers and manufacturers (Chart 3.1).

Chart 3.1 Importance of Brands from Consumer’s and Manufacturer’s Perspectives

<table>
<thead>
<tr>
<th>Consumers</th>
<th>Manufacturer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of sources or products</td>
<td>Means of identification</td>
</tr>
<tr>
<td>Assignment of responsibility to product maker</td>
<td>Means of legally protecting unique features</td>
</tr>
<tr>
<td>Risk reducer</td>
<td>Signal of quality level to satisfied customers</td>
</tr>
<tr>
<td>Search cost reducer</td>
<td>Means of endowing products with unique associations</td>
</tr>
<tr>
<td>Promise, bond</td>
<td>Source of competitive advantage</td>
</tr>
<tr>
<td>Symbolic device</td>
<td>Source of financial advantage</td>
</tr>
<tr>
<td>Signal of quality</td>
<td></td>
</tr>
</tbody>
</table>

Source: adapted from Mody-Kamdar (2005)

A brand is what a company stands for; it is a set of promises that a company presents to consumers and that consumers can have a relationship with. ‘Most brands are why a company exists, and not the other way around’ Davis (2000:4).

3.1.1 Global Branding

Theodor Levitt (1984), of Harvard Business School, highlighted in his article ‘The Globalization of Markets’ that companies should grow by selling standardized products all over the world, and he argued that developing global products and brands is the key to success for a company in an integrated world.
Since then, international marketers have increasingly focused on the importance of global brands. The benefits of owning global brands have been outlined by many academics (e.g. Kelz and Bolch, 1993; Quelch, 1999) and they include lower costs, cultural benefits for the company and added value for customers.

Creating global brands certainly has a positive impact on a company’s ability to compete on a global scale although some academics argue that the strategy of universal standardization appears naive and over simplistic (Douglas and Wind, 1987; Aaker and Joachimsthaler, 1999; Holt et al 2004). For example, Douglas (1987) argues that global brands may only be appropriate for certain segments, not for all markets, and that globalization strategies ignore customer behaviour and market characteristics in different markets, particularly with regards to cultural aspects (Holt et al, 2004).

Due to the pitfalls of a globalization strategy and global brands, Holt et al (2004) further suggested that a ‘glocal’ strategy is needed to lead the marketing. A ‘Glocal’ strategy leads companies to operate on a global scale with customized product features, communications, distribution, and selling techniques in different markets. Aside from the debate over the benefits and pitfalls of global branding, how a consumer associates with global brands has been another topic of interest for academics and practitioners. In 2002, Holt et al (2004) carried out a study with Research International-USA to investigate how consumers in different countries value global brands. The key characteristics associated with global brands by consumers were identified by a study in 41 countries, then the relative importance of those dimensions was measured among 1,800 people in 12 countries. The research results illustrate why consumers all over the world pick global brands. Three characteristics that consumers associate with global brands were identified: quality signal, global myth and social responsibility. Perceived quality is the most important
factor for consumers when picking global brands. Consumers believe that (Global) brands have always been associated with good quality products or services. Furthermore, global brands help consumers to create an imagined global identity, making them feel like the citizens of the world. They look to global brands as ‘symbols of cultural ideals’ (Holt et al, 2004:3). On the other hand, consumers expect companies to address social responsibilities with what they sell and how they conduct business. Meanwhile, considering the top ten global brands from the global brand rank list published by Financial World magazine in 1997, Quelch (1999) identified seven common features in all of those ten global brands (Table 3.1):

Table 3.1. Common features of top ten global brands

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feature 1</td>
<td>Strong in home market</td>
</tr>
<tr>
<td>Feature 2</td>
<td>Geographical balance in sales</td>
</tr>
<tr>
<td>Feature 3</td>
<td>Addresses similar consumer needs worldwide</td>
</tr>
<tr>
<td>Feature 4</td>
<td>Consistent positioning</td>
</tr>
<tr>
<td>Feature 5</td>
<td>Consumers value the country of origin</td>
</tr>
<tr>
<td>Feature 6</td>
<td>Product category focus</td>
</tr>
<tr>
<td>Feature 7</td>
<td>Corporate name</td>
</tr>
</tbody>
</table>

Source: Quelch (1999)

Academics and practitioners have continually debated how global brands may compete with more focus on ‘glocal’ strategy. Building brands and global brands has played a significant role in the integrated market worldwide. Brand management has also been closely studied by academics such as Aaker, Keller and Kapferer. Some key concepts have been introduced into brand management. For example, advertising and marketing practitioners adopted the idea of personality from 1958 (e.g. Martineau, 1958; King, 1970; Plummer,
1985) before academics studied and accepted the concept (Azoulay and Kapferer, 2003). Ogilvy (1951) introduced the concept of brand image; Ries and Trout (1980) published ‘Positioning: the battle for your mind’ eight years after their original positioning article was published in Advertising Age magazine. The most common classification in brand equity was proposed by Aaker (1991), thereby taking branding to new heights.

3.1.2 Branding in M&As

Mergers & Acquisitions (M&As) are not new and have played an important role in business and research for a considerable time (Cartwright and Schoenberg, 2006; Nahavandi and Malekzadeh, 1994). According to Golbe and White (1987):

A merger or acquisition usually constitutes an act of investment by the purchasing firm or individuals. But a merger or acquisition is an exchange of existing assets (a purchaser pays cash for the plant, equipment, personnel, and goodwill of an existing firm); whereas investment flows (at least, as defined by the GNP accounts) involve the creation of new plant and equipment. (p40).

M&As have become a popular strategy and a fast track to organizational growth and expansion (Seth et al, 2000; Buckley and Ghauri, 2002; Shimizu et al, 2004). Through M&As, organizations may expand into new products or markets, renew their market position at a speed not achievable through internal development and also purchase new technology platforms (Harrison, 2002; Mamdani and Noah, 2004). Meanwhile, research indicates that M&As can induce innovation (Prabhu et al, 2005), which leads to higher firm and brand
values (Pauwels et al, 2004). Many research findings claim that many large diversified companies, especially large multibusiness companies, place a strong relative emphasis on the acquisition as a strategy for growth (Lamont and Anderson, 1985; Poter, 1987).

However, unsatisfactory results and high failure rates associated with acquisition have also been reported by academics (e.g. Poter, 1987; Fowler and Schmidt, 1989; Hopkins, 1987, Mueller, 1985, Swystun, 2001; King et al, 2004; Langford and Brown III, 2004; Du, 2009), with outcomes such as declined performance and market position, unmet objectives, negative returns etc. Despite a high failure rate in creating value, which has been reported by 40%-60% (Bagchi and Rao, 1992, Carwright and Cooper, 1995; Bower, 2001), M&As are still preferred as a fast growth strategy by many companies.

Meanwhile, much research has focused on three stages of M&As including pre-merger, the merger and post-merger (e.g. Cartwright, 2005; Larsson and Finkelstein, 1999; Cartwright, 2005; Schweiger, et al. 1994; Cording et al 2008). However, as Homburg and Bucerius (2005) have argued, ‘Marketing is cited to be decisive for company performance’ yet marketing issues are broadly ignored in the M&A context and literature. Hombury and Bucerius (2005) have underscored that more research attention should be paid to marketing-related research in M&As.

The notion of brands as a valuable strategic asset for companies has also been ignored by current M&A literature (Jaju, et al., 2006). Only a few studies have focused on the importance of brand integration and the mechanisms that brand value drives through M&As for example Vu et al., (2009) and Bahadir, (2008). An example provided by Bahadir et al. (2008 in Yang et al, 2012:441) affirms that ‘brand value gains recognition in up to 50 per cent of the mergers transactions examined’. Recent studies have argued that branding can
contribute to M&As (e.g. Mizik et al, 2011) and that it has potential impact on value generation ‘through increased brand equity and clear strategic direction for future development’ (Mizik et al, 2011 in Yang et al 2012:441). Nevertheless, there has been a lack of attention paid to branding associated with changes. In addition, the branding strategy theory in M&As needs to be addressed further (Yang et al, 2012). The integrated model of branding –M&A has been developed by Yang et al (2012). (Figure3.1).

Illustration 3.1 The Integrated model of branding-M&A

As Yang et al (2012) argue, the decision maker should align brand and merger integration with corporate vision and implementation, and should have a ‘comprehensive thinking process of integration to consider all factors from pre-M&A and forward branding to backward branding and post-M&A’ (p.443). The corporate version and integration between band and merger have led to the
above model which will assist a company to rearrange their value to stimulate progress in the long term with the input of something new, such as technology, new brands and new management methods (Yang et al, 2012). A vision-led implementation of integration will have positive effects on the success of M&As, but more focus on branding and M&A research should be considered.

In practice, Kumar and Blomqvist (2004:20) claim that most companies engaged in M&As ‘have not devoted the attention to brand consideration that is commensurate with their importance in all phases of the deal process’. A brand as an intangible asset requires special acquisition practices – ‘for targeting, due diligence, valuation, portfolio strategy, and the post-merger management process’ (p.20). Finally, Kumar and Blomqvist (2004) concluded that taking brands into consideration at the outset of a transaction would result in a stronger, more sustainable competitive advantage for a company to drive an increase in shareholder value.

3.2 Brand Management Development

There have been notable shifts of emphasis in brand management. In the past the function of marketing was restricted to developing, promoting and supplying products that would keep customers happy. However, increasing consumer expectations of brands has led marketing to evolve and go beyond its transactional role, and marketers have to explore and understand the behavioural habits of consumers in order to improve their brand building (Keller, 2003). Over the past two decades, many academics have investigated this, from functional marketing to relationship marketing and social relationship marketing. Brand development has shifted from the individual ‘micro’ level to the social and cultural ‘macro’ level. Heding et al (2009:22) have analyzed more than twenty years of brand management practice, and
Seven brand approaches have been described as the ‘mountain peaks’ along the way. In their studies, band management has been divided into three periods. The first period of time is 1985-1992, the second is 1993-1999 and the last one is from 2000 onwards (Fig. 3.1).

Source: adapted from Heding et al (2009)

Seven brand management approaches have been presented in today’s brand management, and each approach naturally focuses on different aspects. The following sections discuss three periods of brand management practice with seven brand management approaches.
3.2.1 1985-1992 Company/Sender Focus

At this period of time, brand management was important from a company’s perspective in terms of what a company would do to influence consumers. The traditional marketing mix theory - 4Ps - product, place, price and promotion have been a major strategy long used by companies to manage their brands and to affect consumers’ brand choice. Brand communication is in a linear fashion from the company to the consumers. Research during this period focused on the company as the sender of brand communication (Heding et al, 2009). The economic approach and the identity approach were formulated in this period.

3.2.1.1 The Economic Approach

Introduction and Assumption

The brand is part of the traditional marketing mix in the economic approach. The economic approach appeared in early marketing from the 1950-1960s (Ydelson, 1999; Constantinides, 2006) and it is still often used today in the practical field of branding and marketing (Grönroos, 1994; Constantinides, 2006). The Four Ps was adopted by brand management from marketing, and much research focus was directed towards exploring how different factors of the marketing mix affect consumers’ brand choice during the mid and late 1980s (Heading et al, 2009). Branding in the economic approach is to make a company’s products stand out from the competition, but a brand itself does not have a certain emotional value. There was arguably no interaction between brands and consumers. It was assumed in the economic approach that the brand can be controlled and managed by the company, which means the right marketing mix will build successful and strong brands. As Heading et al
(2009:23) highlight, “The marketer is definitely in charge of brand value creation, and hence consumers are believed to ‘receive’ and understand the message ‘sent’ to them from the marketer exactly as intended”. The creation of brand value in the economic approach is influenced by changes in distribution channels, price, modifications and promotions; the economic consumer bases consumption decisions on rational considerations. The exchange between brand and consumers is assumed to be an isolated, tangible transaction, rather than an on-going relationship.

Theoretical Background

In the economic approach, the marketer is the owner of the brand and the consumer is a rational thinking, passive receiver (Fig.3.2). The consumers act as ‘economic man’, whose purchasing decisions are rational, and conscious economic calculation is driven by self-interest (Zaichkowsky, 1991). For consumers, they do not have enough information or accessibility to all choices available and the switching cost is high when switching to other solutions. The barriers to choosing the optional solution are called transaction costs (Heding et al, 2009). The economic approach is rooted in transaction cost theory. The barriers which can slow down the transaction are described in transaction cost theory, which places great emphasis on the next transaction by elimination or breaking down these barriers. Marketing or 4Ps is used to overcome these barriers, and it is the best known way of thinking through plans for a product or service in the market, and to attract the people that the company is targeting.
The identification of market segments as being the most likely purchasers of a company’s products, and the manipulation of the marketing mix, can be more delicately tuned to the needs of potential customers. Therefore, the marketing mix is considered as the appropriate tool to manage brands, as Heding (2009:41-42) summarized: ‘From an operational viewpoint the marketing mix toolbox is still relevant and beneficial for the brand manager to know about—especially if he or she is aware of its strengths and limitations.’

The concept of a marketing mix is one of the fundamental ideas of marketing, which was introduced by Borden when he referred to the mixture of elements useful in pursuing a certain market response, after Culliton had described the marketing manager as a ‘mixer of ingredients’ (Borden, 1964). In a relatively short time, the ‘Marketing Mix’ has come to have wide usage. Borden has employed a list of the elements of the marketing mix in a visual presentation of the concept of the marketing mix, which includes twelve important elements/ingredients that make up marketing programs in terms of: product
planning, pricing, branding, distribution channels, personal selling, advertising, promotions, packaging, display, servicing, physical handling, fact finding and analysis. It requires marketers to adjust in their search for a mix of programmes that can be successful (Borden, 1984).

Various authors, such as Lazer and Kelly (1962), Frey (1961), McCarthy (1960) and Howard (1957), have developed more succinct and convenient classifications of marketing activities which could be easily memorized and systematically diagrammed, but only McCarthy’s 4P formula has become the ‘dominant design’ or the ‘received view’ (van Waterschoot & den Bulte, 1992:). McCarthy grouped Borden’s twelve ingredients into the four categories which include produce, price, place and promotion. Later, 4P has become the most cited and the most often used classification system for the marketing mix, both in marketing literature and practice.

In the economic approach, marketers using 4Ps to subject to the internal and external constraints of the marketing environment, with the goal of making decisions that centre the 4Ps on the customers in the target market, in order to create perceived value and to generate a positive response. Practically, the 4P scheme has been an extremely useful device for practitioners and students to structure management tasks and marketing plans. On a theoretical level, van (1994) criticized the 4P scheme, suggesting it ‘appears to be much less fruitful’ than believed. There is an ongoing debate surrounding the marketing mix as a marketing management tool, including authors such as Reidenbach and Olivia(1981), Sheth et al (1988), Wind and Robertson (1983), van Waterschoot and van den Bulte (1992). Finally, Constantinides (2006) pointed out that all the debate was fought on a theoretical rather than an empirical level due to the ‘lack of reliable research data on the way the Mix is used by practitioners dealing with marketing problems, as well as a lack of data about the exact effects of the Ps on the success or failure of marketing programs (p.430)’. Two
limitations seem to be common in all reviewed categories, namely ‘the module’s internal orientation and the lack of personalization’ (2006:430).

Although there are some flaws in 4P, such as the lack of an interactional element, in the early days of the marketing concept the marketing mix framework was particularly useful for marketers to build and manage their brands, since physical products then represented a larger portion of the economy. Additionally, perhaps because of its simplicity, the use of the 4P framework still remains strong, and many marketing textbooks have been organized around it. However, as Heding et al (2009) highlight, although the economic approach is a suitable planning and execution tool in brand management, it cannot stand alone if one wishes to ‘reap the full potential of brands and brand management (p.45)’.

3.2.1.2 The Identity Approach

Assumption

In the late 80s and early 1990s, Peter Behrens’s philosophy – ‘the product, design and communication should express one unified identity’ - begun to take shape in brand management, laying the ground for the identity approach (Heding, et al 2009). Behrens, one of the most influential 20th-century German designers, was appointed by AEG in 1907 to be ‘Artistic Consultant’. He was in charge of designing sales rooms, catalogues, price lists, thus using design for the first time to create a unified appearance as a sign of corporate identity.

According to Heding et al (2009), the definition and conceptualization of the identity approach was the only approach described as practitioner-led, which is based on practical experience from the use of the identity concept as a
management tool rather than the result of ‘a single comprehensive breakthrough study’ (p48). The corporation is pivotal for the creation of brand equity in the identity approach (Figure3.3).

The key assumption of the identity approach in brand management is that all marketing and communication activities should be integrated, aligned and elevated from a product-focused and tactical level, to a strategic, corporate level. As Heding (2009) highlights, only in an integrated way will it be possible to create a coherent company experience for consumers. As Schults and de Chernatony (2002:28) underscore, ‘The general aim of corporate branding is to build a sustainable bond between the branded company and its customers through a clear value proposition’.

As businesses move toward globalization, the marketing emphasis shifts from product brands to corporate branding (Dowling, 2001; Hatch and Schultz, 2001; Keller, 2000; Balmer, 1995; Aaker, 1996). Corporate branding accommodates the weaknesses of product branding, which has been criticized for having an overly narrow, external perspective, detached from the organization behind the products (Heding, 2009). Customers have become more sophisticated and markets have become more complex. It is difficult to maintain credible products and services, and the fragmentation of traditional market segmentations ensues. Companies can no longer base their strategy on a predictable market or a stable, preferential product range; the ground rules for competition change. To differentiate the company itself from others, positioning was required, not of the product but of the whole corporation. As Hatch and Schultz (2001) state, ‘Accordingly, the values and emotions symbolized by the organization become key elements of differentiation strategies, and the corporation itself moves center stage (p.1041)’.

In Hatch and Schultz’s study (2001), they demonstrate that support for the shift
to corporate branding often comes from within marketing. Within marketing, branding and corporate identity studies they find a growing awareness that corporate brands can increase the company’s visibility, recognition and reputation in ways not fully appreciated by product-brand thinking. In their summary, ‘The corporate brand contributes not only to customer-based images of the organization, but to the image formed and held by all its stakeholders, including employees, customers, inventors, suppliers, regulators, social interests and local communities (p.1042)’. In the identity approach, the brand expresses one unified and coherent identity, internally as well as externally, by using the visual and behaviour identity of the corporation to build the brand (Heding, 2009). Here, the brand-consumer exchange is expanded to a focus on all potential stakeholders, not only interaction with consumers.

It is believed that management still has a direct influence on corporate communications. For example, as Elliott and Percy (2007) described, the major influence on corporate image are employees, who in turn are influenced by management, yet management may also have a direct influence on image through corporate communications. After reviewing the discussion of the extent to which communication between brand and receiver (here all stakeholders) is linear or the result of a dialogue, Heding et al (2009) show that it was believed in the early stage of the identity approach that brand identity could be managed and controlled entirely by the corporation and the exchange between the brand and the consumer was perceived to be linear. However, recent developments have broadened that perception and it has been acknowledged that identity cannot be communicated linearly but is the result of negotiation between internal and external shareholders.

**Theoretical Background**

As the core theme of the identity approach, brand identity is made up of four
components, namely organizational identity, corporate identity, image and reputation (Fig. 3.3). Internally, corporate identity and organizational identity are supporting theories representing theory that is used for the creation and maintenance and research of brand identity. Externally, image and reputation, represent theories used to build, manage and research brand identity (Heding et al, 2009). A mixed method is used in the research of the identity approach. Internally, corporate identity (visual and strategic) and organizational identity (behaviour and culture) are rooted in ethnographic and anthropological methods, while externally the element’s image and reputation combine methods stemming from cognitive and social psychology.

![Figure 3.3 Brand identity: the core theme and alignment frameworks of the identity approach](image)


In the Hatch and Schultz (2001) framework for understanding corporate branding as underpinned by processes linking strategic vision, organizational
culture and corporate images they highlight that:

‘Organizations that succeed in establishing a corporate brand based on the integration of their vision, culture and image are better equipped to compete in conditions of unsustainable product differentiation created by globalization and fragmenting markets than are those that rely on products branding or conventional products-focused marketing(p.1057)’.

Heding et al (2009) further addressed the alignment of these elements – strategic vision, organizational culture and stakeholders’ images – which are comparable to the four supporting themes, requires that attention be paid to all three element simultaneously. An alignment analysis model was proposed by Hatch and Schultz (2001) to identify key problem areas where gaps arise between the component parts. An analysis of identity gaps is conducted concurrently to ensure an ongoing alignment of the strategic elements, which is the key to the creation of brand identity. As Elliott and Percy (2007) suggest, a key issue in this analysis is to understand who the organization’s stakeholders are, and what their relative needs are. The action plan will be carried out after identifying gaps between those elements (Figure 3.4).
Hatch and Schultz (2001; 2003) have contrasted the nature of corporate brands with product brands. They have pointed out that the organization features more strongly and explicitly in corporate brands, and it is more complex in corporate branding than product branding. Corporate branding is simultaneously strategic (vision), has implications for organizational behaviour (culture) and must be far more attentive to and communicative with the way it is seen by all of its external stakeholders (images). The corporate brands are more likely to be more central and strategic, and controlled by higher-level management, such as the Chief Executive Officer.

Apart from Hatch and Schultz’s perspective, Merrilees and Miller’s (2008) summarized other literature which contrasts corporate brands with product brands. For example, Bergstrom et al., (2002), Gapp and Merrilees, (2006) and
Vallaster and de Chernatony (2006) have emphasised that another way of expressing the organizational aspect is to underscore the role of internal processes or internal branding as part of corporate branding. De Chernatony (2002) and Urde (2003) have argued that corporate brands are likely to be more abstract, representing a higher-order value compared to more functionally based products. Finally, Balmer and Greyser (2002) have summarised that corporate brands are more complex, with potentially different brand meanings across different stakeholders. Useful frameworks for integrating components of corporate branding have been introduced by Konox and Bickerton (2003) and Hatch and Shultz (2001; 2003).

All the above demonstrates that a move towards corporate branding may require an overall organizational restructuring, and the core of the restructuring effort will involve closer cooperation between marketing, communication and HRM, but in the end will touch all aspects of the business since everyone is required to support the corporate brand. The consistency in identity demonstrates unity and brings the power of oneness. However, a misalignment in identities can weaken the common meaning and value of the brand, and can also weaken the consumer experience, because consumers seek experience in order to make up their minds.

### 3.2.2 1993-1999: Human/Receiver Focus

Following the period 1985-1993, research into the receiver of brand communication entered a new phase. The receiver of communication has been investigated in new and groundbreaking research articles and knowledge from different veins of human psychology have been adapted to brand management theory (Heding et al, 2009). As Heding et al (2009:23) outlined, there are two sides of human perspective: *The consumer is investigated closely, and*
different human brand perspectives are coming into play’. Three approaches were formulated in this period, namely the consumer-based approach, the personality approach and the relationship approach. The following section will discuss these three approaches in detail.

3.2.2.1 The Consumer-Based Approach

Assumption

Before 1993, the discipline of brand management suffered from a lack of independence in relation to the parent discipline of marketing; the key notions of brand equity were frequently not even mentioned and certainly not defined in research articles on branding as Heding (2009:84) summerised ‘The academic discipline of brand management appeared rather immature and scientifically incomplete’. However, in the year of 1993 brand management was profoundly changed by Keller’s article ‘Conceptualizing, measuring, and managing customer-based brand equity’. In Heding et al’s (2009:84) words, Keller’s article ‘instigated a new way of relating to the more and more independent scientific discipline of brand management by its thorough discussion of the key term of brand equity’.

Brand equity research has received considerable attention (e.g. Aaker and Biel 1993; Smith and Park; 1992; Aaker, 1991; Leuthesser 1988). There are numerous definitions for brand equity in the literature, but they can be classified into two categories. In the first category, brand equity is based on the financial perspective and the value of a brand to the firm is stressed (e.g Simon and Sullivan, 1993; Mahajan et al, 1990; Brasco, 1988). In another category, brand equity is based on the consumer perspective, which defines brand equity as the value of a brand to the consumer (Rangaswamy et al, 1993; Kamakura
Keller (1993) presents a conceptual model of brand equity from the perspective of the individual consumer and he defines customer-based equity as the ‘differential effect of brand knowledge on the consumer’s response to the marketing of the brand (p.1)’. The brand is said to have positive customer-based equity when consumers react more favourably to a product and the way it is marketed when the brand is identified, than when it is not (Keller, 1993). Thus, a brand with positive customer-based brand equity might result in the consumers’ acceptance of a new brand extension, less sensitivity to price increases and the withdrawal of advertising support, or willingness to seek the brand in a new distribution channel. However, a brand will have negative customer-based brand equity if consumers react less favourably to marketing activity for the brand compared with an unnamed or fictitiously-named version of the product. The differential effect, brand knowledge and consumer response in marketing are the main ingredients of consumer-based brand equity.

In contrast to the economic and identity approach, in the customer-based approach the brand is analysed as residing ‘in the mind of the individual consumer as a cognitive construal’ (Heding et al, 2009:85).

In a consumer-based approach, it seems that the consumer is very much in control of the brand-consumer exchange, but as Heding et al (2009: 85;86) argued this is ‘not entirely the case’, because the consumer is seen and analysed through ‘a lens grounded in cognitive psychology and information economics’. The Computer is the central metaphor of man in cognitive psychology. The marketers are able to choose exactly the right brand elements and communicate them to a consumer, who will respond accordingly. Therefore, the linear communication here means that ‘the recipient of a message understands the message as intended by the sender’ (Heding et al,
Theoretical Background

The core theme in the customer-based approach is customer-based brand equity and two supporting themes are cognitive consumer perspective and the information-processing theory of consumer choice (3.5).

![Figure 3.5 Supporting themes and the core themes of the consumer-based approach](image)


In Keller’s definition of customer-based brand equity, ‘marketing’ relates to the marketing mix that focuses on consumer reaction to marketing actions, which is different from the economic approach as it
focuses on the management of marketing mix variables in order to affect consumer band choice (Heding et al, 2009). Two aspects are included in this approach: closeness to the consumer and creating strong brands via creating the optimal brand creation by the marketer. Cognitive psychology theory as a supporting theme focuses on the process from consumers being exposed to stimuli from their environment, how these stimuli enter the mind via the senses and how they lead to action (brand choice). Meanwhile, the information-processing theory of consumer choice has cognitive psychology as its point of departure, and focuses on explaining how consumers process information before reaching a consumption choice (Heding et al, 2009). Therefore, ‘building the highest possible degree of brand awareness familiarity is crucial for a successful brand’ (p.104).

As in other approaches, weaknesses exist in the customer-based approach. As Heding et al (2009:108) argue, the main problem of managing brands in this approach is that ‘focus on the consumer leads to a lack of organizational vision’. It is opposite to identity approach as identity approach lacks market sensing.

3.2.2.2 The Personality Approach

Assumption

The idea of personality has been adopted by advertisers and marketing practitioners since 1958 (e.g. Martineau, 1958; King, 1970; Plummer, 1985) academics studied and accepted the concept (Azoulay and Kapferer, 2003). In the personality approach it is assumed that
consumers consume brands because they contribute to their construction and expression of identity.

There was a considerable amount of attention given to construct brand personality psychology to conceptualize human personality, identify the 'Big Five’ dimensions and explore the meaning of each dimension (e.g. Goldberg, 1990). The methods and data used in the personality approach vary, depending on what the focus of the study is (Heding et al, 2009). However, Aaker (1997) has gained support and many studies (e.g. Ferrandi et al, 1999; Koebel and Ladwein, 1999) followed her work, and are based on her global definition of this concept: brand personality is ‘the set of human characteristics associated with a brand’.

Aaker (1997:347) realized that no ‘parallel research has been conducted in consumer behaviour on brand personality’ which refers to the set of human characteristic associated with a brand. In human psychology, personality is perceived as ‘the pattern in which individuals can be divided according to how they fairly consistently react to different environmental situations’ (Heding et al, 2009:119).

After analyzing previous research, Aaker (1997) developed a theoretical framework of the brand personality construct by determining the number and nature of dimensions of brand personality (Fig3.8). She developed an understanding of the symbolic use of brands in consumer behaviour. A reliable, valid and generalizable measurement scale was created to measure five brand personality dimensions (Sincerity, Excitement, Competence, Sophistication and Ruggedness). The examples of traits for the types of brand personalities are included in Figure 3.8. Aaker’s research findings suggested that brand personality dimension might operate in different
ways or influence consumer preferences for different reasons. For example, Aaker (1997:354) highlights that ‘whereas Sincerity, Excitement, and Competence tap an innate part of human personality, Sophistication and Ruggedness tap a dimension that individuals desire but do not necessarily have’. Aaker subsequently added that this premise is ‘consistent with the advertising created for prototypical sophisticated brands, in which aspirational associations such as upper class, glamorous, and sexy are a focus’.

Figure 3.6 A brand personality framework

Source: Aaker (1997)

Theoretical Background

The personality approach has drawn on theory and insights from the fields of human psychology and consumer behaviour research (Heding
et al, 2009). Brand personality describes brands in terms of human characteristics, and is perceived as a valuable factor in increasing brand engagement and brand attachment. It is believed that customers are more likely to purchase a brand if its personality is similar to their own personality. In brand management, three supporting themes (Fig. 3.7) have been enhanced to fit into the context of brand management and to provide theoretical input to the core theme - brand personality (Heding et al, 2009)

Three supporting themes of personality, consumer self and consumer-self congruence describe the basic concept of personality which draws on the field of human psychology, characterizing the main personalities according to which human beings can be categorized;
how consumers consume and choose a brand, based on their ability to contribute to their construction and expression of self; and the process of identification that takes place as the greater the congruence between the personality of the brand and the personality of the consumer the more likely is that brand personality to succeed (Heding et al, 2009). The personality is created when brand image or brand identity is expressed in terms of human traits.

In the personality approach, the primary focus for the brand manager is to build an attractive and relevant brand personality that can serve as a strategic tool to ensure a deep and long-lasting connection with consumers (Heding et al, 2009).

As outlined earlier, numerous marketing studies follow Aaker’s work, and many investigations are base on Aaker’s definition of brand personality (‘the set of human characteristics associated with a brand’). However, Azoulay and Kapferer (2003) argue that there are flaws in Aaker’s concept as they explain: ‘This definition comes as a direct heritage from practitioners’ early use of brand personality as a single all-encompassing convenient item in the advertising copy strategy to define all that is not product-related’. They continue that from the start although the word “personality” has a very specific meaning in psychology, ‘its use in branding had tended to be rather loose, and an all-encompassing pot pourri’. They argue that all those studies subsequent to Aaker’s are based implicitly or explicitly on this definition, and that they share the same flaw in their conceptual basis. Azoulay and Kapferer (2003) criticize the methodology Aaker (1997) adopted to gather the sources, and they further point out that the weaknesses and shortcomings in the current scale of brand personality
derive from its construction methodology that is itself embedded in a flawed concept definition.

Azoulay and Kapferer (2003) have attempted to analyse in detail the shortcomings of the existing definition and scales to measure the concept of brand personality. They argue that the existing measures for the construction of brand personality do not measure that construct and introduce conceptual confusion somehow measuring all the human characteristics applicable to brands, merging under one blanket word a number of key, distinct facets of brand identity. To conclude, they believe it is time to restrict the use of the concept of brand personality to a meaning which should never lose ‘the unique set of human personality traits both applicable and relevant to brands’.

Notwithstanding this criticism, many academics believe that a brand personality effect exists. For example, Freling and Forbes (2005:409) assert that: ‘A strong, positive brand identity leads to more brand associations that are favourable, unique, strong, and congruent – thus enhancing brand equity’. A product’s physical attributes and its brand personality are associated with higher brand attributes and purchase intentions. Different from the identity approach, the concept of brand personality combines inside-out and outside-in: identity and image. The personality has its roots in identity but is strongly externally focused. Therefore, brand management should focus on creating brand personality and using brand personality to bring brand strategy to life.

3.2.2.3 The Relational Approach

Assumption
Following the research on how consumers perceive and evaluate brands (Aaker, 1991; Aaker and Biel 1993; Keller, 1993; McQueen et al, 1993), and brand personality (Plummer 1985; Aaker 1997), research has further focused on how consumers relate to brands (e.g. Fournier, 1998; Muniz and O’Guinn, 2001). Previous research has attempted to understand the implication of forming such strong emotional bonds with brands and suggested that people sometimes form relationships with brands in much the same way in which they form relationships each with each other in a social context; this has gained some support from marketing practitioners (Aggarwal, 2004). Consumers are known to form strong relationships with those brands that have value and personality associations that are congruent with their self-concept, and brand relationships can be viewed as expressions of consumers’ identities (Escalas and Bettman 2005; Reed, 2002).

Swaminathan et al (2007) have summarised two streams of research on consumer-brand relationships. One stream of research has focused on self-connection, a dimension of the consumer-brand relationship, and has indicated the amount that the brand contributes to one’s identity, values and goals (e.g. Fournier, 1998). Furthermore, it is believed that a high self-concept connection can symbolize a consumer’s individual identity. Simultaneously, another stream of research suggests that brand relationships can furnish participants with a social identity (Weiss, 1974; Wright, 1974). The relationship approach focuses on the investigation of individual identity as Heding et al (2009) stated: ‘the relationship approach beats the drum for integrating knowledge of individual identity projects in the management of a brand’. Next, the culture approach (which will be discussed later) focuses on collective identity projects.
The theory of brand relationship is a continuation of theory about brand loyalty which is often closely linked with the sensation of a relationship. The importance of brand loyalty has been addressed in marketing literature by many academics for at least three decades (e.g. Chaudhuri and Holbrook, 2001; Dick and Basu, 1994; Aaker, 1991; Howard and Sheth, 1969). It is certain that loyalty plays an important role in brand equity, and it also leads to certain marketing advantages. As Heding et al (2009:152) point out ‘Creating brand loyalty is all about managing the brand-consumer exchange long-term, instead of a short-term exchange focusing on the transaction’. But while ‘brand loyalty is an expression of if a consumer chooses the brand on a continuous basis, applying the brand relationship theory offers explanations of how and why brands are consumed by loyal consumers’.

The relationship approach is a different approach from the personality approach, and it was the first approach to rely on purely qualitative research aiming to understand brand consumption via a deep and holistic understanding of the personal context in which the brand is consumed (Heding, et al, 2009). The development of the brand-consumer relationship is an on-going meaning-based exchange that is influenced by the same parameter changes as human relationships (Fig. 3.12).

In the consumer-based approach, the consumer is at the centre of the approach, but as discussed earlier the brand is perceived as being linked with associations in the mind of the consumer; however, the brand manager can also be seen as a ‘computer programmer’ programming consumers by applying the exactly the right cues and triggers to marketing communications (Heding et al, 2009). In the
relational approach, the consumer seems to be more the ‘owner’ of the brand than in the consumer-based approach. It is a significant step towards a new conceptualization of the brand as something ‘owned by the consumer’ (p.154).

**Theoretical Background**

In the theoretical building blocks of the relational approach, the brand relationship is the core theme; a further two supporting themes are Animism and Relationship theory (Fig. 3.8).

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**Figure 3.8 Supporting themes and core theme of the relational approach**

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The core theme of the relational approach, the brand relationship theory, was developed by Fournier (Fournier, 1998). The study investigated how consumers experience their relationship with brands.
This study contained breakthrough findings and clearly explained why and how brands establish different emotional bonds with consumers. The study highlighted that the relationships are purposive – they add and build meanings in a person’s life, and the brand helps us to create, maintain or transition to our key roles in life. Fournier (1998) has suggested analysing the Consumer-Brand Relationship under the logic of goal compatibility rather than the congruence between discrete attributes of products and image of personality traits. This is contrary to the classic theory of consumer behaviour, which focused on fragmented concepts of self (e.g. real-self, ideal-self, self-image).

The theory of animism (see Nida and Smalley 1959; Gilmore 1919; McDougall, 1911), according to Fournier (1998), provides insights into the specific ways in which the vitality of the brand can be realized in the relationship. Human relationship theory, another supporting theme in relational approach is an important factor ‘in all lives and deliver on life themes, life projects and current concerns. They are also process phenomena under the influence of many different sources (Heding et al, 2009:165)’.

The relational approach has been presented as a major paradigmatic shift in brand management; companies are increasingly adopting a relationship approach when designing or delivering their marketing activities. From an academic perspective too, Fournier’s relational approach has been quoted widely in almost all brand management publications (Heding et al, 2009). However, as Fournier et al (1998:44) argued ‘relational approach marketing is powerful in theory but trouble in practice’, because firms are attempting relational initiatives with all customers, without regard to the customers’ relational orientations (Arnold and Bianchi, 2001). Not targeting the right
consumer (Reichheld, 1993) or not evaluating the consumer’s relational orientation (Fournier et al, 1998) might cause consumer to feel stressed and manipulated by firms that attempt to engage them in this relationship (Arnold and Bianchi, 2001). Both the managerial implications and academic implications of the relational approach have been addressed by Heding et al (2009).

3.2.3 2000-2006 Cultural Approach

As macro-forces caused changes in manufacturing, consumers and brands, both marketers and researchers have accordingly changed their focus in brand management. For example, the increasing pace of technological change has affected how people obtain information and how they are influenced to believe one thing as opposed to another. New brand approaches have been formed towards brands and their meanings which now focus on the consumer’s own experiences and on how they build relationships with other people (Rindell, 2008). Rindell’s study has shown that companies do not control brand images and brand relationship to the degree that was previously the case, and as is supposed in the branding literature (Thompson, 2004). Therefore it is important for marketers to understand consumers’ view of brands, image and identities on an individual, social and cultural level.

This has led the owner of brands to have less control than they used to, thereby making it a real challenge to manage and to build brand equity. The marketers are no longer the brand’s promoter, but are more like its executive producer or curator. This emerging role, societal control, has led to the development of a theoretical framework. Two
approaches have been identified in this period of time: the community approach and the cultural approach (Heding et al, 2009).

3.2.3.1 The Community Approach

Assumption

The community approach relates to the relational approach but adds a social perspective to the relationship formed between brand and consumers. In the relational approach, the interaction between brands and consumers has been included to form brand value creation. The community approach includes a social perspective, where brand value creation also takes place between the customers and the brands, between the customers and the firm, between the customer and the product in use, and among fellow customers. As Heding et al (2009) indicate, a brand community exists only when there is interaction between at least two consumers.

Consumers form a community around the brand, which then becomes their focal point of interaction where they share brand experiences and brand stories. In the community approach, members of a brand community are characterized by communal self-awareness and self-reflexivity towards their interests, and the admiration of a brand connects community members. The community approach is more about managing communities around brands rather than managing brands. The brand community provides an insight for brand managers on how the consumers create the meaning of the brand; the members of community are a source of feedback and can even serve as a ‘grass-root R&D’ (Heding et al, 2009). Community members are most often
highly loyal users of the brand, but as Munia and O’Guinn (2001) argue, the members of a community can also reject the brand community of the company collectively due to their collective nature.

The community strategy has been increasingly considered in both practice and academic research. Muniz Jr. and O’Guinn (2001) have provided a modern definition for the term “Brand Community” as well as a description of the common characteristics inherent in the Brand Community. The community approach is influenced by Muniz and O’Guinn’s (2001) article ‘Brand Community’, where brand community is a specialized, non-geographically bound community, based on a structured set of social relationships among admirers of the brand. Many academics then have focused on how brand community creates value for both the company and their customers (e.g. Schau et al, 2009; Wiegandt, 2009).

**Theoretical Background**

In the community approach, the core theme is brand community. The theory about communities and subcultures of consumption are two supporting themes (Fig. 3.9)
The community, according to Munia and O’Guinn (2001), is ‘*a core construct in social thought*’ (p.412) and it was a prominent concern of the great social theorists, scientist, and philosophers of the nineteenth and early twentieth centuries and has continued to be discussed among contemporary contributors (e.g. Putnam, 2000; Etzioni, 1993; Bellah et al, 1985; Boorstin, 1974; Royce, 1969; Wirth, 1938; Durkheim, 1893; Dewey, 1927). However, as Hummon (1990) argues, for a century and a half the community has been a staple of political, religious, scholarly and popular discourse. Meanwhile the marketplace community has been described by Boorstin (1974:89) as consumption communities and he characterizes them as ‘*invisible new communities ... created and preserved by how and what men consumed*’.
Another inspiration for brand community theory is subcultures of consumption, first conceptualized in 1995 by Schouten and McAlexander (1995). As Heding et al (2009:187) argue the research findings have ‘added social interaction to concepts like consumer loyalty, brand meaning etc., and have inspired a whole new stream of research into the social aspects of consumption’.

The core theory – the idea of Brand Community, was introduced and defined by Muniz and O’Guinn. A brand community is fundamentally based on three defining characteristics: consciousness of kind, existence of shared rituals and traditions and a sense of moral responsibility (Fournier, 1998& 2005; Muniz and O’Guinn, 2001). As Heding et al (2009:187) argue, a community does exist in theory only if these characteristics are present.

The first characteristic is consciousness of kind; this refers to the intrinsic connections that members feel towards one another, an existence of shared rituals and beliefs and a sense of moral responsibility, whilst it also refers to the sense of belongingness to an imagined community of people who sort of “know” each other. In a brand community the consumers have an opportunity to experience consumption with the brand and also share that experience with other users of the brand.

In the brand community, rituals and traditions perpetuate the community’s shared history, culture and consciousness. Ritual and belief are predominantly related to the brands: the usage of the brand, the occasion of use of the brand, the associations with the brand,
knowledge about the brands and willingness to participate in brand-related activity. The rituals and beliefs are decided upon by the users of the brand and also the makers of the brand. Therefore, creating rituals and beliefs would enhance the involvement and participation of the members with the brand, which would in turn help the company to build loyalty.

A sense of moral responsibility is felt as a sense of duty or obligation to the community as a whole, and to its individual members, and is what produces collective action in times of threat to the community. A sense of moral responsibility is created by the usage of the brand. In the brand community, members may help others to realize the full potential of the brand, share product knowledge and to screen prospective members through their knowledge of the brand, passion of the brands and the extent to which they identify with the community. They are not only loyal and protective towards the brand, they are also superb disseminators of the brand’s story and superior benefits, as well as recruiters of new consumers.

Therefore, if any brand action goes against these markers, the community can perceive this as a violation of the relationship contract between brand and community, making the community act collectively against the brand (Muñiz and Schau, 2007). As many scholars argue (e.g. Bhattacharya and Sen, 2003; Taylor, 2000; Luedicke and Giesler, 2007), brands may establish a pool of loyal customers, but they may also dissatisfy or even alienate other significant parts of the market place; no one brand can be all things to all people. Similarly, Muñiz and Schau (2007) argue that the collective
nature might lead members to collectively reject the brand communication of the company.

When managed properly, a brand community, as Wiegandt (2009) argues could enable companies to increase the brand loyalty and word-of-mouth communication of their customers, and additionally create value for both the company and their customers. However, Patterson and O’Malley (2006) assert that not every brand can trigger the development of a brand community, and only those brands that display strong elements of religiosity, utopianism, authenticity and narratives are likely to establish a successful brand community.

Many academics, conversely, believe that it is possible that a brand community may develop around any brand (e.g. Sicilia and Palazon, 2008; Muniz and O’Guinn, 2001; Hill et al, 1998; Schouten and McAlexander, 1995). As with other approaches, the community approach implies good along with bad. Many scholars have acknowledged possible threats from brand communities (e.g. O’Guinn and Munia, 2005; Cova and Pace, 2006) (Table 3.1).
Table 3.1 Some problems that brands may have to face from their own brand communities.

<table>
<thead>
<tr>
<th><strong>Oppositional brand loyalty</strong></th>
<th>The brand community’s focal point is essentially its opposition to another brand and its own community</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketplace legitimacy</strong></td>
<td>Brand community members may perceive themselves as the only true bearers of the brand’s meanings; questions are raised about who is ‘allowed’ to consume the brands.</td>
</tr>
<tr>
<td><strong>Desired marginality</strong></td>
<td>In a similar fashion to marketplace legitimacy, brand community members might want to keep the community and the brand small and marginal in order to retain the brand’s authentic spirit.</td>
</tr>
<tr>
<td><strong>The politic-brand</strong></td>
<td>When a brand community is based on a heavily politicized brand.</td>
</tr>
<tr>
<td><strong>The abandoned brand community</strong></td>
<td>It is a brand community that is developed around a brand that has been abandoned by the company that created it.</td>
</tr>
</tbody>
</table>


One major pitfall for a company managing their brand community is when they try to control too much, especially when consumers usurp the role of marketing professionals to decide the brand’s future (Cova and Pace, 2006). It is a formidable task for marketers to manage their brand community in this modern, super-antagonistic market environment.
3.2.3.2 The Cultural Approach

Assumption

The changes in the economy, consumer values, technology, media and lifestyle behaviours have led brand management to refocus from brand management to cultural management. Globalization has also contributed to this shift in brand management. Maintaining relevance in a culture makes brands perform better, for example Starbucks, who are often referred to as a cultural icon or a brand icon (Heding et al, 2009). McDonald’s have influenced eating habits in many countries (O’Guinn and Muniz, 2005). A brand is seen as a cultural artefact in a cultural approach that gives life to both a fierce anti-branding discourse, and to the theory of how to build an iconic brand. Moving from managing a brand to managing culture around a brand also requires a shift in marketing capabilities.

The cultural approach has borrowed from the scientific tradition of cultural studies and makes use of a wide variety of qualitative methods (Heding et al, 2009). The cultural branding approach was primarily introduced by Holt (2002; 2004) in his article ‘Why do brands cause trouble?’ and ‘How brands become Icons’. Holt has compared his ‘Big Idea’ with other branding models such as The Mind-Share Branding model, Emotional Branding and viral Branding models, which he believes cannot entirely explain the success of iconic brands such as Nike and Apple. Through his investigation of many iconic brands, Holt has developed the cultural branding model and he has proved that the iconic brands beat the competition not solely by delivering
innovative benefits, services, or technologies, but by forging a deep connection with the culture. In other words, consumers are embedded in and influenced by the surrounding culture; the brand value is created through ‘playing an active role in mainstream culture’ (Heding et al, 2009:211).

Holt’s theory argues that brands that attain the status of icons in consumer society operate at the cultural level, and iconic brands offer myths that help people to resolve the contradictions of society. The iconic brands are built through advertising, mainly TV-commercials, but are co-authored by cultural industries and populist worlds. Because Holt believes that myths are grounded in a populist world, consumers think that they can bring some of the value of that specific populist world into their own lives by consuming the products (Holt, 2004). As he argues, the theory of cultural branding supplants prevailing marketing paradigms, and it consistently demonstrates why some marketing campaigns succeed while others fail.

Theoretical Background

Holt’s theory on how brands become icons serves as the core theme in the cultural approach. As distinct from the relational approach, which focuses on an understanding of individual identity as an important contributor to brand meaning, the cultural approach focuses on understanding consumers’ identity at a (macro) collective level (Heding et al 2009). Holt’s brand icon theory actually relates to McCracken’s (1986) theory of cultural consumption, which indicates that the goods not only have a utilitarian character, but are also able to
carry and communicate cultural meaning. McCracken’s theory serves as a supporting theme in the cultural approach theory (Fig.10). The notion is of culture and consumption operating as a system in theory, and the value has been transferred from the cultural constituted world to consumer goods, continuing down to the individual consumer via the advertising and fashion system, and incorporate the individuals through their consumption of those goods (McCracken, 1988).

Figure 3.10  Supporting themes and core theme of cultural approach


Apart from the core theory and supporting theories, the societal reaction to the core theme-No Logo movement and a viable theory-the citizen-artist band (Fig.3.10), have been also reviewed in the cultural approach in order to understand its full scope (Heding et al, 2009). The No Logo movement was introduced by Klein’s (2000) book ‘No Logo’, and later it was widely proclaimed as a manifesto for the anti-capitalist movement. As Heding et al (2009:214) outlined the anti-branding agenda is important in the cultural approach, as these
mechanisms are vital to understand ‘when aiming at iconic brand status (but they are also relevant for other types of brands)’.

Meanwhile, the citizen-artist brand is ‘a viable prospect born from these cultural tensions, and hence serves as a managerial guideline for how to respond to the anti-branding movement’ (Heding et al, 2009). Schroeder’s (2005) study found successful artists can be thought of as brand managers, actively engaged in developing, nurturing and promoting themselves as recognizable ‘products’ in the competitive cultural sphere. Brand managers, as Heding et al (2009) highlight, need to gain a deep insight into cultural issues in society and to be able to use this insight to perform brand myths connecting to the most important contemporary cultural contradictions of the time.

### 3.3 Chinese Brand Management Models

Brand management in developed countries has reached a mature stage, yet Chinese brand management studies have only begun. In recent years, some Chinese scholars have begun to study brand management and have published a number of ‘branding’ studies in different styles. Four major theories have been introduced by Chinese scholars with regard to Chinese brand management.

**Easy to Difficult 7Forces**

This theory was introduced by Liang ZhongGuo in 2001, and it was the first brand management theory in China to be recognized by
Chinese branding and marketing experts (China Scheming Research Institute, 2011). The seven forces include: research (information integration), brand positioning, brand planning, brand validation, branding, brand monitoring and brand enhancement. All seven forces are important in the brand management process. Research and brand positioning help to determine the resources required to build a brand; Brand validation includes two parts: brand protection measurements, and strategies for validation and protection of property rights. Branding is widely held to be the core brand message accurately delivered to the target market in order to establish a high level of loyalty. Brand monitoring will ensure a smooth operation and the long-term development of brand management, monitoring market conditions of the brand. Brand enhancement includes two aspects: brand extension and brand content adjustment, which are complementary to each other and interact. This model has been characterized as strategic, systematic and flexible. This theory suggests that theses seven forces are drivers in brand development.

MBC (Marketing Systemic Project) Brand Management Model

MBC brand management model was introduced by Chen (2002). Chen emphasized that building a brand is a complex systematic project and cannot simply rely on a single model; it needs a multidimensional approach using a variety of models together to create a favorable image. A brand cannot improve notability by simply presenting a logo or symbol on the product and TV screen.
The 720° Brand Management Model

Su et al (2002) introduced the 720° Brand Management Model in ‘720° Brand Management-Concept and Implementation’. Their theory suggests that to build a successful brand in today’s commercial environment, a company must engage in both internal and external activities which are aligned in order to deliver the brand promise to the target market. The internal 360° involves: corporate strategy, employees, teamwork and efficiency. The external 360° activity involves: product, customers, distribution channels and profit. The essence of the 720° brand management model is the effective integration of any points of contact between the brands and the customers. Strict brand management control is crucial for every aspect that may affect the consumers’ experience of the brand.

7 Top Brand’s Seven Discipline

Li, a well-known advertiser, introduced ‘Seven Disciplines’ in ‘Top Brands’ Seven Disciplines’ (Li, 2003). He augues that building a brand should focus on seven aspects, including brand management, advertising management, marketing channel management, production management, human resource management, sales management and knowledge management. This model has been promoted and implemented in a dozen cities in China.
Discussion

To become the world’s economic powerhouse, the Chinese government currently is focusing on brand building; it has been vital for Chinese companies to focus on their brands. Brand management has become the essential lesson for Chinese companies to study. With this in mind, some Chinese experts have focused on brand management research and developed brand management models which suit Chinese companies’ development.

However, from the above discussion of brand management models developed by Chinese experts, it can be seen that the development of Chinese brand management theory has been guided and influenced by the West. All four concepts developed by Chinese experts are very similar to the concepts which have been studied and discussed extensively by Western theorists and practitioners. For example, all four models have suggested the lack of building a brand requires a combination of several things. It is a systemic project which needs a strong, strategic foundation. Currently, Chinese brand management study is still at the concept learning stage.

Western companies are more experienced in brand management, and brand management research is always followed by a changed environment with continues introduction of new ideas. In Heding et al (2009)’s study, different brand management approaches are summarised from the last twenty years, along with the implications of these different approaches for brand management. But Chinese brand management study is still at an early stage, is still learning from West and needs to be improved.
3.4 Conceptual Framework

Brand management is a long-term and strategic process which has been studied thoroughly by many academics and marketing practitioners. However, all those studies were conducted in developed markets and in countries outside the focus of this particular study.

Theoretically, a review of available literature in brand management theory in China shows that previous investigations have not adequately and conclusively explored brand management in China. They lack evidence to prove their feasibility. It is therefore appropriate and would be of interest to examine brand building and brand management practice in developing countries, particularly within the Chinese context.

Practically, as discussed in Chapter 2, there is a growing interest in the role of brand building in Chinese markets, and many academics and marketing practitioners both inside and outside China have investigated various aspects of Chinese brand building activities. Their investigations have focused on different single aspects of the Chinese brand building process. Each group of aspects reflects a particular aspect of Chinese branding which may have affected Chinese brand building: technological innovation, marketing and branding skills, customers’ buying behaviour for brands and government policies. However, none of these investigations can explain the current phenomenon of Chinese brand building practice.
In this research the aim is to examine the Chinese brand building situation (with particular attention being paid to the manufacturing sector) and brand management practice by exploring and testing the value of explanation of the seven brand management approaches identified by Heding et al (2009) and their relevance to Chinese brand management practice. This study will examine the links and interactions between the seven approaches and Chinese brand management.

However, there are limitations, as this research only explores the observed practice within these seven brand approaches, and there might be other brand management theories which fit into this research. Another issue is how to use the theory. Brand management theory has been built and developed in developed markets. With different economic conditions, different consumer behaviour and different cultures markets the research is concerned with the application of the seven approaches to Chinese brand building practice.

3.5 Conclusion
This chapter has reviewed literature on brand management, with particular attention paid to the paradigm shift in brand management over the last two decades. All seven approaches are present in today’s brand management with different focuses. From positivistic to socially constructive paradigms, each approach has differences in their understanding of brand value creation, the control of the manager and the activity level of the consumer.
The studies which have been mentioned in Chinese brand management theory in China have indicated a huge gap in Chinese brand management studies. All of the brand management approaches have been repeatedly studied in a variety of contexts, but there is no study comprehensively based on developing countries. This thesis will add evidence from a developing country, China, to brand management.
Chapter Four

Methodology

4.0 Introduction

‘Research is the art of scientific investigation’ and ‘it is academic activity and as such the term should be used in a technical sense’ (Kothari, 2006:1). Kothari (2006) discusses the meaning of research provided by different authors (e.g. The Advanced Learner’s Dictionary of Current English, 1952; Redman and Mory, 1923; Slesinger and Stephenson, 1930). He emphasizes that ‘Research is the search for knowledge through an objective and systematic method of finding solutions to a problem’ (p.1).

The objectives of this research is to investigate the current situation of Chinese brands and branding strategies in the domestic market and in its attempts to go global, with particularly attention paid to the manufacturing sector. A further aim is to theoretically make sense of Chinese brand building and brand management practice by investigating the current situation of Chinese brand building practice, as well as how existing brand management theory is able to understand and explain the practice of Chinese brand building. This research uses Heding et al’s (2009) seven brand management approaches to study how the theories correspond to the Chinese brand building case.

The purpose of this chapter is to discuss the philosophy underpinning the chosen research approach; to introduce the research design, including the research strategy and methodology adopted; to describe the procedures used for data collection and to present the procedures used during the data analysis.
4.1 Research Philosophy

Adoption of philosophy may be significant with particular reference to research methodology (Easterby-Smith et al, 1997; Saunders, et al, 2007). It is the basic level of research methods (Clake, 1998) which helps researchers to clarify the overall research strategy to be used. The research philosophies allow research to be viewed in a certain way by using ‘accepted’ approaches, such as positivism and interpretivism (Burke, 2007). The reasons for the use of these approaches are: it clearly communicates the stance of the research; it allows others to quickly understand the context; and it provides a means for clearly articulating the results of that research (Burke, 2007).

Positivism and interpretivism have been identified as major research philosophies in the Western tradition of science. Both of them have different aims of research and methods of collecting data. This research has been more characteristic of interpretivism, although there are some positivistic elements. Positivists believe that reality is constructed through absolute natural laws and mechanics; and those laws and mechanisms can be defined through observation, and if something can be observed, it can be defined and quantified. Quantitative methods have been adopted heavily in positivist research, and the central rule of a positivistic approach is ‘anything that cannot be verified by experience is meaningless’ (Blaikie, 2007:113). Émile Durkheim (1858-1917) and August Comte (1798-1857) have been key contributors to positivism. The key philosophy in positivism is that we can only observe phenomena that we see and measure. Therefore positivism may be useful in traditional sciences but might not be suitable those sciences which cannot be explained in quantifiable terms. A positivist approach provides a superficial view of the phenomenon it investigates, and not an in-depth one (Bond, 1993; Moccia, 1998, Payle, 1995).
The key philosophy in the interpretivist approach is that knowledge is based on interpretation rather than simply on actual sensory experience. It suggests that humans are active and purposeful, and that reality can be understood only through subjective interpretation. In other words, interpretivists try to understand the thinking, meanings and intentions behind those being studied, and to explain social phenomena inter-subjectively in order to make their research more valid (Arbnor and Bjorn, 1997). Therefore, qualitative data collection methods such as unstructured observation, interviews and document analysis can be the best methods used to explore and gain an insight into the subjective experience. It could be argued that this research can be classified best as interpretivism. It aims to discover the details of the Chinese brand building situation in order to understand the reality, or perhaps a reality working behind these details.

To ensure the research we undertake is relevant to the research questions as set out in the early of this chapter, an interpretivist philosophy is suitable for the purpose of this research as it allows the researcher to explore the reality of study from emotions, actions and intentions (Arbnor and Bjorn, 1997). It adopts an interpretivist philosophy, and a qualitative approach to develop key research instruments. Document analysis and semi-structured interviews with experts from field are adopted in this qualitative data collection.

4.2 Research Approach

The goals of the researchers and the nature of the research topic influence the selection of a strategy (Benbasat, 1983). To answer the stated research questions, numerous research designs and methods have been evaluated on the basis of their suitability as regards both the needs of this research, and the specific conditions of the Chinese market environment. According to Saunders
et al (2003), the inductive approach is applied to situations where specific observations or measurement are made with the aim of developing broader conclusions, generalizations and theories. For the purpose of this research, it may be more appropriate to undertake research inductively rather than deductively. The inductive approach method with interpretivism allows this research to be able to explore the meaningful nature of China’s brand building practice. Although this research has a deductive element, it may be more appropriate to work inductively by generating data, analyzing and reflecting upon what theoretical themes the data suggest.

4.3. Research Design

4.3.1 The Purpose of Research

There are three types of research namely exploratory, descriptive and explanatory research (Table 4.1). Each type of research has different objectives.

Table 4.1 Objective of Different Research

<table>
<thead>
<tr>
<th>Type of research</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploratory</td>
<td>‘To find out ‘what is happening; Seek new insight; Ask questions and to assess phenomena and a new light’ (Robson, 2002:59 in Saunders, et al 2007).</td>
</tr>
<tr>
<td>Research</td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td></td>
</tr>
<tr>
<td>Explanative</td>
<td>‘Study a situation or a problem in order to explain the relationships between variables’ (Saunders, et al 2007:134).</td>
</tr>
<tr>
<td>Research</td>
<td></td>
</tr>
</tbody>
</table>
The purpose of this research was determined and discussed previously, and it has become clear that Chinese brand building practice has not previously been clearly defined; what is more, there is a lack of earlier studies to refer to. Therefore, this research is classified as exploratory research. It is focused on gaining insights and bases for later investigations (Fig. 4.2). This research has been conducted into the issues and problems of Chinese brand building practice. It seeks to identify problems and challenges in Chinese brand building practice and brand management practice, and to suggest decisive action.

Fig. 4.1 Research Design
There are three main ways of conducting this exploratory research to explore the Chinese branding story: secondary research (a search of literature), looking at industries and interviews of experts in the field. Data will be collected through mixed methods based on qualitative studies. This approach enables this research to explore the complexity of Chinese branding and brand management practice.

4.3.2 Research Strategies

Different research strategies are listed and each of them can be used for exploratory, descriptive and explanatory research (Saunders et al, 2007). Qualitative research is ‘a form of systematic empirical inquiry into meaning’ (Shank, 2002:5) and it involves an interpretive and naturalistic approach that ‘studies things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meaning people bring to them’ (Lincoln, 2000:3). The qualitative research approach is employed in this research through secondary research, studying real-world settings inductively to generate rich narrative descriptions and in-depth interviews.

Step One: Research Setting and a search of Literature

In order to have a general understanding of the current situation of Chinese branding and brand management practice, the research begins by presenting a general background to China, the country used as the research setting. It aims to provide an overview of the nature of the market and businesses in China. The sources for the research setting are from both Chinese and English publications, including government reports, commercial reports, market
research, publications on Chinese brand building and brand management practice.

Step Two: Investigation

A review of publications, documents and reports, research finding, and the problems and challenges of Chinese brand building are clarified. However, there is a need to look into existing brands and industries and to gain insights, which will help with the intensive analysis of the subjects in order to gain information to guide further research.

An investigation into the ‘Famous’ Chinese Brands and industry is used to check if certain findings from the analysis of secondary data are consistent with Chinese manufacturing branding in the real world. This helps to gain a potential source of analysis regarding the reliability and validity of the data collected from the exploration process. This helps the researcher to understand the complicated phenomenon of Chinese branding issues, and also branding within particular industries. An investigation into an industry provides a basis for scientific generalization. The investigation will contribute to form the research conclusions. The investigations of famous bands and industries examine three areas based on the main findings from the research settings and literature review.

The first area looks at the situation of Chinese brands’ through an investigation of Chinese brands appearing in different world rankings; e.g. declined national brands and foreign brands’ performance in the Chinese market. The aim of this investigation is explore the situation of Chinese brands in both domestic and global markets.

The second investigation is to exam how overseas M&As assist Chinese
companies’ brand building. The research setting review discusses the situation and challenges for Chinese companies’ overseas M&As. This case study goes further in gaining insights by examining the automobile industry’s brand building through overseas M&As.

The third investigation is to analyse the branding situation in the Chinese garment industry. Despite being the world’s largest garment exporter to the rest of the world (Rivoli, 2006), the Chinese garment industry has no world-class brand. This phenomenon draws the interest of the researcher to ascertain what exactly happened within the garment industry.

It is believed these three investigations are the best choices to exam the phenomenon of Chinese brand creation. The garment and automobile industries are two different industries with low and high technological requirements. It is interesting to investigate these two industries’ branding activities in order to see whether they face the same challenges in brand building. The interaction between the Chinese manufacturing branding phenomenon and its context will be best understood through the above investigations.

Step Three: In-depth interview

The aim of the in-depth interview is to identify whether the knowledge gathered from the literature review and the investigation into brands and industries contribute to the final findings. It will mainly be achieved through in-depth interviews with top Chinese branding experts in order to test the findings summarized from early research, and also to gain new data.

Besides the analysis of secondary data, and the interviews with experts, this
research also focuses on how the seven approaches from recent brand management theory are used and applied to the research findings.

4.4 Data Collection

Both secondary and primary data are used in this research.

4.4.1 Secondary Data

The secondary data are mainly from academic journals, newspapers, books and government and commercial reports. Secondary data is wholly adequate to draw conclusions and answer the questions. The secondary data has some advantages such as being cheaper to collect and less time consuming than primary data (Crawford, 1997). As Crawford (1997) states for the same level of research budget a thorough examination of secondary sources can yield a great deal more information than can be obtained through a primary data collection. However, the shortcomings of the secondary source have also been acknowledged by Crawford (1997) in terms of definitions, measurement error, source bias, reliability and time scale. Crawford argues that the ‘researcher has to be careful when making use of secondary data and of the definitions used by those responsible for its preparation.’ Moreover, although it is not always the case that secondary sources can yield more accurate data than those obtained through primary research, the government’s and international agencies’ large scale survey will yield far more accurate results in this research. The secondary data plays a substantial role in this exploratory phase of the research in defining the problem and seeking the solutions.

With no published work directly focused on the subject, the sources of
information were extended to include publications in both English and Chinese. Although there has previously been no comprehensive study in these areas, there were many publications with different perspectives on the issues, which are all related to Chinese brand building. The aim of the secondary research is to collect information which is directly or indirectly related to Chinese brand building in order to provide a general understanding of the Chinese environment, policy, branding situation, technology and other relevant issues.

The first half of the research (research setting and investigation into brands and industry) is mainly conducted by secondary research, so the quality of the secondary data is essential. All the secondary data in Chinese will be carefully evaluated and selected from reliable databases such as the Wanfang database (academic database), government industry annual reports and official statistics. Secondary data in English will also be carefully selected from reliable sources such as academic publications and international agencies’ large-scale surveys (e.g. Interbrand).

A secondary data analysis is performed to better understand the Chinese branding situation. It helps to create a better understanding of the nature and complexity of the Chinese branding issue. It identifies specific problems, and challenges Chinese manufacturing brands and branding, as well as it helping to identify questions for the case studies and in-depth interviews.

4.4.2 Primary Data

In order to gain an insight into the Chinese brand building phenomenon, the primary data in this research is collected through in-depth interviews as discussed earlier.
As a qualitative research technique, the in-depth interview involves ‘conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation’ (Boyce and Neal, 2006:3). The in-depth interview seeks a greater depth of information and knowledge than is sought in surveys, or focus groups for example (Johnson, 2001). The aim of the in-depth interviews in this research is to explore prevalent trends in opinion and thought among top Chinese branding consultants about Chinese brand building issues, in as much detail as possible. The aim is to test the findings from literature and case studies and to uncover new ideas that had not been anticipated at the outset of the research. It is believed that the in-depth interview technique is an efficient and cost-effective approach to obtaining valuable and current data in this research.

However, as Saunders et al (2007) argued, there are a number of data quality issues that can be identified in relation to the use of in-depth interviews i.e. their reliability, forms of bias and validity and generalisability. Lack of standardization in interviews may cause concerns about reliability, and is also related to issues of bias. In this research, all potential interviewees are top Chinese branding consultants, and therefore they might want to prove that Chinese brand building is successful, or to provide only positive information. Thus, their responses might be biased. Therefore, effort should be made to create instruments; and to conduct interviews to allow for minimal bias. Moreover, because the sample is small and random, sampling methods have not been used, and generalizations about the results cannot usually be made. However, in-depth interviews offer greater value and more detailed information than other methods of data collection (Johnson, 2001). In-depth interviews explore and uncover deep-seated emotions, motivations and attitudes; they can be effective when the study involves an investigation of complex phenomena (Crawford, 1997).
Another limitation of the in-depth interview is that it involves a heavy time commitment due to the requirements of conducting interviews and preparing interview transcripts.

In this research, the in-depth interview focuses on attitudes to Chinese brand building; it further investigates personal experience in branding activities and tests data gathered from documents and case studies. The in-depth interview is targeted at top branding consultants in China. This group has been chosen because of their rich experience and good reputation in the field, which can provide this investigation with accurate and valuable data.

Fig. 4.2 Form of Interview

It is a semi-structured interview and the conversation is stimulated by 8 questions, but in great detail. Further questions in the interview are based on the interviewees’ answers, and consist mostly of clarification and/or probing for details. During the interview, the interviewer strives to be interactive and
sensitive to the language and the concepts used by the interviewee, and attempts to keep the agenda flexible.

Moreover, the garment industry investigation touched upon earlier will be conducted with three specifically-selected garment branding experts from China. It includes questions to investigate the situation of Chinese branding and the extent of the challenges faced. The questions are semi-structured, and responses from the interviewees are recorded and transcribed. The details will be discussed in the following sections.

4.5 Gaining Access and Ethical Issues

The ability to obtain both primary and secondary data will depend on the method of gaining access to an appropriate source, or sources, where a choice exists (Saunders et al 2007). The secondary source access is mainly from books, journals, and government and commercial reports through the internet and library.

For the in depth interviews, there might be difficulty in accessing interviewees. As Saunders et al (2007) suggested, gaining physical access can be difficult for a number of reasons: organizations and individuals may not be prepared to engage in additional, voluntary activities due to the time and resources required; the request for access may fail to interest the person and organizations may find themselves in a difficult situation owning to external events.

Three access strategies from nine access strategies suggested by Saunders et al (2007) are used in this research: ensuring the researcher has sufficient time, using suitable language and establishing credibility. The researcher sent the
request email to 87 Chinese top branding experts who were potential interviewees and waited for their reply. The number of final interviewees was expected to be 30. This process of searching for the potential interviewee profile, sending requests and waiting for conformation can prove to be rather lengthy.

To avoid any threat perceived by potential interviewees or lack of interest in participating, the use of suitable language is essential. Following the advice of Buchanan et al. (1988: 57, in Saunders, et al. 2007), in place of ‘research’ the researcher will use phrases such as ‘learn from your experience’ and ‘conversation’ rather than ‘interview’.

To establish the researcher’s credibility during the process, the researcher shares with the potential interviewees the research purpose, stating how the interviewee will be able to help with this research and to provide assurance about confidentiality and anonymity. All this information is included in the request email sent to potential interviewees. Legard et al (2003) suggested that credibility can be established with participants by asking relevant questions which are seen as meaningful by the participant, and which demonstrate an understanding of the research subjects.

Additionally, interviews should not be used to demonstrate the researcher’s knowledge; instead the researcher should be a recipient of the interviewees’ knowledge (Legard et al, 2003).

In this study, no participants’ names will be shown in order to reduce the pressure on potential interviewees. The researcher ensures that any personal data will be processed fairly, lawfully and accurately and will be kept securely.
4.6 Sampling Plan

It was decided to have two different types of interviewee at the beginning of the research. The first group is owners and marketing directors from manufacturing firms, selected from some larger scale manufacturing companies based mainly in Guangzhou and Zhejiang, the main regions for manufacturing. The purpose is to gain insight into Chinese manufacturing companies’ marketing practice, and to further investigate whether branding practice exists in these manufacturing companies. It focuses on the larger and medium-sized manufacturing companies.

The second group is top branding consultants, mentioned earlier in this chapter all chosen from major cities such as Beijing, Shanghai and Guangzhou.

To ensure there are no significant issues regarding the quality of interviews, four targets were selected for the test interview. The participants were selected from the potential interviewee profile (details are in the following section). Two interviewees were selected from the manufacturing companies, and two were selected from the top consultant list.

The participants were contacted through email regarding taking part in the test interview. The test interviews were conducted face-to-face and via the telephone/online and the conversations were recorded. The participants were asked to provide any comments regarding the quality of the interview questions or other issues at the end of interviews.

From the four results, it was found that the two interviewees from two manufacturing companies (one toy manufacturer, one plastic car accessory manufacturer) lacked knowledge of branding. Their answers for the eight questions set were not satisfactory. However, the test interview results from the
two branding consultants were very satisfactory, with some recommendations about the questions which helped the researcher to modify the questions. Therefore, the researcher decided that the target of in-depth interviews would be top branding consultants.

4.6.1 Identification of Interviewees

Eighty-seven potential interviewees (Table 4.2) were selected from top Chinese branding consultancy firms, including garment branding experts in major cities in China, mainly from Beijing, Shanghai and Guangzhou, which have better marketing and branding performance and better economic development compared to other regions. Apart from these three regions, few interviewees were selected from the South West and Central China. These regions have experienced rapid economic development in recent years and they are the target areas for the government to further develop China’s economy. Marketing and branding practice plays an important role in these regions.

The requirements for identifying potential interviewees were as follows:
Table 4.2 Criteria to Select Potential Interviewees

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criterion 1</strong></td>
<td>At least 5 five years’ branding practice or consultancy experience within Chinese market</td>
</tr>
<tr>
<td><strong>Criterion 2</strong></td>
<td>Active branding practitioners</td>
</tr>
<tr>
<td><strong>Criterion 3</strong></td>
<td>Active writers in Chinese branding publications or branding websites</td>
</tr>
<tr>
<td><strong>Criterion 4</strong></td>
<td>Have published books on Chinese marketing and branding practice</td>
</tr>
</tbody>
</table>

All these participants were selected and contacted regarding their willingness to participate in the semi-structured interviews.

The potential interviewees’ profiles were obtained from the Experts Column in BRANDCN.com (BRAND CHINA WEEKLY), China’s industry league official website. These experts are all very active participants in the Chinese branding and marketing consultant industry, with rich experience of working to develop brands for domestic companies; they are also very active and well-known contributors to publications in the area of branding and marketing.

The sample size was originally set at 30, including garment-branding experts. However, only 19 branding experts were confirmed for in-depth interviews (87 potential interviewees had been identified). Below are the details for the final interviewee list (Table 4.3 and 4.4). Almost all the experts from branding consulting industry were male, and the researcher failed to secure answers from the few females. Therefore, all the interviewees in the final list are male.
Table 4.3 Number of Samples

<table>
<thead>
<tr>
<th>Region</th>
<th>Cities</th>
<th>% proportion</th>
<th>Number of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>North China</td>
<td>Beijing</td>
<td>36.8%</td>
<td>7</td>
</tr>
<tr>
<td>East China</td>
<td>Shang Hai, Su Zhou, Fu Jian</td>
<td>26.3%</td>
<td>5</td>
</tr>
<tr>
<td>Central China</td>
<td>Hu Bei</td>
<td>5.26%</td>
<td>1</td>
</tr>
<tr>
<td>South China</td>
<td>Guang Zhou, Shenzhen</td>
<td>26.3%</td>
<td>5</td>
</tr>
<tr>
<td>South West China</td>
<td>Cheng Du</td>
<td>5.26%</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 4.4 Sample profile

<table>
<thead>
<tr>
<th>Age Range</th>
<th>% Proportion</th>
<th>Number of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>35-39</td>
<td>15.8%</td>
<td>3</td>
</tr>
<tr>
<td>40-50</td>
<td>57.9%</td>
<td>11</td>
</tr>
<tr>
<td>50+</td>
<td>26.3%</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>100%</td>
<td>19</td>
</tr>
<tr>
<td>Female</td>
<td>0%</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years in the Marketing &amp; Brand sector</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5-9 years</td>
<td>26.3%</td>
<td>5</td>
</tr>
<tr>
<td>10-20 years</td>
<td>63.2%</td>
<td>12</td>
</tr>
<tr>
<td>20 years+</td>
<td>10.5%</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interview Methods</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
<td>15.8%</td>
<td>3</td>
</tr>
<tr>
<td>Online/Internet</td>
<td>68.4%</td>
<td>13</td>
</tr>
<tr>
<td>Face to Face</td>
<td>15.8%</td>
<td>3</td>
</tr>
</tbody>
</table>
Three interviewees were garment branding experts. Their areas of expertise are brand management, promotion and advertising. The areas of other interviewees’ expertise are: brand management and marketing, including advertising, positioning and distribution.

4.6.2 In-depth Interview Questioning

Open questions are designed in this research for the in-depth interviews. According to Grummitt (1980, in Saunders et al, 2007), open questions encourage the interviewees to provide an extensive and developmental answer, and may also be used to reveal attitudes or obtain facts. The questions designed for this research try to encourage interviewees to reply as they wish.

There are two different questions sheets for interviews (see Appendix I & II). The first question sheet is for general brand building. Eight questions from three groups were developed for the interview. The first group of questions is for the Chapter Three case study. The questions help to further understand the situation of Chinese brands in both domestic and global markets. Group Two questions were set for Chapter Four’s case study to gain an insight into Chinese companies’ globalization through acquiring foreign brands, including global brands from the west. Finally, the questions of group three were raised from the secondary research and literature review, in order to help test the points made by previous studies or surveys.

The second question sheet was developed especially for the garment case study chapter in order to gain an insight into the state of Chinese garment branding.

The questions were semi-structured. This gives interviewees the opportunity to
speak and to develop their ideas. The conversations were audio-taped, or saved and printed in the case of an electronic interview e.g. email or chatting tool.

4.6.3 Instruments

Development of Interview Protocol

The rules that guide the implementation of the interviews were established. In order to ensure consistency between interviews, each interview uses the same questions. Based on the questions set, each interviewee is encouraged to provide more detailed information.

Instructions were developed for the interviewer: introduce the research content and provide some background to interviewees when setting up the interview; draft short statements to make to interviewees at the beginning of the interview and in concluding the interview; audiotape and take notes from interview; and check the audiotape for clarity.

The explosive growth of new communication tools such as email and chat boxes provide more interview techniques for the field of qualitative research (Opdenakker, 2006). In this research, various communication possibilities were used: face-to-face, telephone and electronic interviews (internet e.g. communication tools or email) (Fig. 3.3). The three options were provided for interviewees to choose in order to lead interviewees to talk openly in the way they prefer without any inhibitions. Another reason was the interviewees’ busy schedules. The three ways of interviewing allowed interviewees to choose the most convenient method for them. In the interview test process (as discussed in section 3.5.1), three out of four interviewees preferred not to undergo a face-to-face interview.
For the researcher, the face-to-face interview is preferable due to its advantages that other method cannot provide, such as ‘social cues’, for example, ‘voice, intonation and body language’ as well as the potential for more interaction between interviewees and the interviewer, which can provide extra information (Opdenakker, 2006). Nevertheless, interviewees’ preferences do need to be taken into account. In the interview test process, interviewees felt more comfortable with a telephone interview, and one of them preferred email due to his busy schedule. Only one was happy with a face-to-face interview. Therefore, the three ways of interviewing are incorporated into this research, which allows the interviewees to choose the method that is convenient for them. The method of interviewing was confirmed with interviewees in the request email.

The interview questions were sent to interviewees one week before the interview. This allowed the interviewee to prepare more in-depth information. This was the result of an issue that arose from the test interview process. All four interviewees suggested that the time available during the interview did not allow them to have sufficiently deep thoughts on each question posed. They continually commented that the questions set were not easy to answer in the short time available because of the complexity of the Chinese brand building situation. Therefore, at least a week was given to interviewees before the interview to allow them to provide detailed information. This helped the researcher to gain more accurate data.

Each individual interview took about 1-3 hours to complete.
4.7 Data Analysis and Exposition

A constant comparative method, which refers to the process of continually gathering and comparing data (Parry, 1998), is used for data analysis in this research. It aims to formulate and clarify the developing theory and the relationship of variables (Parry, 1998).

In addition, the coding method is applied, which is divided into three steps: open coding, axial coding and selective coding. As Holstein and Gubrium (2003:320) stated, ‘Coding is the pivotal first analytic step that moves the researcher from description toward conceptualization of that description’. This method will help this research to establish a clear chain of evidence as far as possible. Following Saunders et al (2007:499-501), the data is disaggregated into units with the open coding process, and the relationship between categories is recognized with the axial coding process. Finally, in the selective stage, the relationship between the main categories is developed.

This research combines observations from the literature, case studies and in-depth interviews. As with most qualitative research, data gathering and data analysis are conducted concurrently with answering the research questions. As Parry (1998) suggested, data from observations and interviews have to be broken down according to their meaning to generate concepts which are then put into categories. Therefore the data collected from the literature, case studies and in-depth interviews are analyzed separately in the first step. In the second step, further refinement of the storyline is developed.

Open Coding

Open coding: all data collected are coded differently depending on the purpose
of the data. Data are selected and named categories. It helps to describe overall features of the phenomena under study. Meanwhile, variables involved in the phenomena will be identified, labeled, categorised and related together in an outline format (Strauss and Corbin, 1994).

Axial Coding

After the open coding comes axial coding. All the data are arranged in new ways, which is achieved by utilizing a coding paradigm which makes explicit connections between categories and sub-categories. The causal relationship between categories is then identified. The aim is to explain and understand relationships between categories in order to understand the phenomena to which they relate (Strauss and Corbin, 1994). Then the data analysis moves to the next stage, selective coding.

Selective Coding

The process of selective coding is to select and identify the core category and systematically relate it to other categories, which involves validating those relationships, and filling in, refining and developing those categories (Strauss and Corbin, 1994). At this stage, all categories, including the relationships between the categories, are linked to the main category as the core category.

With the core category identified, the storyline is developed. However, there might be limitations with the above data analysis method. Strauss and Corbin (1990:7) argued that ‘the nature of the relationship between categories is not undertaken; at least, it is not explained sufficiently in write-ups’. To avoid this problem, a detailed description of the relationship of concepts is provided.
4.8 Conclusion

This chapter provides a research methodological approach for the study. It discusses the research philosophy, the research approach and the research design. It also details the sampling plan. The methodological approach undertaken for this research consists of observations from the literature, multi-case studies and in-depth interviews. The research process and data analysis are both detailed in this chapter.

Each research approach and strategy has its own strengths and weaknesses. The most appropriate strategies are identified and carefully adjusted in order to meet the objectives of the study effectively.

Low numbers of interviewees were confirmed due to the small number of replies from potential interviewees. Eventually, 19 branding consultants were confirmed, including three garment branding consultants. With carefully developed interview protocols, the small number of in-depth interviews was expected to obtain detailed information to meet the research objectives, along with a secondary research.
Chapter Five

Does China Have Real Brands?

5.0 Introduction

Many Chinese brands have recently appeared in the top 500 global brands list, and some of them have even appeared in the top 100 best global brands list. The brand value and reputation of Chinese brands are increasing according to Global-WPP research agency Millward Brown Optimor (BrandZ Top 100, 2010). In order to gain a higher development platform and greater growth space in the future, a China Brand Declaration has been issued on the Business Channel of China Central Television’s (CCTV) ‘China Brand Summit Forum’, stating that Chinese companies ‘must complete their upgrading in brands, products, services and talents as early as possible’ (Wang et al, 2007:5). In China, both the government and companies have made huge efforts to build their brands. “Brand’ has become a keyword in China’s economic development’ (Wang et al, 2007:5).

However, as discussed in Chapter Two, the results of surveys of western consumers suggest there is little public awareness of Chinese brands. Meanwhile, as discussed earlier in the same chapter, foreign companies are performing strongly in the Chinese market. Following an open door policy, the top 500 global companies with their brands have now all entered the Chinese market. Rich experience, financial resources and effective tactics have all enabled foreign companies to enjoy a large market share in many industries in the Chinese market. Foreign brands, especially global brands, have put
pressure on Chinese brands in the domestic market.

Based on the investigation from the literature in Chapter Two, this section develops a further investigation to explore the Chinese branding story in more detail. It begins by investigating whether Chinese companies really compete on the global stage, especially manufacturing brands, and whether they already have truly global brands. A number of Chinese brands from different global brand lists are discussed. Meanwhile, a number of manufacturing brands such as Lenovo, Haier and Li Ning, which are considered the most successful of Chinese manufacturing brands, are also taken as examples to provide an insight into the Chinese branding situation.

The chapter then moves on to an investigation of the national brand situation in the face of strong foreign competitors in the domestic market. At the same time, the foreign brands’ performance in the Chinese market is also observed. The disappearance of many national brands in recent years and the strong performance of foreign brands in the domestic market have led the researcher to carry out an investigation to gain insight into this phenomenon.

In addition, the chapter seeks to address the current situation of Chinese brands by reporting on a number of semi-structured, in-depth interviews with leading branding experts in China. Their experience and opinions may contribute to the investigation to gain an in-depth view of the current Chinese brand building situation.
5.1 Are Chinese Brands Truly Global?

As discussed in Chapter Three, ‘Global brand’ has become fashionable in marketing circles; many companies have tried to create global brands for the world they view as their market since Levitt’s 1983 article ‘The Globalization of Markets’. Since then, Aaker and Joachimsthaler (1999:137) have defined global brands as: ‘brands whose positioning, advertising strategy, personality, look and feel are in most respects the same from one country to another country’. Subsequently, the term ‘glocalization’ has been a new approach to globalization due to the critical side of globalization. With either ‘globalization’ or ‘glocalization’, to be global, a brand should have at least a minimum level of awareness, recognition and sales all over the world (Quelch, 1999).

Many Chinese brands have recently appeared in different brand rank lists. A number of different ranking institutions undertook surveys employing a variety of ranking methodologies. The Millward Brown Optimor BrandZ survey released the top 100 most valuable global brands in 2010 (BrandZ, 2010). From this list it can be seen that six Chinese brands rank with world famous brands such as Coca-Cola, BMW and IBM (Table 5.1). Four out of the six are financial institutions, one is China’s leading mobile service provider and one is a Chinese search engine, Baidu.
Table 5.1 Chinese Brands in Top 100 Most Valuable Global Brands 2010

<table>
<thead>
<tr>
<th>Brands</th>
<th>Rank</th>
<th>Brand Value 2010 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Mobile</td>
<td>8</td>
<td>52,616</td>
</tr>
<tr>
<td>ICBC (ASIA)</td>
<td>11</td>
<td>43,927</td>
</tr>
<tr>
<td>Bank of China</td>
<td>24</td>
<td>21,960</td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>27</td>
<td>20,929</td>
</tr>
<tr>
<td>Baidu</td>
<td>75</td>
<td>9,356</td>
</tr>
<tr>
<td>China Merchants Bank</td>
<td>90</td>
<td>8,236</td>
</tr>
</tbody>
</table>


In the Financial Times’ top 100 global brands (by value), all the above 6 Chinese brands feature in the list. Additionally, another four Chinese bands are in the Financial Times’ list, including China Life Insurance, The Agriculture Bank Of China, Ping An Life Insurance and China Telecom (Financial Times, 2011).

ICBC, Bank of China and China Construction Bank are three of China's 'Big Four' state-owned commercial banks. Meanwhile, China Merchants Bank is the first share-holding commercial brand to be owned by corporate legal entities. China Mobile was listed on the New York Stock Exchange and Hong Kong Stock Exchange on 22nd and 23rd October 1997 respectively. It is the world's largest mobile network with the largest mobile customer base. Most of these brands are state-owned or possess the advantages and privileges of monopolies.

According to BrandZ (2010), as the largest Chinese-language search engine Baidu has grown rapidly and its profits have increased by 42 percent to
$217.6m. It achieved a 63.9% share in the Chinese search engine market at the end of 2009, much higher than Google China with a 32.3% market share (iResearch, 2010). However, the majority of shares in Baidu are held by American companies. Although it is debated whether Baidu should be characterized as a Chinese or an American company, it is actually rooted in Chinese consumers’ demands and does not have sufficient influence in the global market to be compared to Google or Yahoo. Without a minimum level of awareness recognition and sales all over the world, as Quelch (1999) argues, it is not a global brand.

It seems that more and more Chinese names are appearing each year on the Global Top 500 brand list. For example, the ‘Global Top 500 Brands’ of the World Famous Brand Assembly 2009 was announced in Tokyo. Based on the companies' performance in operations, management and brand improvement, the world's top 500 brands in 2009 were collaboratively chosen by organizations including the World Brand Organization (WBO), the US-China Economic Trade & Investment General Chamber of Commerce and the US World Union of VIP Enterprises. It included 79 Chinese brands from the Chinese mainland, but most of them are state-owned (Global Times, 2010; China Daily, 2010).

The World Brand Lab's top 500 global brands ranking is in accordance with the three key indicators of brand influence: market share, brand loyalty and global leadership. There were 18 Chinese brands in its top 500 list in 2009 (World Brand Lab, 2009).

Interbrand, voted one of the three most influential benchmark studies by business leaders, publishes “Best Global Brand” annually in partnership with Business Week. Interbrand ranks brands based on the following criteria: substantial, publicly-available financial data; one third of the brands' revenues
to be from outside the country of origin; the brands must play a significant role in consumers’ purchase decisions; positive Economic Value Added (EVA) and a broad public profile and awareness (Interbrand, 2010). In its top 100 Best Global Brands 2009, Chinese brands simply did not feature. In 2011, Chinese brands did not feature again in Interbrand’s top 100 best brand list (Interbrand, 2011). As the UK’s leading brand valuation constancy, Brand Finance (2010) has also ranked the most valuable 500 brands in the world based on a brand rating (a benchmark study of the strength, risk and future potential of a brand relative to its competitors) as well as brand value (a summary measure of the financial strength of the brand). There were more than 20 Chinese brands on its list in 2010 (Table 5.2)

Table 5.2 Other Chinese Brands in Top 500 World’s Most Valuable Brands 2010

<table>
<thead>
<tr>
<th>Brand Name</th>
<th>Value (m)</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Mobile</td>
<td>8,673</td>
<td>SOE *</td>
</tr>
<tr>
<td>ICBC</td>
<td>12,083</td>
<td>SOE</td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>12,076</td>
<td>SOE</td>
</tr>
<tr>
<td>Bank of China</td>
<td>9.6</td>
<td>SOE</td>
</tr>
<tr>
<td>China Telecom</td>
<td>7.0</td>
<td>SOE</td>
</tr>
<tr>
<td>China United Network</td>
<td>6,444</td>
<td>SH*</td>
</tr>
<tr>
<td>Agricultural Bank of China</td>
<td>6,032</td>
<td>SOE</td>
</tr>
<tr>
<td>China Unicom</td>
<td>5,704</td>
<td>SH</td>
</tr>
<tr>
<td>Petro China</td>
<td>4,879</td>
<td>SOE</td>
</tr>
<tr>
<td>Sinopec</td>
<td>4,152</td>
<td>SOE</td>
</tr>
<tr>
<td>China Life Insurance</td>
<td>3,714</td>
<td>SH</td>
</tr>
<tr>
<td>SAIC</td>
<td>3,651</td>
<td>SOE</td>
</tr>
<tr>
<td>China State Construction</td>
<td>3,459</td>
<td>SOE</td>
</tr>
<tr>
<td>Bank of Communication</td>
<td>3,269</td>
<td>SH</td>
</tr>
<tr>
<td>Ping An</td>
<td>3,237</td>
<td>PH*</td>
</tr>
<tr>
<td>China Merchants Bank</td>
<td>2,212</td>
<td>PC*</td>
</tr>
<tr>
<td>BYD</td>
<td>2,065</td>
<td>PC</td>
</tr>
<tr>
<td>Midea</td>
<td>1,992</td>
<td>POC</td>
</tr>
<tr>
<td>CSR</td>
<td>1,987</td>
<td>SOE</td>
</tr>
<tr>
<td>Shanghai Pudong Development Bank</td>
<td>1,962</td>
<td>PC</td>
</tr>
</tbody>
</table>

* SOE: State-owned enterprise  
  SH: State-holding  
  PC: Public company  
  POC: Private-owned company

Although we can see an increasing number of brands appear on these ranking lists, the credibility of these ranking systems such as WBL (World Brand Lab) and WBO (World Brand Organization) is doubtful, as they are part of multinational advertising groups.

In 2010, Chinese brands performed well, especially those in the financial sector (The Brand Finance, 2010). However, most Chinese brands on these different rank lists are SOEs, or enjoy a certain level of monopoly of resources and privileges. The similarities of these brands are that they are 'large' in scope and rely on a massive domestic market size. Most of their income comes from this domestic market. One could argue that China has no real global brands yet. Similarly, more and more Chinese companies enter 'The Fortune 500' list; again, most of those Chinese enterprises are state-owned.

In the interview with top Chinese branding consultants, most interviewees confirmed that those Chinese brands on global brand ranking lists were those with a monopoly within China, or benefited from state ownership support. This was thought to be a result of China’s current economic system. They believe that these brands do not have any intrinsic value.

*These brands relying on a huge domestic base of consumers with limited choice are of little value. The establishment of brands of genuine consumer products has stalled at a certain point in the process of raising their visibility.*

*Interviewee G*

Furthermore, Smith and Scorell (2010) point out that most of the 34 Chinese enterprises in the Fortune Global 500 are B2B firms, and it is much harder for them to build brand recognition than consumer enterprises. They argue that,
'given their current position, Chinese brands are unlikely to be dominant any time soon - even if China's economy becomes the world's biggest'. There is a clear contrast between the Chinese SOEs on the list and companies from other countries that are all privately owned.

In his interview, one individual interviewee has another understanding of the phenomenon of the state-owned brand domination of those ranking lists. He believes that private companies are not strong enough at present, and those select state-owned or supported brands on the global list may improve the status of national brands, and also pave the way for private companies when they go global with their brands in the future.

_These SOEs first secured a good image for Chinese companies in the international market, and this benefited the establishment of ‘national brands’. This will also be of great help to those privately-owned businesses seeking to gradually begin the process of globalization._

_Meetee K_

### 5.2 Chinese Manufacturing Brands

Forbes (2010) announced the top 50 most valuable Chinese brands, and these included the brands mentioned above. However, few brands from this list have achieved recognition in overseas markets. It is rare to see the name of Chinese manufacturing brands on those global brand ranking lists. However, a few manufacturing brands such as Haier, Levono and TCL have made great efforts to ‘step out’, in contrast with most Chinese manufacturers. These brands have slowly spread to both the developing and developed countries, and they are examples of success stories for other Chinese manufacturers to follow (Wang
et al, 2007). Li-Ning, a sportswear company, has also essentially established an international presence.

However, as argued in Chapter Two, these brands are not yet global brands and they have not reached recognition in the global market. Although these brands have achieved a certain level of success outside the home market ‘they still receive hardly the same recognition around the world as Sony, Nokia, Cisco, Heineken and Apple’ (Chajet, 2010). Chinese manufacturers have a long way to go before becoming truly global brands and receiving the same recognition as those famous global brands outside the domestic market.

Haier, a major white-goods manufacturer, has already made its way into developed countries. This case has been widely discussed (e.g. Yi & Ye, 2003; Child & Rodrigues, 2005; Duysters, et al. 2009). The United States is the fastest growing overseas market for Haier. Haier relies on its niche market strategy, tailor-made products in less competitive emerging markets, in order to gain market share outside the home market, rather than advantages of technology and cost. Examples of its products include its portable air conditioning for single apartments and university dormitories in South Korea, and mini refrigerators for university accommodation in the U.S. With more than 20 years’ service in the domestic market, Haier is famous for quality control and its high quality products. This has made it stand out from a crowd of cheap producers. There is no doubt that Haier’s small versions of white goods have been successful, but most of its products have not. Haier has doubled its efforts to grow across the world, but is Haier already a global brand?

As Shaun Rein, the Shanghai-based Managing Director of China Market Research Group pointed out, Haier is ‘at a critical point’ in its drive ‘to be a truly global brand’ (Cheng, 2009). In the American market, Haier is still
unable to squeeze into the mainstream of the household appliances industry which is occupied by a few strong competitors, such as Whirlpool Corporation, BCE Inc, General Electric Company and A.O. Smith Corporation (IBISWORLD Industry Report, 2010).

Lenovo is the largest Chinese PC brand operating in the Americas, Europe and China. Its case has also been discussed widely (e.g. Xie & White, 2004; Liu, 2007). Following the purchase of IBM’s personal computer business, Lenovo has not been able to penetrate overseas markets quickly and has suffered huge losses. In 2010, its foreign losses were reduced, and its income still relies on the domestic market (Figure 5.1). Lenovo is in the leading position in China and held 33.5% of the market share in the domestic market in the third quarter of 2010, which was its highest level since 2005. At the same time, its sales revenues in the domestic market have increased by 44.9% compared to 2009 (BOC International, 2010).

Some years ago Lenovo was faced with a highly competitive domestic market, in which they were caught between domestic manufacturers at the low end of the market and foreign brands at the high end; they then decided to expand into overseas markets. In the domestic market, in a fierce price war between local manufacturers, Lenovo had no cost advantage; facing strong foreign brands from Japan, the U.S. and Europe, Lenovo lacked competitive edge due to a lack of the necessary technological and R&D strengths. Eventually, Lenovo acquired IBM’s loss-making PC business in the hope of entering world markets through IBM’s sales channels and advanced management skills.

A number of years later, despite IBM’s logo, brand name and advanced foreign management talent, Lenovo has not achieved the success they expected in Western markets but has, rather, suffered a series of losses (Fig. 5.1). Lenovo has had to strive to earn profits in the domestic market to cover the losses in
the U.S. and European markets. Opinions differ as to whether the price Lenovo has paid has been worthwhile or not. Acquiring famous European brands has not assisted TCL to move rapidly into the Western market; instead, they have made huge losses.

Fig. 5.1. Lenovo / operating profit ratio in 2009 & 2010

Source: BOC International (2010)

Fig. 5.2 Haier / Domestic sales & export

Source: BOC International (2010)
The domestic market is still a major source of revenue for both Haier and Lenovo (Figs. 5.1 & 5.2) and they are not yet global brands. Both Haier and Lenovo are extremely strong in their domestic market and also have government support for their overseas operations. However, the overseas market has seen very small profits and even losses.

Chinese leading sportswear brand, Li Ning, a major supplier of athletic shoes and sportswear, is proverbially one of the few successful ‘indigenous Chinese brands’. , founded in 1990 by a former Chinese Olympic gymnast – Li Ning. Benefitting from brand nationalism and collaborations with national sport associations such as the National Basketball Association and the Association of Tennis Professionals have led ‘Li Ning’ to be quickly recognized by Chinese consumers. At the same time, Li-Ning paid great attention to product development (Hou, 2008). Collaborations with international sport events such as the 2008 Summer Olympic Games and sponsorship deals such as five sponsorship deals with five players from the American National Basketball Association have enabled Li Ning’s brand name to be seen worldwide.

Following a serial action on a sponsorship deal, Li Ning opened its headquarters and a flagship store in Portland, USA, in January 2010. Li-Ning is striving to become an international brand. According to Yang (2009), Li-Ning entered a new developing internationalization stage in 2009 and focused on developing its ability to compete with well-known sport brands worldwide.

In the domestic market, Li Ning has done well compared to other Chinese manufacturing brands, especially in a battle against leading global brands. According to BOC International (2010), the net profit of Li-Ning rose 31% in 2009 as compared to 2008. Li Ning occupied the second place in the domestic sportswear market in 2009 with 14.2% percent market share, after Nike with 16.7%; Adidas, with 13.9 %, is in third place (China Market Research Group,
However, Li Ning has had a lengthy battle with global giants Nike and Addidas. It has been a difficult situation for Li Ning, as with many other Chinese companies, caught between strong global competitors and low-priced local producers. The product price of Li Ning is 20% - 30% lower than a global branded sports product but 35%-40% higher than domestic branded products. Li Ning’s products are more popular with consumers aged 35-40. Currently, Li Ning is repositioning the brand, targeting a younger generation of consumers. Li-Ning has a very clear plan for its globalization: between 2004-2008 it focused on the domestic market; 2009-2013 is the preparatory stage for internalisation and focusing on developing its capabilities to go global; 2014-2018 it will achieve internalisation step by step (Li-Ning, 2009).

By focusing on product development, worldwide sponsorship and collaboration with international sports events as well as the Chinese elements in its design, Li Ning hope that these efforts can lead them to go further in the international market and also to compete with global giants in the domestic market. However, this is not easy, particularly competing with mature global brands. Both Nike and Addidas are readjusting their marketing strategy to maintain their strong position, aiming to increase their sales throughout China in the next five years (Chinadaily, 2010). For Li-Ning, the long battle with global giants will continue.

As Yang (2009) pointed out, Li-Ning has not fully explored the international market network and set up a global supply chain management system; in addition, it lacks international talent. She also states that there is a need for Li-Ning to continue to invest in R&D and marketing. To establish a certain brand in different areas (as Li-Ning identified core products: running, basketball, football, tennis and fitness) in a relatively short period of time is a challenge.
Although the above three brands are strong in the domestic market compared to other domestic brands, they are still not secure in their position at the top of their industry, especially when competing with strong global brands at the same time. They have not gained enough recognition from developed markets, and they are not strong enough to be global brands at the present.

After an investigation of brands from different global brand rank lists and a number of top Chinese manufacturing brands, the investigation moves on to the next stage, which is an investigation of declined national brands.

5.3 Decline of National Brands

As discussed earlier, an increasing number of Chinese companies have ambitions to go global. However, many national brands have disappeared or declined in the domestic market in recent years. Chinese national brands have an annual rate of disappearance of 5% (Qian, 2008).

Building a brand is an arduous project, expensive and time consuming, but the destruction of a brand may happen in a moment. Since the 1980s, with the deepening of the market economy, many Chinese national brands were lost. In their place, foreign brands spread rapidly through the Chinese market. In recent years, many well-known Chinese national brands have declined or even disappeared (Table 5.3). At the beginning of their life cycle, they were all very important players in their industries; however, they failed to retain their brands and have simply declined in a few years. The following sections go further to investigate the reasons behind declined national brands.
Table 5.3 Decline of some major national brand in China

<table>
<thead>
<tr>
<th>Brand Name</th>
<th>Established year</th>
<th>Previous situation</th>
<th>Reasons of decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phoenix/bike</td>
<td>1958</td>
<td>Top sales and well-known brand 1950s-1970s 1/3 China bike exports</td>
<td>Weak awareness of innovation e.g. product innovation and management innovation;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Concentrating on overseas market but hit heavily by anti-dumping duties</td>
</tr>
<tr>
<td>Yan Wu / radio tape recorder</td>
<td>1982</td>
<td>Top sales for 8 years in the domestic radio-recorder market</td>
<td>Lack of brand consciousness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Well-known brand with highest public awareness in the industry.</td>
<td>Lack of innovation</td>
</tr>
<tr>
<td>Sanlu/Dairy product</td>
<td>1983</td>
<td>China's 'top 100 companies' by Forbes in 2006</td>
<td>Product contains poisonous elements and causes infant death and sickness across China</td>
</tr>
<tr>
<td>JianLi Bao/sports drink</td>
<td>1984</td>
<td>Ranked 43rd in the World Brand Lab 'China's 500 Most Valuable Brands' list</td>
<td>Corporate governance issues</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Multi-brand strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Transferring funds to external investment a mistake</td>
</tr>
<tr>
<td>Chun Du/sausage</td>
<td>1987</td>
<td>80% market share</td>
<td>Poor product quality management</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Weak brand crisis management</td>
</tr>
<tr>
<td>Idall/electronic product</td>
<td>1995</td>
<td>No.1 market share holder in the urban market</td>
<td>Leadership style</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Market war led to problems with raw materials production and sales.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unable to cope with market changes</td>
</tr>
<tr>
<td>Junen/Health supplement</td>
<td>1995</td>
<td>Had best marketing practice</td>
<td>Product contains hydrogen peroxide</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Weak brand crisis management</td>
</tr>
<tr>
<td>The cereal way/instant noodle</td>
<td>2005</td>
<td>Unique poisoning strategy led its sales over 300 million in the first half year of 2006</td>
<td>Expansion too fast</td>
</tr>
</tbody>
</table>

Source: Collected by author.
The above table clearly shows the reasons for the decline of various major national brands. In the following sections, the major factors contributing to national brands’ decline are summarized and discussed, including a lack of innovation and an inability to update themselves, product quality, weak brand management (crisis management) and poor brand understanding.

Lack of Innovation and an Inability to Update Themselves

One of the main problems is a lack of innovation and an inability to keep up with changes in the market. Chapter Two discussed Chinese companies’ lack of innovation. An observation of national brands reveals that many Chinese national brands have failed to update themselves. They have poor awareness of innovation in areas such as technology, design or management style.

The market is changing and consumers are changing, and competition is increasing with each passing day. To keep up with the competition for long term development, companies need to follow the market trends and customers’ tastes. Products and services can build brand loyalty through innovation. Chinese brands need to produce products in line with the modern needs of the consumer rather than standing still. Innovation plays an important role in branding. For example, Aaker (2004) highlights that innovation is one of the values and priorities worth highlighting as it is so frequently perceived as a driver of corporate brands. He further argues that ‘a reputation for innovation enhances credibility’ and ‘innovation has made the acceptance of new product offerings more likely’ (p.8). However Aaker (2004) has also emphasized that innovation needs to be relevant and visible; otherwise huge spending on R&D and a host of patents will not enhance the brands.

A brand needs to be innovative; without innovation the brand will become stale, and the company will suffer. A brand is not a static concept, but a
dynamic concept. A brand needs to follow the changes of time and consumers. Many global brands have been determined to maintain brand innovation to enhance competitiveness. One good example is Apple. Apple, established in 1977, has introduced many new concepts, and its products have led to a fashion trend several times. From iPod to iPhone to iPad, Apple has been innovative.

In 2010, Apple passed Microsoft and became the world’s most valuable technology company (New York Times, 2010). One important reason for Apple’s success was an ability to update its products and to create something new. ‘The rapidly rising value attached to Apple by investors also heralds an important cultural shift: consumer tastes have overtaken the needs of business as the leading force shaping technology’ (New York Times, 2010).

Product Quality

In Chapter Two, the survey from Interbrand (2005; 2007) showed ‘Made in China’ was connected with “cheap” and “low quality”, and does not gain respect from the global consumer. In the domestic market, the quality problem also contributes to the decline of China’s national brands. San Lu, Chun Du and Junen (Table. 4.3) all achieved a certain respect from consumers in the domestic market, but they all declined due to product quality issues. In particular, the recent case of ‘San Lu’ milk power raised the alarm for food safety. Its product contained poisonous elements which caused infant deaths and sickness across the country. In the past, San Lu milk power products achieved top national sales for 15 years and its liquid milk was in the top three. Both products won the 'China Famous Brand' title. 'San Lu' brand was named as the most competitive and most valuable Chinese brand.

It was also named 'China's top dairy company' by Forbes magazine in 2006.
However, the infant milk power incident shocked both China and the world. It damaged China’s image, bringing Chinese brands and companies once again into disrepute.

Quality is a fundamental element of a brand’s success, and it gives a brand a chance of success. The development of brand is through the development of the product; when product and brand become successful, then making a profit becomes an easier task.

Many global giants such as BMW, Rolls Royce, Chanel and Armani have established themselves not as low-cost brands, but as true measures of excellence and success. For this reason they can charge a premium for their products. In Chapter Three, it was discussed that perceived quality has been the most important factor for consumers selecting global brands (Holt et al, 2004). Consumers believe that (global) brands have always been associated with good quality products or services. The poor image of ‘Made in China’ certainly has a negative impact on Chinese branding. Poor product quality can be very costly and can destroy brands and organizations, which can also be held legally responsible for the results. One reason for Chinese brands’ lack of competitiveness may be their own self-destructive actions.

The organizations should do what they promise to do. Without honesty, the ultimate result is a loss of trust by consumers and loss of business. There is no place for a company without credibility. Deng (2009) argues that ‘their lack of honesty as regards social responsibility has hurt Chinese companies precisely in their weak spot of soft power’. A lack of soft power has not only restricted Chinese enterprises’ development, but has also proved costly. Continually, Deng has argued that the gap between Chinese enterprises and global first-class enterprises is not hard power such as product, technology or capital, but soft power, such as honesty and accountability.
Weak Brand Crisis Management

Weak brand management has been another reason for the decline of certain national brands. Taking Chundu as an example, in the emerging industry of producing western style sausages, Chundu led a historic change in the Chinese food processing industry and easily secured an 80% market share. However, the use of smoke-damaged raw meat from a fire accident caused a brand crisis. This was exploited by competitors, and soon the crisis weakened the brand name and organization. Due to weak brand management, more specifically brand crisis management, Chundu failed to rebuild the brand image and restore consumer confidence.

Another case is Junen, which had created a huge market for calcium supplements in middle of the 1990s. An article claiming its product 'contained hydrogen peroxide' in a local newspaper not only affected calcium products but also other products. This crisis caused a serious decline in sales, and eventually it was closed down. As with Chundu, a lack of an effective brand crisis management system and an ineffective corporate response damaged the brand’s equity and led to a collapse.

Crisis is a part of life. Organizations need to be fully prepared to handle any crisis so that the brand will not be left defenceless. Many global giants such as Coca-Cola, MacDonalds and Johnson have come up against a crisis, but they got through the crisis by adopting effective strategies. When a crisis occurs, organizations need the right strategy to communicate with the public to protect their brand from damage. Customers might not pay careful attention to whether the information is true, especially if the information comes from a normally credible source.
When one product from a brand presents a problem, consumers will tend to believe that the problem may also affect other products or other parts of the organization. This is more likely to happen particularly with customers who do not identify with the brand (Johar et al, 2010). As Richardson (1995) argues, today's business-economic, technological, psycho-social and ecological environments are becoming increasingly complex, pressurized and dangerous.

‘These types of environments are the breeding grounds of organizational crises, and so strategists need to pay more attention than has previously been the case to the function of crisis management and the way in which organizational crisis might be avoided’ (Richardson, 1995,p.5).

Effective crisis management can minimize the negative effects on brands and may provide an opportunity for an organization to present itself in a good light and even improve its image. Competitors will certainly move to take advantage of problems, and poor crisis management will quickly damage an organization's image. A crisis will alter competitive landscapes, creating new winners and losers.

**Poor Brand Understanding**

As discussed in Chapter Two, the lack of brand awareness among Chinese enterprises is a weakness in their brand building. The understanding of branding practice improved among enterprises and management only with the rapid development of the economy, as well as in the face of competition with international organizations. However, as Wang (2009) argued, generally brand awareness among enterprises and managements is very low. Some enterprises have learnt the importance of branding to enhance their competitive power, but branding nevertheless remains poorly understood by many enterprises, especially medium-sized organizations and SOEs.
From an investigation of national brands, poor brand awareness among national brands is apparent. As Qian (2008) argued, many reasons caused the decline of national brands, but one important reason is a lack of brand awareness, especially amongst those ‘old’ Chinese brands that once were outstanding and valuable national brands.

Brand positioning is dependent on corporate brand awareness. Weak brand awareness among enterprises has a negative effect on brand positioning, and the lack of brand awareness among Chinese enterprises has directly led to poor brand positioning (Wang, 2009). Thus, the establishment of brand awareness among enterprises and their management is the premise for good branding practice.

A lack of brands among many Chinese enterprises has left their products without any added value. China has been a production base for many well-known global brands, yet its enterprises have not been able to create brands for international recognition.

According to Professor Zhou (in Lyengar, 2004), China began as a socialist economy and focused more on managing shortages and the supply side for a long time, rather than on product differentiation. Mass production did not help Chinese industry, for product differentiation is crucial for brand creation. The products Chinese factories process for famous brands bring huge profits for foreign enterprises, but leave Chinese manufacturers with very slender profit margins.

Without their own brands, the outlook for these Chinese enterprises is not optimistic. People know about Nike and Adidas, but they do not know the name of the Chinese manufacturers who produce those products. As one of the biggest OEMs (original equipment manufacturer) for toy brands, the China
Smart Union Group produced toys for three out of five of the biggest world toy brands. The majority of its products went to the American market. However, affected by the loans crisis in the US, consumer demand decreased, and the export of toys to the US fell, which caused two of the group’s factories to close down in 2008. In contrast, according to Brand Finance the top 500 global brands defied the adverse economic conditions in 2009, growing in value by 26% overall. Brand is one of the most valuable assets of a company, and the brand differentiates the company in the market place. Thus, it can be seen that some Chinese manufacturers are able to produce the same quality products as those global brands, but these products are less likely to be recognized by consumers due to their low brand value, which has become a constraint on long term development.

To conclude, China once owned numerous popular brands which Chinese consumers were familiar with. However, since the 1980s, with the deepening of the market economy, many Chinese national brands have been lost. In their place, foreign brands are spreading fast in the Chinese market.

Some problems for Chinese brand building such as product quality, innovation, management and brand awareness were identified in Chapter Two. An investigation of declined national brands shows these issues have also contributed to the decline of national brands.

Without honesty and competitiveness, a brand will be phased out from the market. To survive and develop in the competitive environment, these national brands must have the capacity for sustainable development. If they do not have this capacity for sustainable development in their home market, there is no way to move to the world market and to become global brands.

In contrast to the annual 5% disappearance rate of Chinese national brands,
foreign companies and their brands have performed well in the Chinese market in recent years. As identified in Chapter Two, mature foreign brands have occupied a large market share in many industries, and they have taken much of the high-end market in China; most Chinese enterprises are competing on cost and without much investment in R&D or marketing.

This investigation now goes further to explore how foreign companies penetrate the Chinese market through M&As and joint ventures. In addition to the reasons identified above, foreign companies’ use of strategic M&As has been another factor in the decline of national brands. The following section focuses on foreign companies’ strategic performance in the Chinese market.

5.4 Strategic M&As and Joint Ventures by Foreign Companies in China

Along with the rapid development of China’s economy and policy reforms in recent years, China has become one of the world’s biggest FDI recipients. A vast country with a population of more than 1.3 billion, China is one of the world’s fastest developing nations. The improved policy and regulatory environment has actively encouraged foreign investment into China. Many foreign companies have considered M&As and joint ventures as their main strategies to penetrate the Chinese market. By increasing their market share by 10% each year, those foreign companies and brands have occupied a large proportion of the market in many Chinese industries (Jin, 1999; Zhu, 2004) (Table 4.5).

In 2008, China was ranked by Ernst & Young's survey as the most attractive country for foreign investors. According to the China Industry Map (2008), the top five of each industry open to foreign investment had been taken over by foreign companies. In China’s 28 major industries, foreign investment has the
majority control of assets in 21 industries. Various examples are provided (Table 4.4). In 2004, the Chinese Ministry of Commerce reported that the products of subsidiary companies of multinational companies had already occupied over one third of the market share in many industries, such as light industry, pharmacy, chemical, machinery and the electronics industry. Multinational companies in China have an absolute monopoly in high-tech industries such as mobile telephony and computer operating systems.

Table 4.4 Situation of Some Chinese Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>More than 60 big and medium sized beer companies. Only one national brand (Yan Jing) left, others are all joint ventures</td>
</tr>
<tr>
<td>Glass</td>
<td>Top 5 have been joint ventures</td>
</tr>
<tr>
<td>Elevator</td>
<td>Top 5 companies were foreign holdings, accounting for 80% of national output</td>
</tr>
<tr>
<td>Appliance</td>
<td>In 18 state designated companies, 11 companies are joint venture.</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>Being controlled by 150 foreign companies</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>20% being controlled by foreign companies</td>
</tr>
<tr>
<td>Auto mobile</td>
<td>Foreign brands accounted for 90% of sales</td>
</tr>
<tr>
<td>Circulation,</td>
<td>The proportion of foreign control has been as high as 80%</td>
</tr>
<tr>
<td>e.g. supermarket</td>
<td></td>
</tr>
</tbody>
</table>

Source: China Industry Map (2009)
M&As have played an important role in management practices and research for more than one hundred years, and it is a prominent topic in the literature (Nahavandi and Malekzadeh, 1994; Cartwright and Schoenberg, 2006). M&As enable a company to grow quickly and enhance value (Vu, et al, 2009). Although a high failure rate exists in M&As (Bagchi and Rao, 1992; Datta and Garnt, 1990; Bower, 2001), the interest in M&As is still growing, and it has been one of main strategies for companies to grow, especially in overseas markets.

In order to avoid the risks and costs associated with green field investment and also to strengthen competitive advantages, foreign companies have considered entering the Chinese market through M&As and joint ventures. Foreign companies, especially multinationals, do not lack funds or capability in R&D and management, but they need established local brand names of local companies where customer loyalty is strong; furthermore, they need a fast route to expand their market share with minimum risk.

Most multinational companies are strategic in nature, and they have an effective strategic approach to mergers and acquisitions in China. Almost all their targeted purchases are Chinese companies with high commercial prestige and famous brand names that Chinese customers are familiar with, and which have advanced manufacturing facilities and a sound marketing network (Table 5.5).

Those Chinese companies that have been purchased have assisted foreign companies to become rapidly involved in the Chinese market and to gain market share. Simultaneously, these foreign companies have used M&As to eliminate competitors in the Chinese market. Generally, after cooperating with overseas companies, Chinese enterprises have been required to gradually
reduce or even suspend the use of their trademark. This issue has been addressed by experts in the in-depth interviews:

*The top domestic brands in the Chinese market are the usual targets of M&As by predatory foreign brands. The method of winning markets through acquisitions by foreign brands has slowly weakened Chinese brands, leading to the disappearance of brands which Chinese companies spent years to painstakingly develop. The acquisition of Chinese brands in China simply serves as a stepping stone for foreign brands into the Chinese market.*

*Interviewee G*

The lack of competitiveness in domestic enterprises has allowed more foreign investors to secure a substantial share of the Chinese market. After being acquired by foreign enterprises, many famous Chinese brands such as Nanfu Battery and Mininurse, have gradually been edged out of the market or have simply disappeared (Table 4.5). Mininurse was a famous Chinese cosmetic brand, but after being acquired by L'Oreal, the name Mininurse has already disappeared from the market and from customers' minds. L'Oreal has been very successful and has taken a leading position in the Chinese cosmetics market, especially in China's high-end and middle-segment cosmetics market (Tao and Li, 2006).

With high-quality, uniqueness and their rich cultural connotations the brands from the L'Oreal Group such as Lancôme, BIOTHERM and Vichy have easily entered China's high-end and mid-cosmetics market. In order to further expand its market share, L'Oreal has entered the low-end cosmetics market through the acquisition of the successful, local low-end cosmetic brand Mininurse. Another low-end Chinese cosmetic brand, Dabao, was also acquired by Johnson & Johnson (China) in 2008. Dabao has been a top Chinese local brand
that consumers were familiar with, and there is no doubt that the strengths of Johnson & Johnson in marketing, R&D and experience in product innovation has the potential to help Dabao.

However, it is highly probable that Johnson & Johnson will use Dabao's existing channels to enter the local low-end cosmetics market and soon the name of Dabao will disappear from Chinese consumers' memory.
Table 5.5 The national brands acquired by foreign firms  *(Source: Collected by Author)*

<table>
<thead>
<tr>
<th>Brands</th>
<th>Acquisition or Joint Venture</th>
<th>Year</th>
<th>Previous situation</th>
<th>After acquisition /Joint Venture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maxam</td>
<td>SC Johnson</td>
<td>1990</td>
<td>The first Chinese cosmetics brand at the end of 1980s 20% market share</td>
<td>Brand reputation declined Trademark shelved</td>
</tr>
<tr>
<td>SSP28</td>
<td>Benckiser</td>
<td>1996</td>
<td>High public awareness of brand No 1. domestic daily chemical brands /The highest market: 78%</td>
<td>Gradually disappeared from consumers’ memory</td>
</tr>
<tr>
<td>Robust</td>
<td>Danone</td>
<td>2000</td>
<td>Once of China's top ten beverage company</td>
<td>Gradually disappeared from the market</td>
</tr>
<tr>
<td>Mini nurse</td>
<td>L’Oreal</td>
<td>2003</td>
<td>Famous Chinese cosmetics brand</td>
<td>Disappeared after 5years</td>
</tr>
<tr>
<td>Nanfu</td>
<td>Gillette</td>
<td>2003</td>
<td>No. 1 in the battery market</td>
<td>72% stake held by Gillette Not national brand any more</td>
</tr>
<tr>
<td>Haerbin Beer</td>
<td>Anheuser-Busch</td>
<td>2004</td>
<td>The first Chinese beer brand</td>
<td>99.66” shares held by Anheuser-Busch, Not national brand any more</td>
</tr>
<tr>
<td>Spor Cookware</td>
<td>SEB French</td>
<td>2006</td>
<td>Had 40% of sales in pressure cooker market</td>
<td>SEB hold controlling stake</td>
</tr>
<tr>
<td>Shineway</td>
<td>Goldman Sachs</td>
<td>2006</td>
<td>Leader in the meat product market with big profits.</td>
<td>Goldman hold 100% stake Not national brand any more</td>
</tr>
<tr>
<td>C-BOND S Group</td>
<td>Beiersdorf Germany</td>
<td>2007</td>
<td>By 2001, the C-BOND Group developed these four hair care brands and sales volume over $2billion.</td>
<td>Beiersdorf got 85% share of C-BOND S Group.</td>
</tr>
<tr>
<td>Dabao</td>
<td>Johnson &amp; Johnson</td>
<td>2008</td>
<td>Well-known National brand</td>
<td>Situation still unclear</td>
</tr>
</tbody>
</table>
Another global giant, Coca-Cola, tends to target the Chinese fruit and vegetable drinks market, and has been considering purchasing China's leading brand in the beverage industry, Beijing Huiyuan. Huiyuan is a famous trademark in China and is engaged in producing and marketing fruit and vegetable juice drinks. This case has increased concern amongst business people and the general public for the fate of domestic enterprises and brands. After acquiring the top seven Chinese carbonic drink brands, Coca-Cola and Pepsi currently occupy nearly 90 percent of the carbonic beverage market in China (Financial Digest, 2012).

In recent years, fruit juice and tea drinks have shown a strong growth, and the percentage of fruit juice and tea drinks in the industry is continually increasing, while the development of carbonic drinks and water has slowed down (China CCM, 2006). The choice of a healthy lifestyle has increased the demand for health drinks, especially fruit and vegetable drinks. With the current changes in lifestyle, the future of the Chinese vegetable and fruit juice market has huge potential. This would seem to be an obvious motivation for Coca-Cola attempting to buy Huiyuan.

Foreign strategic mergers and acquisitions in the form of full, majority and minority acquisitions have accelerated foreign enterprises' entry into the Chinese market. Many foreign enterprises own a large market share in several industries in China. A large population with purchasing power makes the Chinese market extremely attractive. In order to benefit from the future prosperity of China, many foreign enterprises have invested in mainstream Chinese companies. Alcatel owns a large share in Shanghai Bell (the telecom technology leader in China), HSBC owns a 10% share in the Ping An Insurance Group (the Chinese number two insurance company), and Anheuser-Busch owns a 27% share in China’s largest brewer Tsingtao (Moon et al, 2003).
As part of China's reforms, the SOEs have been restructured either in the form of consolidated, large, integrated conglomerates or by a reduction in the level of equity holding by the state (Huang et al, 2005). This has created even more opportunities for foreign companies to partner with a large number of local companies. According to The People’s Daily (2007), Chinese experts in intellectual property rights have even called on the government and enterprises to protect China’s own intellectual property rights and to avoid losing control of China’s own brands when cooperating with foreign investors.

Attracted by the growing Chinese market, foreign companies are eager to enter the local market and Chinese companies have the advantage of being the hosts. However, in the actual operation when cooperating with foreign investors, many Chinese companies have failed to exploit these advantages and have surrendered control to foreign investors. In exchange for funds and technology, the Chinese side readily transfers the control of assets and operations to foreign companies. However, those foreign companies with their own brands and products use the marketing and distribution channels established by the Chinese products and brands to gain a strong position in the Chinese market.

Rossi and Volpin (2004) found that ‘companies from countries with weak legal protection are often sold to buyers from countries with stronger investor protection’. There is a fear held by Chinese companies in relation to joint venture partners. As observed by IBM Business Consulting Service (2005), ‘The stronger partners become stronger while the weaker partner becomes weaker. The foreign capital tends to get an advantage and has stronger performance’.
5.4.1 Experts’ View

To further investigate the impact that foreign companies have had on domestic brands or companies, opinions were garnered from sixteen top Chinese branding consultants. Most interviewees expressed regret at the disappearance of Chinese national brands after M&As and joint ventures by foreign companies. 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. Therefore, the disappearance of these brands in fact does not matter. As interviewees said:

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

*Interviewee H.*

*When the brand owners cannot see any hope for the future, naturally they transfer the brand to others.*

*Interviewee O.*

While three out of sixteen interviewees pointed out that the foreign brands’ impact on Chinese brands is not, strictly speaking, simply a question of branding, it is also necessary to recognize a significant difference in economic power. All the other interviewees acknowledged that this gap between foreign
and Chinese companies was extremely large. Those powerful foreign companies grew up in relatively mature market economies over decades or even centuries, and their advantages become obvious when in competition with Chinese companies.

China has only recently entered the market economy and has a poor sense of branding whilst lacking brand management skills and experience as identified earlier. Currently, just as Chinese companies face an urgent need for cash, technology and management skills, they may quite readily surrender up their brands as a form of capital to foreign companies:

*Foreign brands have been accumulating their strengths over a long period and have abundant capital, cash, technology and powerful brands, whereas Chinese companies are just entering the market and not only lack operating capital but must face competitors much stronger than themselves. This is a game between professionals and amateurs.*

*Interviewee J*

*On the one hand, foreign companies use well-established marketing management tools to compete with Chinese companies; on the other hand, they carry out acquisitions and attacks on competitors at the capital operational level. Chinese companies with urgent needs for capital and other resources either sell ownership of their brands, or use brands as assets in order to enter a joint venture, which ultimately means that brands that the Chinese have painstakingly built up become a weapon for foreign companies to use to open up the Chinese domestic market.*

*Interviewee H.*
As regards the issues of how to avoid being trapped by foreign companies’ strategic attacks and to improve competitiveness, the experts have shared their opinions. One interviewee advised Chinese companies that before the introduction of foreign capital, Chinese companies need to fully assess the real value and potential value of the brands in order to form a basis for correct decision making and to avoid pitfalls that can lead to great losses.

At the same time, two out of sixteen branding experts pointed out that most companies lack a corporate strategy or long-term development plan, preferring to simply secure cash in hand. When faced with a choice between continuing to develop the company and being bought up, for various reasons they choose the latter.

*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.*

*Interviewee M.*

However, one interviewee believed a foreign take-over was not necessarily a bad thing. In this way, Chinese companies can become aware of a crisis situation and, at the same time, become aware of their own shortcomings. Such a situation may encourage Chinese companies to mature in their outlook and improve their competitiveness.
Under the laws of a market economy, it is the survival of the fittest, and it is inevitable that the weak will be eliminated. By undergoing this tempering, Chinese brands can become increasingly strong.

*Interviewee C.*

Additionally, two interviewees believe that the government has a definite responsibility for foreign capital sweeping the board in the Chinese market. Mainly, the government’s excessive support for foreign companies in order to attract foreign investment has suppressed the development of Chinese companies (mainly non-SOEs) which have lacked the protection of an integrated national policy for manufacturing and the economy. Most non-SOEs were very weak. As discussed in Chapter Two, a non-SOE is often heavily reliant on internally-generated funds and foreign investment (Kalish 2006). Lacking sufficient support from the government, their situation is quite precarious.

*Certain government policies are misguided. In particular, the previous support given to foreign companies also served to undermine and limit the development of private companies. In particular, this has contributed to the disappearance of Chinese national brands.*

*Interviewee E.*
At the same time, companies have their own inherent problems. For domestic companies, diversification has been the primary method for achieving business growth, but with unsatisfactory results.

The moment a Chinese company starts to make money, they want to diversify. A company in the garment trade also moves into real estate or telecommunications. Wherever they see a source of profit, they cast greedy eyes on it. More often than not, it ends in failure and may even lead the core business to decline.

Interviewee K.

In response to above problems, experts further pointed out ways for Chinese companies to improve. There was unanimous agreement among interviewees that Chinese companies should consolidate their basic skills and avoid impetuous moves. They should first improve their competence in regard to product quality, corporate governance and branding. Meanwhile, they should rid themselves of the sales-led mindset and instead work steadily on marketing and branding and seek to define the real purpose of the business.

Chinese companies should steadily and surely develop their brands and marketing, to understand their customers, understand the times and the world we live in. They should create new products and create new businesses. At every stage, they should show concern for their customers and be able to put themselves in their shoes.

Interviewee H.
In order to move away from an outlook that is solely oriented towards short-term projects, a long-term vision, patience and a willingness to continually learn and explore need to be developed by Chinese companies. Any business should be single-minded in their intention to be one of the best in their field. Chinese companies should view with caution any cheque providing foreign capital that is tossed their way. It is necessary to establish stable and suitable brand management systems and marketing strategies, rather than greedily seek out foreign capital in order to win market share.

*Before the introduction of foreign capital, Chinese companies need to fully assess the real potential value of the brands in order to form a basis for correct decision making and avoid pitfalls that can lead to great losses.*

*Interviewee G.*

Learning from foreign brands could strengthen Chinese companies’ products, R&D and enable them to learn how the brands can be marketed. Equally important is to innovate and update the products to suit the Chinese customers’ tastes so they are willing to open their wallet or purse.

*Chinese companies should learn from advanced foreign companies and establish reasonable mechanisms and systems based on their own situation in order to build a united, efficient and creative team.*

*Interviewee C.*
Meanwhile there is a need for M&As in different industries in the domestic market. Such companies will become better able to face foreign brands in the domestic market or possible overseas M&As. As identified in Chapter Two, most Chinese manufacturing companies are small with limited resources; therefore, cooperation between domestic companies can enhance the competitiveness of companies, especially when competing with foreign rivals. In the following chapter this point will be discussed further.

*Chinese companies should be integrated into a few strong brands through mergers and acquisitions in the industry in order to enhance their competitive capacity.*

*Interviewee F.*

Finally, one interviewee suggested that the government should set up a fund to support national brands and to acquire those brands who want to transfer their ownership and employ a professional team to work on these brands. This would enable these brands to increase the price for transferring ownership, thereby providing a deterrent to foreign companies while enabling the original owner to appreciate the value of their products.

The government needs to provide increased protection for the legal ownership of private property and this should include intellectual property rights such as trademarks. Otherwise, financially successful private enterprises will seek to emigrate overseas and will, naturally, lack any motivation to maintain their brands.
Meanwhile, the government should increase its measures to combat all forms of counterfeiting and copyright infringement to avoid a situation whereby the legitimate market is driven out of business by the black market.

5.5 Conclusion

The growth of the Chinese economy has impressed the world but Chinese brands have not impressed consumers in the international market or in the domestic market. Those brands from different global brand rank lists are mostly SOEs that rely on support from the government or a huge customer base in the domestic market. Moreover, the profits of those leading manufacturing brands have been generated from the domestic market, not the global market. They are still far from being global brands.

In the domestic market, Chinese brands are struggling to compete with foreign rivals. With rich funding, strategic performance and the preferential policies provided by the Chinese government, foreign companies, especially multinationals, have quickly penetrated the Chinese market in many different industries while many Chinese national brands are in decline or disappearing.

It is clear from the above investigation that Chinese companies have no brands that are leaders in both domestic and international markets. Chinese companies need to improve the overall operational capacities of their enterprises and brands, and to mature beyond imitation and competition. At the same time, as the experts pointed out, the government should increase protection for local brands to avoid undesirable acquisitions by foreign companies. The government needs to introduce and strictly enforce measures to block foreign companies from simply buying up Chinese brands at cut-price rates.
However, as one interviewee stated, ‘None of the above is easy’. He expressed concern as to how many companies could achieve these requirements or understand what they entailed. Most importantly, they need to recognize their own ignorance and be prepared to seek expert assistance.

Many Chinese companies are struggling to compete with foreign rivals in the domestic market, while many Chinese companies are eager to go global. They consider overseas M&As as a short cut to enter the foreign market to gain brand names. In the next chapter, an investigation is carried out as to whether overseas M&As have been an effective strategy for Chinese companies to develop their brands.
Globalization through Overseas M&As-the Case of the Automobile Industry

6.0 Introduction

When Chinese companies go abroad, they consider overseas M&As as a short cut to quickly access overseas markets, especially well-established markets such as the US and Europe. China’s manufacturing industry has long suffered from low quality and poor image in both domestic and overseas markets. The strong positions of foreign products and brands have pushed Chinese manufacturers to look for sources to improve their situation. Without strong brands and prestige, ‘going global’ in a short time has been extremely difficult for them.

In Chapter Two it was seen that building their own brands and improving technology has been a frustratingly long process for Chinese manufacturers, especially in a rapidly changing environment with fast developing technology. Thus, overseas M&As have become the choice of Chinese manufacturers to tap the Western market, to gain market share and to get their brands known by western consumers. Although obtaining brands is not a major motivation behind M&As, as intangible assets on the balance sheet brands drive much of the corporate value as discussed in Chapter Three, ‘Brand value gains recognition in up to 50 per cent of the mergers transactions examined’ (Bahadir et al, 2008 in Yang et al, 2012:441). Brand integration is one of the important factors for successful transactions, although there is little empirical
evidence to support this.

With a booming domestic economy, there has been an increasing trend of overseas M&As by Chinese companies, including manufacturers. A low-rate loan policy offered by the state encouraged Chinese companies to initiate overseas M&As (NDRC, 2004). However, previous experience has raised concerns over whether overseas M&As are a good strategy for Chinese companies, especially for manufacturers, to go global. In Chapter Two, the situation and problems of overseas M&As by Chinese companies were discussed in general. The purpose of this chapter is to further investigate the situation and challenges for Chinese companies’ overseas M&As in the manufacturing sector by observing major cases of overseas M&As in recent years, and investigating the Chinese automobile industry’s overseas M&As activities. Particular attention will be paid to branding in M&As (how Chinese manufacturers expand their brands to international market through M&As).

To extend the investigation, questions were posed during interviews to 16 Chinese top branding consultants and marketing experts. The problems and challenges of overseas M&As and branding in M&As are addressed further with 16 Chinese top branding experts’ views and opinions.
6.1 A Way to Step Out

Chinese overseas M&As are heavily concentrated in the resources sector while, with some financial and political support, SOEs are still the major participants (Liao, 2007). As discussed in Chapter Two, the overall level of technology and innovation in China’s industrial sector is low, and industrial brands have a negative brand image in both domestic and foreign markets. Yet this does not affect the ambition of Chinese manufacturers to go global. They are seeking growth through international acquisitions and in particular seeking known brands.

The pressure of competition from foreign competitors has pushed Chinese companies to grow on a global scale. The manufacturing sector has failed to produce brand products and the negative perception of Chinese products has been a problem for Chinese manufacturers seeking to ‘go global’. Acquiring foreign known brands and assets has enabled virtually unknown Chinese brands to gain notice outside the home market almost overnight. In recent years, Chinese manufacturers have had some large-scale, overseas M&As. For example, TCL Corporation acquired France’s Thomson television business, thereby becoming the world’s biggest television set manufacturer; China’s biggest computer manufacturer Lenovo purchased IBM’s PC operations to become the world’s third-largest computer manufacturer, Shanghai Automotive Industry Corporation took over MG Rover and a private manufacturer, Geely, was suddenly known worldwide for acquiring Volvo.

Chinese manufacturers produce consumer products for export with foreign brand labels and this situation needs to change. The Government has now called on them to start exporting famous brands. The future goal of the Chinese manufacturers is to make their name known across the world. Chinese manufacturers are expecting to cultivate a group of independent famous brands
that have international influence.

By acquiring companies with well-known brand names, Chinese manufacturers can quickly access the global distribution networks and be recognized internationally. It is a short cut for a company to get into international markets that is a time and cost-saving strategy compared to organic growth. As discussed in Chapter Three, M&As are a fast track for companies to grow (Seth et al, 2000; Buckley and Ghauri, 2002; Shimizu et al, 2004). Through M&As Chinese companies can expand into new products or markets, renew their market positions at a speed not achievable through internal development and also increasing their brand awareness. When two brands join forces through an M&A, the owners of the brands can leverage the brands’ competencies in order to reach more and new consumers, to enhance reputation, to enter new business, to increase premiums and against competition (Lucas et al, 2012).

6.2 Motivation

Hopkins (1999) summarized the motives for M&As as being to establish economies of scale and to be able to reduce costs. Wang and Boateng (2007) highlighted the huge difference in M&As flows from developing countries to developed countries and those from developed countries. As they pointed out, ‘Oversea M&A activities involving companies from developed countries are likely to possess monopolistic and internalization advantages compared with the companies from a developing country’.

The motivation for companies from developed countries may be to exploit their own resources; the motivation for companies from developing countries may be to invest in the exploitation of resources. In their study, they also noted
that the motivation for M&As by companies from emerging economies may be to obtain intangible assets such as technology, marketing and managerial skills and resources, which they do not have themselves.

Based on previous experience, the main motivations for Chinese overseas M&As were summarized by Wang and Boateng (2007) and Du (2009): to accelerate entry into new markets, to seek market advantages, to diversify and to obtain foreign advanced technology and other resources, such as management methods. Although branding is not normally the main reason behind M&As, and M&As are not a proven way of brand building, in Chinese overseas M&As, ‘some Chinese enterprises use M&As to establish, under the brand names of the acquired companies, their images in international markets’ (Deng, 2006). Lenovo is an example that acquired IBM’s PC business and then sold their own brand product under IBM’s name.

By acquiring a company with a well-known brand name, Chinese manufacturers could co-brand products with their own name to build consumer awareness of their own bands, extend their customer base and increase sales opportunities. This could also assist Chinese enterprises in expanding their scale of production and circumvent trade barriers, increase their speed of entry into foreign markets and realize the rapid expansion of their own brands. In other words, Chinese manufacturers are hoping to acquire established brand names, thereby gaining access to overseas markets and new technology.

Park et al (1996 in Lee et al, 2011:1102) claimed that ‘Acquiring a high attribute and complementary company may help in enhancing consumer perception and decreasing uncertainty that, in turn leads to greater consequential effects’. Lee et al’s (2011) research findings further support this: ‘Acquiring a brand with an excellent image creates the perception of better quality among consumers’.
According to previous studies (e.g. Yashin et al, 2006; Pappu et al, 2006), country-of-origin image significantly affects brand loyalty. In Chapter Two, it was demonstrated that the poor perception of ‘Made in China’ undoubtedly affects Chinese manufacturers’ globalization. Acquiring well-known brands from developed countries would positively and significantly influence Chinese manufacturers’ branding. Co-branding with well-known brands would improve consumers’ perception of Chinese brands. As Kayaman and Arasli (2007) indicated, consumers will become more brand loyal if they perceive that the brands provide superior quality. Acquiring excellent brands would help Chinese manufacturers to improve their brand image. Rao and Ruekert (1994) presented a rationale for why brand alliance may sometimes be an appropriate strategy.

The leading experts in the in-depth interviews from the field have shared their view of overseas M&As by Chinese companies. Most of them believe that overseas M&As constitute a short cut for Chinese companies to enter the international market, especially while the financial crisis provides an opportunity for Chinese companies to acquire foreign companies with well-known brands.

*The acquisition of foreign brands which have the advantages of independent intellectual property rights and overseas distribution channels can greatly enhance the international competitiveness of Chinese enterprises.*

*Interviewee A.*
Overseas M&As are one of the strategies for Chinese companies to ‘go global’, and they can also improve Chinese brand image and technology.

Interviewee K.

For example, according to a report published on 8th July 2010 by the Japanese Empire database (2010), the number of Chinese enterprises purchasing Japanese enterprises increased in 2009. By the end of June, 2010, 611 enterprises had accepted mergers and funds from Chinese enterprises. Japan has some well-known brand names and Japanese companies have a good reputation for product quality. According to Interbrand (2010), six Japanese brands were in the top 100 ‘Best Global Brands’ list and more Japanese brands featured on the top 500 list. Acquiring Japanese enterprises helped Chinese enterprises to access technology and brand names, which constitute the value of those Japanese enterprises. With the technology and brands obtained from Japanese enterprises, Chinese buyers were able to accelerate their global expansion. It is undoubtedly a short cut to building brand awareness by co-branding with those acquired brands.

6.3 Have Chinese Manufacturers Been Successful in Overseas M&As?

As mentioned in Chapter Three a high failure rate is associated with M&As (Bagchi and Rao, 1992, Carwright and Cooper, 1995; Bower, 2001; Langford and Brown III, 2004; Du, 2009). With very little experience in overseas M&As, the question is whether Chinese manufacturers can go global quickly and gain respect for their brands and products through acquiring foreign brands and assets. Observing previous examples (Table 5.1), the answer is that it is probably not what Chinese manufacturers are looking for.
From previous experience (Table 6.1) it is clear that the targets of overseas M&As by Chinese manufacturers were all well-established brands and companies. However, these targets all have fundamental problems with their business. Two examples are Volvo, who tried to get the economics scales; and IBM, who were losing business in the PC market.

<table>
<thead>
<tr>
<th>Year</th>
<th>Acquirer</th>
<th>Industry</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>Pearl River Piano Group</td>
<td>Music instrument</td>
<td>Ritmuller, German Top 10 European piano brand</td>
</tr>
<tr>
<td>2001</td>
<td>Haier</td>
<td>Home Appliances</td>
<td>Menghetti, Italy</td>
</tr>
<tr>
<td>2002</td>
<td>TCL</td>
<td>Electronics</td>
<td>Schneider Electronics, German Including brands: SCHNEIDER &amp;DUAL</td>
</tr>
<tr>
<td>2002</td>
<td>Haixin Group</td>
<td>Fabric</td>
<td>Glenoit Corp’s specialty Fabrics U.S Including Trade mark</td>
</tr>
<tr>
<td>2002</td>
<td>Shanghai Automotive Industry Corp.</td>
<td>Automobile</td>
<td>GM-Daewoo Moto Alliance (equity stake) Korea</td>
</tr>
<tr>
<td>2003</td>
<td>Shanghai Electric Group</td>
<td>Machinery</td>
<td>Akiyama Publishing Machinery, Japan</td>
</tr>
<tr>
<td>2003</td>
<td>BOE Technology</td>
<td>PC monitor TFT-LCD</td>
<td>TPV, Korea (26.4% stake hold by BOE) Hydis, Korea</td>
</tr>
<tr>
<td>2004</td>
<td>Lenovo</td>
<td>Computers</td>
<td>IBM PC Unit, U.S</td>
</tr>
<tr>
<td>2004</td>
<td>TCL</td>
<td>Consumer Electronics Mobile Handset</td>
<td>Thompson, France. Manufacturing of RCA and Television and DVD products. (Thompson still controls the brands and licenses to TTE/joint venture company). Alcatel, Mobile Handset, France.</td>
</tr>
<tr>
<td>2004</td>
<td>SAIC</td>
<td>Automobile</td>
<td>Ssangyong Motor, Korean 48.92% stake</td>
</tr>
<tr>
<td>2005</td>
<td>Nanjing Automobile Group</td>
<td>Automobile</td>
<td>MG-Rover, a century of world-renowned British car company</td>
</tr>
<tr>
<td>2010</td>
<td>Geely Holding Group</td>
<td>Automobile</td>
<td>Volvo Cars from Ford Motor Company</td>
</tr>
</tbody>
</table>

Table 6.1 Overseas M&As by Chinese Manufacturers

Collected by Author
Previously, about 70% of Chinese overseas M&As failed (Xin, 2009; Bin and Lin, 2009) which resulted in huge losses for Chinese enterprises. A high failure rate of overseas M&As by Chinese companies has also been reported by Xin, (2009), Bin and Lin, (2009) which is higher than the M&A failure rate of companies from developed markets. The overseas M&As by Chinese manufacturers have not been very successful, especially compared to foreign companies' achievements in China.

This has been exemplified by the decrease in profits for TCL after acquiring Thomson and difficulties for Lenovo after acquiring IBM's PC business. Many articles have been published which discuss the failures of these cases (e.g. Moon et al 2003; Liao, 2007; Deng, 2009). Unlike M&As by Western enterprises in the Chinese market, the targets of Chinese manufacturers’ overseas M&As are almost all loss-making or bankrupt enterprises. It was revealed in Chapter Two that Western companies tend to sell off ‘non-core’ business to Chinese companies (Liao, 2007) and premium prices have been paid by Chinese manufacturers. Nevertheless, they have been struggling to turn around loss-making assets and second-tier brands in Western markets. Chinese manufacturers with their brand names have a long way to go before achieving internationalization through overseas M&As.

6.4 The Case of the Chinese Automobile Industry

As the most active acquirer from the list, the automobile industry is taken as an example to further investigate the situation of Chinese manufacturers’ overseas acquisitions. There has been a noticeable increase in the interest shown by the Chinese automobile manufacturers in established brands in developed markets.
During the economic downturn, the global automobile sector experienced a difficult period and many automobile manufacturers struggled, while Chinese automobile manufacturing is on the increase and making deals to acquire technology and brand names. In recent years, Chinese automobile enterprises have purchased a number of global car manufacturers, such as MG Rover and Volvo. The Chinese automobile manufacturing industry was previously outdated; most automobile parts were imported and designs were copied from foreign companies. A large gap between Chinese automobile manufacturers and world-class levels of products and processes have been reported by the IBM Business Consulting Service (2005) in terms of a lack of design capability, production management capabilities and business management skills and experience.

In the past few years, the situation of Chinese automobile manufacturing has improved through joint ventures with well-established multinational enterprises. Access to cheap labour and the technology of foreign automobile manufacturers has enabled Chinese auto manufacturers to export auto parts and cars of reasonable quality. Further overseas M&As by Chinese manufacturers could lead Chinese automobile manufacturers to achieve higher brand awareness, advanced technology and to close the gap with world-class manufacturers. With ambitions to become a global automobile manufacturer, the Chinese government supported their automobile manufacturers in acquiring foreign automobile brands in order to strengthen Chinese automobile sector’s position in a booming home market, and also to access mature markets. As discussed in Chapter Three, M&As can induce innovation (Prabhu et al, 2005), which leads to higher firm and brand values (Pauwels et al, 2004).

Chinese automobile manufacturers are making headlines and they are taking a big step in ‘going global’. Recently, China mobile manufacturer Geely
completed the acquisition of 100 percent of Volvo Car Corporation from the Ford Motor Company. It was a historic day for Geely and for the Chinese automobile industry. This case has played an exemplary role for other Chinese manufacturers who hope to move into the international market via overseas M&As. With the core values of safety, quality, environmental care and the modern Scandinavian design of the Volvo brand, it is hoped that China Geely, a private, unknown Chinese automobile manufacturer, can make premium-priced products. Sichuan Tengzhong, another Chinese automobile manufacturer intended to acquire the famous Hummer brand from GM. However, Tengzhong failed to obtain Chinese government approval to make the purchase.

6.4.1 Problems

Using foreign brand names and technology, Chinese automobile manufacturers can expand their market share and promote their own brand name in the global market. However, the previous observations and experience discussed in Chapter Two show that the problems of Chinese overseas M&As seem to outweigh the benefits. In the automobile industry, there are also significant shortcomings with Chinese auto manufacturers’ overseas M&As. Most of the problems and challenges identified in Chapter Two can be seen in mobile telephone manufacturing companies’ overseas M&As.

Chinese automobile manufacturers have failed in their ambitions before. For example, China’s largest automobile manufacturer SAIC suffered as a result of its purchase of SsangYong from Korea. Nevertheless, Chinese automobile manufacturers might learn from previous experience and improve their procedures. It might be too early to conclude whether Chinese automobile manufacturers are successful or not in overseas M&As, and there are still some
expectations for new acquisitions such as Geely’s acquisition of Volvo.

The IBM Business Consulting Service (2005) criticized Chinese automobile manufacturers for not having competitive quality, brand perception and after-sales service, yet still being eager to try ‘going global’. They point out ‘the new auto policy is seen as the wrong step for the domestic Chinese manufacturers since deregulation is important to nurture these companies’ (p.17). Similarly, Gao (2008) pointed out that Chinese OEMs ‘in their zeal to go global’ fail to divert precious management attention away from product quality; they do not pay enough attention to marketing and distribution; in addition, they go global before establishing strong market positions at home. He concluded that ‘such a quick-and-dirty approach risks permanently damaging brands’. Gao (2008) suggested that insufficient quality-and-talent-management approaches and the lack of strategic focus could ‘hinder the realization of the industry’s significant global potential’.

These problems had been also reported earlier by the IBM Business Consulting Service (2005) after a survey of the opinions of 20 leaders in Chinese industry and government as well as academic experts to gain a better understanding of how the industry looks today, and how they believe it will look in the future. In summary, a lack of corporate strategic planning by companies has directly affected quality, initiative and stability.

**Quality**

As in previous sections, quality problems are also apparent in the automobile industry. The IBM Business Consulting Service (2005) stressed that Chinese manufacturers should improve their product quality. China has suffered from several quality crises in the last few years, many of which have attracted a great deal of public and media attention. Chinese cars are no exception. The
poor record of Chinese automobile manufacturers on independent safety tests by Initial Quality Study (IQS) has seriously damaged the reputation of Chinese automobiles. One of the Chinese automobile manufacturers, Jiangling, scored no stars at all from the German Automotive Organization (ADAC). The negative effects of this can be fatal to Chinese automobile manufacturers. Most branded Chinese automobiles meet the needs of the low-price segment in the domestic market, yet they might face huge risks if they do not improve quality when dealing with global consumers with higher expectations after cross-board M&As.

Once again, as outlined in Chapter Three, quality is the most important factor for consumers when choosing (global) brands. Quality is a strict priority for any company to build a brand. Chinese automobile manufacturers must improve their quality and reliability; these are entry-level barriers. There is no question of the need to improve product quality by adopting foreign technology. However, Chinese automobile manufacturers should bear in mind that safety and product quality are an absolutely priority for companies; this is a basic requirement for branded products. In the absence of quality and reliability, whatever the automobile manufactures do, they will not succeed. Chinese automobile manufacturers need to implement a highly-effective quality control system before ‘going global’; otherwise, they might fail in their ambitions in the international market after they enter through M&As. According to Aaker, the brand quality is closely related to brand association (1991) and a brand association is ‘anything linked in memory to a brand’ (1996).

Chinese automobile manufacturers can learn some lessons from history, as the IBM Business Consulting Service (2005) illustrated, with regards to the case of Japanese and Korean automobile manufacturers’ early exports of vehicles to established markets. Exporting inexpensive vehicles to mature markets such as
the United States by Japanese and Korean automobile manufacturers failed to meet local quality levels, and it took years to overcome the image of poor quality vehicles.

*Management*

At the same time, management skills are another key challenge for Chinese automobile manufacturers in post-M&As. Previous experience has shown that acquiring western companies is likely to bring management problems for Chinese automobile acquirers. They are unable to run an overall program, and have little experience of managing integrations and managing foreign staff. In other cases, such as those of Lenovo and IBM, they both required foreign managers to stay on and run the entire company from New York. Chinese companies lack good management teams and international experience. A lack of talent in management teams was reported by Liao (2007) in Chapter Two for Chinese companies making international acquisitions. Following growing overseas M&A activity by Chinese automobile manufacturers and other manufacturers, there is a high demand for experts in making M&As work in such overseas acquisitions. As Kwan and Sauvant (2008) observed, ‘*It is an extremely difficult task for well-established and aspiring multinationals alike, especially in today’s competitive world market*.’ For Chinese automobile manufacturers, it is even harder. Although Chinese automobile firms have developed rapidly, their competence is weak (Hu and Zhu, 2008).

Brand integration is also a crucial issue in post-M&As. In the in-depth interviews, a few interviewees pointed out that the acquisition of valuable foreign brands such as Volvo has absolutely positive effects on Chinese branding, yet the question is how to manage the brands acquired and how to operate after the acquisition. Based on previous experience, the experts pointed out that Chinese companies have been unable to manage and improve
the brand acquired. One good example they provided was Lenovo who purchased IBM’s THINKPAD. They further suggest Chinese companies do not consider purchasing foreign brands’ non-core business as a way to enter overseas markets. The lack of experience and ability in Chinese companies raises a problem for Chinese acquirers: how to run and reverse those noncore-businesses acquired from foreign brands.

*Multinational companies are very experienced and mature in brand management and they tend to sell off their worthless sub-business brands.*

*Interviewee B.*

*Lack of management talent has been one of the main problems of Chinese companies in overseas M&As.*

*Interviewee J.*

**Technology**

The copying of technology from foreign automobile manufacturers by Chinese automobile manufacturers is common. So far, as IBM (2008) pointed out, no Chinese automobile manufacturer has used its own technology to develop products and manufacture cars for foreign OEMs. IBM (2008) suggested that ‘Over the long term this approach will fall flat in export markets, particularly developed ones’. An interviewee in IBM’s (2008) survey with OEMs observed that:

*Technology cannot be developed very quickly; instead, it can only be gained*
by accumulating knowledge over time... it's impossible to quickly develop these technology by ourselves

*Chinese Manufacturer interviewee, from IBM (2008)*

Chinese companies prefer to outsource some of their engineering and design:

*There are lots of global engineering firms, especially from Europe, that can help with styling, prototypes and power-train development. These organizations can offer lots of experience, and they have no competing products with the Chinese manufacturers.*

*Chinese manufacturer interview, from IBM (2008)*

In today’s rapidly-changing market, companies need to react particularly quickly to market changes. Chinese automobile manufacturers should be inspired by foreign technology, yet be truly innovative. Chinese automobile manufacturers need to increase their R&D spending and focus on independent innovation, rather than introducing existing technology. The Chinese government has to strengthen its domestic capability for innovation and research; indeed, China’s State Council tried to boost national R&D spending from 2 percent of GDP to 2.5 percent by 2010 (MacroChina, 2007).

To summarise, with the Chinese government’s support, money has not been a problem in making deals; the most important challenge has been to manage the integration of people, brands, processes and systems into a cohesive entity. Hu and Zhu (2008) further criticized Chinese automobile manufacturers for overly relying on joint ventures, most of which lack capability in R&D. They doubt
the ability of Chinese automobile manufacturers to manage the foreign talent from those well-established giants in the overseas market. Gao (2008) strongly agreed with their point of view. He argued that those companies, particularly OEMs selling fewer than 300,000 cars per year, are not yet ready to go global. He was concerned that the risk is especially great for China’s smallest automobile manufacturers i.e. those selling fewer than 100,000 units a year, and that they will face a difficult trade-off due to the cost of meeting stringent Western safety and emission standards which could price their vehicles beyond the reach of Chinese consumers.

Gao (2008) further suggested that Chinese OEMs need to re-examine their plans for ‘going global’ and should not go global in a hurry. As he suggested, low pricing is not a way to go global. Instead, Chinese OEMs ought to improve pricing and margins by repositioning brands around value. Improving product quality is another essential step Chinese OEMs should take.

Working with global talent can explore ways of encouraging much greater cross-functional collaboration (Gao, 2008). However, for long term development, Chinese OEMs should focus more on cultivating and training their own talent with cross-culture knowledge and gaining experience of managing foreign talent. Finally, Gao (2008) suggests some OEMs need to focus on ‘building sustainable businesses, including marketing, sales and distribution activities, rather than having the ‘mind-set of pure wholesalers or exporters’.

As discussed in Chapter Three, all transactions are faced with challenges. All multinationals are experienced in operating business on a global scale, but they still suffer from a high failure rate and unsatisfactory results in M&A activities. Chinese companies, especially manufacturers, are inexperienced, as Liao (2007) argued in Chapter Two.; they still have various fundamental problems
in their own businesses. To move their business forward, choosing non-organic strategies might shorten Chinese companies’ path to globalization, but the question is whether they are able to meet their objectives, and whether they have the knowledge and skills in M&As, especially with regards to previously-unencountered global forces and rapid technological changes.

The above problems with Chinese OEM’s are consistent with Liao’s (2007) findings of problems regarding Chinese companies’ overseas M&As. Du (2009) argued that many cases reveal that it is quite risky for Chinese automobiles to merge with loss-suffering companies in developed countries. He further pointed out that a series of cases demonstrate that it is a long and difficult task for developing countries to conduct transnational M&As. It takes decades for many automobile manufacturers to establish recognized brands, and Chinese automobile manufacturers are currently at a very immature stage of development whilst trying to shorten the process through overseas M&As. The concern is whether they are able to manage acquired assets such as brands. Improving China’s own companies’ brands and innovation are a basic strategy for the China automobile industry, at least in the domestic market. (Liu et al., 2008).

In the literature review it was pointed out that marketing and brands in M&A have been ignored in current literature (Jaju, et al., 2006). Although there is lack of evidence in the literature, M&As would certainly assist Chinese companies to leverage the strengths of existing brands. As Kumar and Blomqvist (2004) claim, taking the brand into consideration at the outset of a transaction would result in a stronger, more sustainable competitive advantage for a company to increase shareholder value. In the literature review it was also discussed that brand and merger integration is a very important task, and it requires decision makers to align brand and merger integration into its corporate vision and implementation. A ‘comprehensive thinking process of
integration to consider all factors from pre-M&A and forward branding to backward branding and post-M&A’ is required (Yang et al, 2012:443). For Chinese acquirers it is important to ensure how to ensure that acquired brand associations survive in the migration of the equity to the own brand, and that consumers’ expectations are met. The systemic management required in brand integration in post-M&A, and the evident lack of knowledge and skill in brand management in general, could restrict Chinese manufacturers’ ability to successfully align the acquired brand with their corporate vision.

As Lucas et al (2012:24) claim, ‘The company typically has to step over some significant branding and design challenges’ to enhance brand value otherwise this could ‘impede its efforts to deliver on a great new brand promise’. The challenges an acquirer might face are ‘ownership hand-off, lost history, internal competition, unfocused opportunities, global-local issues, design dilemmas and shopper confusion’. For Chinese acquirers, they need to carefully balance branding and design during the M&A transaction step by step. Previously, it was discussed that acquiring a brand with a good image can create the perception of better quality among consumers (Lee et al, 2011), yet simultaneously a brand with a superior image will experience a dramatic decline in brand association after M&As (Lee et al, 2011). For example, brands or companies with a superior image may acquire an inferior image after M&As when their ownership has transferred to Chinese companies. Consumers might be concerned about whether the superior brands can maintain their products’ attributes, consumer benefits or brand personality. Therefore, a banding strategy is especially required in M&As.

In light of the above discussion, it might be more interesting to find out the opinion of sixteen top Chinese branding consultants. Some interviewees believe that even though there have been a number of failures in the past, this is inevitable in the process of internationalization. From these failures, Chinese
companies will learn lessons and will avoid repeating the same mistakes in the future.

However, some experts disagree with this point of view. They support the view of other academics (e.g. Liao, 2007; Liu et al, 2008; Gao 2008), who believe that it is still too early for Chinese companies to undertake overseas M&As, and they are not strong enough to manage overseas M&As.

They advised Chinese companies to strive to spend money on developments in the domestic market, which will be the world’s largest market, rather than rush to enter the international market, which is driven by a profit-oriented and rapid expansion mentality, which will lead Chinese companies to take risks. Furthermore, they shared the view of Liao (2007) who believes that most Chinese companies in overseas M&As are relatively blind, especially in the early stages.

A lack of knowledge of foreign brands and markets, a lack of integration and management skills after acquisition, coupled with a lack of innovation, often turns into an embarrassing situation of ‘throwing good money after bad’:

*Chinese companies should not promote overseas M&As at this stage. Basically, they can only purchase stuff with no value. Joint-stock is probably the easiest way to achieve their goals. Chinese companies can obtain resources they need through a variety of ways rather than direct purchase, especially when not well prepared.*

*Interviewee M.*

Although some experts support overseas M&As by Chinese companies, they
share one view with those experts who do not. Most of them pointed out that Chinese companies have, for the most part, been wholly unprepared to deal with overseas M&AS. Therefore they have experienced a number of failures.

They do not know how to go out and have no experiences and are not well prepared.

Interviewee K.

Therefore, they suggest that Chinese companies should conscientiously study the acquisition target before taking action, and be well prepared. As Kumar and Bolmqvist (2004:20) highlighted, ‘Brand is an intangible asset that requires specialised acquisition practice – for targeting, due diligence, valuation, portfolio strategy and the post-merger management process’. Culture is another important aspect to learn before overseas M&As. There are many things which need to be learned and to be known before conducting an M&A, for example cultural problems (Lee et al, 2011).

The interviewees also suggested that Chinese companies should consider the following issues before taking action:

Whether Chinese acquirers have appropriate knowledge and understanding of international markets, the relevant regulations and rules.

Whether the condition and ability of Chinese acquirers can digest the acquired brands and companies.

Whether Chinese acquirers have capabilities regarding different cultures and management modes after acquisitions.
Whether Chinese acquirers have a strong international management team and corresponding systems etc.

Interviewee C.

Before overseas M&As, Chinese buyers should consider the above issues clearly and not rush; otherwise it will lead buyers into a difficult situation such as the TCL case. An understanding of acquired companies and their culture has been another crucial element for successful M&As. As one interviewee observed, Chinese entrepreneurs sometimes do not recognize the importance of laws and regulations regarding unions and labour protection after their acquisition of foreign companies. For example, SAIC’s acquisition of SSANGYONG caused major problems for SAIC due to labour issues. As this interviewee further stated:

In China, those entrepreneurs had never encountered such problems, because trade unions and labour are the most vulnerable groups.

Interviewee B.

In overseas M&As, interviewees pointed out that, for Chinese buyers, the first consideration should be an inventory of their own resources. They should be familiar with the rules of the game and also risk assessment. They need to make purchase decisions carefully and to consider what to do if there is a problem after M&As. Understanding different customers and markets has been important too. Chinese companies need to improve their capacity in terms of adaption and learning as well as integration when facing the different
management systems and cultures in two companies.

To summarise, internationalization does not necessarily require M&As; Chinese companies should not rush in with a poor understanding of the target, which could lead them to fail.

6.5 Conclusion

There is no better way to rapidly grow the business and brand than M&As. From the above cases, it is clear that China’s booming economy has enabled Chinese companies to become one of world’s major players for overseas M&As. For many Chinese companies and manufacturers, overseas M&As appear to be a very good strategy to help Chinese manufacturers enter the foreign markets, to equip them with advanced technology and to obtain well-established big brand names. Under the well-known brand names, the negative impact of Chinese manufacturers’ own brand image will be eliminated. It saves Chinese manufacturers much time and costs in building their own brands.

The advanced technology and management skills acquired can enable Chinese manufacturers to improve their product quality and production, to operate the business at an international level. However, observation of OEMs’ case and the interview with experienced domestic brand and marketing consultants suggest that Chinese manufacturers do not have sufficient scale or financial and management resources to go abroad. With little experience in overseas M&As, the risks are great for Chinese manufacturers. Most manufacturers such as Lenovo, TCL and those automobile manufacturers discussed above are major players in their industries, and all looked to expand globally through M&AS. However, things did not go well after their overseas M&As. Their own brand names have not been as successful as they expected in the developed market,
even under the umbrella of a well-established brand name. New acquirers such as Geely have reasons to be concerned over their ability to turn their loss-making business around and manage well-known brands in well-established markets.

There has been an eagerness to expand among Chinese manufacturers with over ambitious plans. Most Chinese manufacturers, especially medium and small sized manufacturers, should perhaps learn and improve in the domestic market and succeed there before going global. As IBM (2006) suggested, Chinese companies need to improve their product development capabilities, product designs and develop the ability to collaborate with business partners. Before ‘going global’, Chinese manufacturers should be fully and well prepared. Chinese companies might carefully examine the potential of the target company, rather than simply buying up any company that is in trouble, which would lead to unnecessary risks even if they possess good brand names.

Acquiring well-established brands is useful to enhance the image of Chinese manufacturers’ own brands, but it does not mean Chinese manufacturers can maintain the acquired brands. Chinese manufacturers are still poorly equipped as regards output, sales volume, brand awareness and market share; it will be extremely difficult for them to carry on the reputation of the well-established brands they have acquired. They have yet to learn the fundamental steps of building brands and managing brands. The purchase of overseas assets opens up a path for Chinese companies towards global markets, but it cannot guarantee their long-term survival. It is easy to create a brand name and logo, and it is also easy to replicate business processes, but it is hard to build the intangible assets of a brand. Those tangible assets Chinese companies purchase might not provide them with sustainable competitive advantages; it is not enough for Chinese companies to build global brands. Building brands, managing brands and developing brand equity is not simple.
Chinese companies should focus on building the intangible assets of a brand strategically. Besides the complexity of building a brand, Chinese manufacturers should first innovate, and produce quality products to meet customers’ needs and deliver the potential brand promise. A systematic and innovative approach should be adopted by Chinese manufacturers to better understand market changes and customer needs in order to deliver the right product to customers.

Furthermore, Chinese manufacturers are currently making deals in different countries. With different cultural backgrounds, the post-M&As integration is especially crucial for any deal. The completion of a deal does not bring the work to an end; making mergers work after the deal is a fundamental element of a successful M&A. Post-M&A is a demanding period, and Chinese manufacturers should not underestimate the challenges before making any deal.

In the high-tech manufacturing industries, such as the automobile industry, the challenges of building brands are identified. In other industries that have relatively low-tech requirements, such as the garment industry, the question of whether they face the same challenges in branding needs to be investigated. The next chapter looks into the garment industry to analyse the situation and challenges for brand building.
Chapter Seven

Garments Brands

7.0 Introduction

As the world’s biggest exporter of garments, China has long been a main supplier for many developed markets such as the US and the EU. With a population of 1.3 billion, China is the world largest garment consumer and producer. Since 1993, China has become the world’s largest garment exporter to the rest of the world (Rivoli, 2006). In developed markets such as the U.S, the EU and Japan, Chinese garments are their main and biggest garment imports. The garment industry has greatly contributed to the national economy (China Investment Consulting, 2010).

The overall garment industry, including women’s, men’s and children’s wear, has grown rapidly, and the export value of garment products has reached 107,051,000,000 USD (ican Data Research Centre, 2010). Meanwhile, one of every three articles of clothing in the world is produced in China (China Investment Consulting, 2010).

However, behind the huge volume, the fact is that the Chinese garment industry has no world-class brand; it is simply a factory for the world. The Chinese garment industry is mainly OEM-based (Original Equipment Manufacturing); its independent brands account for only 10% of exports and these are generally middle and low-end products (icandata Research Centre, 2009b).
As OEMs (original equipment manufacturer), Chinese garment manufacturers are in a relatively disadvantageous position with meager incomes, whilst huge profits usually go to the foreign brand owners (Shi, 2008). The current characteristics of the Chinese garment industry are ‘Large-scale, large output, but poor design and structure’.

The process of the garment industry does not match the number of brands; the massive scale does not equal international influence, and production capacity does equal technological innovation. Chinese garments have globally become synonymous with low-end and low-cost. Li (2008) highlights that Chinese garment manufacturers must establish their own brands to change this situation and to find a place in both domestic and overseas markets.

This chapter investigates the branding story of the Chinese garment industry in the domestic market, and in particular men’s and women’s garment brands. The situation and problems of the current branding in the garment industry are identified. In addition, in-depth interviews with three local garment branding experts’ help to gain further insights into Chinese garment branding.
7.1 Background Story

Chinese garment manufacturers have traditionally engaged in OEM and only focused on the manufacturing process, with low cost and high flexibility in response to customer demand. Currently, there are more than 100,000 garment manufacturers and 10 million people working in the garment industry (CNGA-China National Garment Association, 2011). The total sales revenue of the Chinese garment industry in 2011 (Jan-Nov) was RMB 502 billion (approx. 70 billion USD). (The China Economic Information Statistics Database, 2012). The Business Consulting Group (BCG) predicts that the turnover of the Chinese fashion market will be tripled within the next ten years, reaching about 204 billion USD (China Textile Network Company, 2012).

As with other industries discussed in the previous chapters, foreign companies also have a significant share in the Chinese garment industry (Figure 7.1; 7.2).

![Percentage of foreign enterprises in terms of the number of enterprises in 2010](image)

Source: Beijing Zeefer Consulting (2011)
In 2010 there were about 17,996 apparel manufacturing enterprises, and 6,082 of these were foreign companies accounting, for 33.8% of the total (Beijing Zeefer Consulting, 2011).

The Chinese garment industry has formed into a number of clusters, and manufacturers from each cluster are small and scattered. More than half of the garment manufacturing companies in China are privately-owned (see Figure 6.2). Wenzhou is one example. One of the major cities in the Zhejiang province of China, Wenzhou took the lead in the garment manufacturing sector in the early days of economic reform. Most Chinese garment manufacturers
started as small family businesses. At that time, Chinese garment producers would have had no awareness of brands or branding at all. Meanwhile, the number of manufacturers quickly increased and more family businesses entered the industry. Following market saturation, some garment manufacturers realized the importance of branding, and embarked on a brand-building mission in the industry. However, issues of small scale, lack of branding knowledge and capital have limited their ambitions.

Furthermore, those small and medium-sized garment manufacturers in OEM-only business have limited financial leverage compared with larger-sized brand holders. They also have poor technology and cultural issues also impede their growth. They have an incomplete understanding of the market mechanism and depend on traditional business models, therefore their costs have remained very high. They struggle to stay in business and they tend to have a short existence. For them, the most important thing is to survive and to accumulate capital. What is more, they do not have the patience to develop their own brands (Ning and Liao, 2007). Many of them have been pushed out of the market or have been taken over.

The business concept of manufacturers has long largely focused on sales and poor investment in brand equity. However, considering long-term survival, a small number of manufacturers took a brave step and started to focus on brand-building, believing this might bring them new opportunities, rather than waiting to die. One example is the BAOXINIAO Group, formed in 1996 by three medium-sized garment manufacturing companies, namely JIALISHI, BAOXINIAO and AOSITE. As one of the pioneers, BAOXINIAO have engaged in the design, production and sale of garment products (SPA) for men primarily through chain stores under the BAOXINIAO brand.
It has become the first well-known garment brand for men in the domestic market. Zhejiang BAOXINIAO Garment Co. Ltd is a subsidiary of the BAOXINIAO Group, and was founded in 2001 and officially listed on the Shenzhen Stock Exchange in 2007. It was the first private shoes and garment company from Wenzhou to be listed on the domestic stock exchange market. It has set a good example for other Chinese traditional industries such as shoes and garment companies.

7.2 The Garment Industry in the New Economic Climate

In China’s garment industry, OEM is the main way of developing for the majority of garment companies. They are manufacturers for western brands making small profits. Most Chinese garment manufacturing companies have been strongly impacted by the current market conditions, including rising raw material and labour costs. The value of RMB (Chinese currency) has risen, which has further affected garment manufacturers (China Academic Journal Electronic Publishing House; 2012). Wu and Lu (2008) state that the profits of the garment industry will drop by 6.18% when the RMB value rises by 1%. These factors have heavily affected garment exports (Figs. 7.3; 7.4). Many orders from the West were transferred to other countries with lower costs in 2008 (Wu and Lu, 2008).
Fig. 7.3 The situation of industry revenue, profit and gross profit margin

![Graph showing industry revenue, profit, and gross profit margin over time.]

Fig. 7.4 The main Products Growth in a Single Month

![Graph showing the growth of main products over time.]
Wu, a garment brand-marketing expert with ample experience of garment company management, along with Lu, identified different reactions by manufacturers when facing difficult situations (Wu and Lu, 2008) (Fig. 7.5).

Fig 7.5 Manufacturers’ Reaction to the Changed Environment

Source: adapted from Wu and Lu (2008)
Some garment manufacturers have chosen to downsize and to try to reduce risks, while others have transferred costs to invest in other business areas in order to maintain profits. Some turned back, seeking domestic sales, while some only sit tight and watch the market in the hope of eventually fewer competitors after such intense competition. A group of garment manufacturers realized that there is no survival in the long term as OEMs. They have focused on the domestic market and started to build brands. They have made efforts to transfer themselves from OEMs to ODMs (Original design manufacturer) or OBM (original brand manufacturer).

Transferring from OEM to ODM or OBM requires Chinese garment manufacturers to acquire expertise in terms of product design, retailing, distribution and management, skills which most Chinese garment manufactures lack, especially SMEs. Many garment manufacturers have been put off by the high cost of brand promotion and the special skills of brand development such as brand promotion (Wu and Lu, 2008).

To survive, more garment manufacturing companies started to develop brands. The competition has shifted from the price war of the past to competing with regards to overall capability, including design, fashion marketing etc. With intense market competition and the increasing awareness of branding, the Chinese garment manufacturing industry has entered a critical period of industry restructuring, and manufacturers are expected to be increasingly engaged in activities beyond manufacturing.

7.3 The Early Bird Catches the Worm

Some Chinese garment manufacturing companies such as Youngor, Romon and Baoxiniao have achieved a certain success in brand building and high
recognition in the domestic market. These manufacturers started brand building early and have already earned a place in the market. They have stood out from the crowd while many small and medium-sized garment manufacturers are still struggling to survive. As Financial Times China (2010) noted, the Chinese local garment brands are on the rise, and they are challenging foreign garment brands in the domestic market. The key players currently operating in the Chinese apparel industry include both local and international garment brands (Table 7.1).

Table 7.1 Key players in the Chinese garment industry

<table>
<thead>
<tr>
<th>Company</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youngor Group, China</td>
<td>Youngor</td>
</tr>
<tr>
<td>ROMON Group Co. Ltd. China</td>
<td>ROMON</td>
</tr>
<tr>
<td>Giordano International Limited, Hong Kong</td>
<td>Giordano</td>
</tr>
<tr>
<td>BAOXINIAO Group, China</td>
<td>BAIXINIAO</td>
</tr>
<tr>
<td>DKNY</td>
<td>DKNY</td>
</tr>
<tr>
<td>Armani Inc.</td>
<td>Armani</td>
</tr>
<tr>
<td>Calvin Klein Inc.</td>
<td>Calvin Klein</td>
</tr>
<tr>
<td>LVMH</td>
<td>LV</td>
</tr>
</tbody>
</table>

Source: Bharat Book Bureau, (2008)

In the interview with three garment branding experts, all of them believed that these Chinese garment manufacturing companies who focus on brand building do have prospects, and that the positions of these manufacturing companies are at or above the industry average. The situation of these garment manufacturing companies with brands is far better than those who have not focused on building their brands.
These garment manufacturing companies have superior market consciousness compared to others, and they have longer business planning and are willing to provide quality products. With brand building, they have more advantages and decision-making power in market competition and channel expansion.

Interviewee R.

7.3.1 Men’s Garment Market

As manufacturing has moved from being state-led to privately-led to currently being private brand-led, Chinese male garment manufacturing has formed into three clusters. One is the ‘Zhe School’ based in Jiangsu Province, Zhejiang Province, in particular the towns of Ningbo and Wenzhou and Shanghai; these are exemplified by the Yongor, Shanshan and Baoxinniao brands. Another is the ‘Min School’ centered on the towns of Jinjiang and Shishi in south-east Fujian, with brands such as Sept Wolves, X-Box and Joeone. The third is the Pearl River Delta cluster which has developed as a result of its links with Hong Kong and Macau (China Investment Consulting, 2012).

The time for the development of men garments is short, but its momentum is very strong. There are some national brands which have earned awareness and a market share in the domestic market (Table 7.2). Although the foreign brands are still a strong force in the high-end market, the status of these strong domestic brands is still stable, especially in the middle and low-end markets.

Facing the dramatic changes in the market environment in 2009, the men’s garment industry has actively been upgraded and adjusted. The industry has
entered the era of brand competition. At present, foreign brands such as Giorgio Armani and LVMH have taken a lead in the first tier men’s garment market, and their strong competences have out-distanced domestic brands. Compared to the world’s ‘designer’ brands, the Chinese men’s garment industry is still in the very early stages of brand building. Chinese garment brands are still ‘industrial brand’ based.

Table. 7.2 Top Chinese Men’s Garment Companies

<table>
<thead>
<tr>
<th>Companies</th>
<th>Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>YOUNGOR</td>
<td>Youngor Group Co., Ltd</td>
</tr>
<tr>
<td>HODO</td>
<td>Hongdou Group Co., Ltd</td>
</tr>
<tr>
<td>SEPTWOLVES</td>
<td>SEPTWOLVES Group Co., Ltd</td>
</tr>
<tr>
<td>BAOXINIAO</td>
<td>Baoxiniao Garment Co., Ltd</td>
</tr>
<tr>
<td>SEVEN BRAND</td>
<td>Seven Brand Group Co., Ltd</td>
</tr>
<tr>
<td>K-BOXING</td>
<td>K-boxing (China) Co., Ltd</td>
</tr>
<tr>
<td>BOSIDENG</td>
<td>BOSIDENG International Holding Limited</td>
</tr>
<tr>
<td>SHANSHAN</td>
<td>Shan Shan Holding Company</td>
</tr>
<tr>
<td>Di</td>
<td>Monarch Group Co., Ltd</td>
</tr>
<tr>
<td>Tries</td>
<td>Tries Garments Co.Ltd</td>
</tr>
</tbody>
</table>

Source: ican Data Research Centre (2009)

In addition to those large, foreign men’s garment brands, many foreign brands that enter the Chinese market are essentially at the same stage as the Chinese local brands. With less understanding of the huge local market and a limited network of local distribution channels, they have not threatened the domestic brands in the second and third tier market, and the huge size of this market has
driven the sale volumes to continually expand.

After ten years of accumulation, garment manufacturing companies in the domestic market have access to a wide range of channels, so it is impossible for foreign garment brands to enter the domestic market in the short term.

Interviewee R.

Rapid economic development has been one of the main drivers for the development of the garment industry. Following the pace of industrialization, increasing urbanization with increasing income and changing consumption patterns have also been driving forces for the development of the garment industry. In comparison, those garment manufacturers with independent brands have advantages in the market, and those who rely solely on OEM business have found it difficult to gain more space for development.

With continually increasing incomes, there is a large capacity for garment manufacturers to grow. China has very different income levels, and consumers have different consumption trends and preferences. This provides living space for different types of garment products and brands. However, at the same time, this will also require garment manufacturers to have clear positioning and a customized marketing strategy.

Compared to the variety of style and the rapidly-updating speed of women’s garment products, men’s garment products are relatively simple in design and have only minor brand differentiation. Their requirement for dress is reflected in the fashion and product quality. Therefore the men’s garment market and production process are relatively stable and the size of men’s garment company is also relatively large. At the same time, the domestic garment
manufacturers need to realize that the growing number of foreign brands entering the Chinese men’s garment market not only brings with it international fashion trends and consumption habits, it also brings an international competitive environment.

Domestic consumers might have different demands or higher expectations of these companies. If domestic products fail to meet consumers’ expectations, this might threaten a company’s survival. Foreign garment brands are ‘designer brands’ and domestic garment brands are ‘manufacturing brands’. When foreign brands become familiar in the domestic garment market, more and more of them will quickly step into the market with their brand name and strong marketing strategies, as has happened in other industries. Therefore, Chinese men’s garment manufacturing companies need to have a sense of crisis and try to improve their product design, branding and promotion skills in order to compete and to survive.

### 7.3.2. Women’s Garment Market

Women’s garment brand building started from the early 90s, and it has developed rapidly in recent years. According to icandata Research Centre (2009) women’s garment manufacturing companies numbered more than 30,000 as did women’s garment brands. In a similar way to men’s garment brands, in the years of its development, women’s garment industry has formed into a few schools with distinctive regional characteristics. The industry clusters are mainly in major cities such as Beijing, Shanghai, Hangzhou and Shenzhen (Table 7.3). They are the Han School, Hang School, Yue School and Jing School and Hai School (ican Data Research Centre, 2010). All these schools have their own characteristics.
Table 7.3 Major women’s garment brands based from the five Schools

<table>
<thead>
<tr>
<th>Hang School</th>
<th>Yue School</th>
<th>Jing School</th>
<th>Han School</th>
<th>Hai School</th>
</tr>
</thead>
<tbody>
<tr>
<td>JNBY</td>
<td>YISHION</td>
<td>RED HOUSE</td>
<td>TAHAN</td>
<td>KAKO</td>
</tr>
<tr>
<td>HOPESHOW</td>
<td>GOELIA</td>
<td>WHITECOLL R</td>
<td>YAQI</td>
<td>LEVU’SU</td>
</tr>
<tr>
<td>QIUSHUIYI REN</td>
<td>SEASONWIND</td>
<td>MERME</td>
<td>ZUOERMEI</td>
<td>MATCHEI</td>
</tr>
<tr>
<td>LESIES</td>
<td>FEEL100%</td>
<td>SHEMAN</td>
<td>ESTOREY</td>
<td>X-GE</td>
</tr>
<tr>
<td>LANGMAN YISHEN</td>
<td>KEMAN</td>
<td>MSYD</td>
<td>HONRN</td>
<td>ICICLE</td>
</tr>
<tr>
<td>QIAN BAI HUI</td>
<td>M-SUYA</td>
<td>JOSSBO</td>
<td>YAN-TE</td>
<td>MISS TWO</td>
</tr>
<tr>
<td>HALLONGWELL</td>
<td>GEWENS</td>
<td>LAZYBATS</td>
<td>YANNI</td>
<td>E.THE</td>
</tr>
<tr>
<td>ROMANSENI TIMENT</td>
<td>SAR&amp;SIR</td>
<td>Y-STYLE</td>
<td>VICE</td>
<td>LEFT ONE</td>
</tr>
</tbody>
</table>

Source: icandata Research Center (2010)

The women’s market segment is more complex than the men’s garment industry, and the competition is fierce. Each school’s current market share of the brands is relatively equal, and there is no brand from these schools which has a notable scale and impact in the national market (ican Data Research Centre, 2010). Women’s garment brands have a certain degree of influence in their regions, but no single company could penetrate the national market successfully. There is a lack of non-regional brands in the women’s market.

Gloria, which is in the third place in the top 10 women’s garment brands list, has less than a 2% market share. Other brands from the list such as HOPESHOW, TAHAN, and PEACEBIRD have less than a 1% market share (icandata Research Centre (2010)) (Table 7.4). The national women’s garment brands have been far less effective than male garment brands in the domestic market. Their positioning, sales and other basic skills are far behind the male brands.
Table 7.4  Top 10 Garment Brands in China 2010

<table>
<thead>
<tr>
<th>Brands</th>
<th>Brand owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Etam</td>
<td>Etam, France</td>
</tr>
<tr>
<td>Gloria</td>
<td>Gefeng, China</td>
</tr>
<tr>
<td>Only</td>
<td>BESTSELLER, Danmark</td>
</tr>
<tr>
<td>Hopeshow</td>
<td>Diyuan, China</td>
</tr>
<tr>
<td>GIRDEAR</td>
<td>GIRDEAR, Taiwan</td>
</tr>
<tr>
<td>PEACBIRD</td>
<td>Peac Bird, China</td>
</tr>
<tr>
<td>Qiu Shui Yi Ren</td>
<td>Image, China</td>
</tr>
<tr>
<td>Qian bai hui</td>
<td>Qian Bai Hui, China</td>
</tr>
<tr>
<td>TAHAN</td>
<td>TAHAN, China</td>
</tr>
<tr>
<td>GIORZIO</td>
<td>GIORZIO, China</td>
</tr>
</tbody>
</table>

Source: icandata Research Centre (2010)

In contrast, international women’s garment brands have penetrated the Chinese market over a much broader geographical area (ican Data Research Centre, 2010). The international women’s garment brands can be seen in high-end department stores in all major, first-tier and second tier cities. At the same time, more foreign women’s garment brands with a distinct personality such as ZARA continued to enter the Chinese market, which has threatened Chinese local women’s garment brands. The success of these low-end foreign brands in the Chinese market shows that not only luxury brands can be big brands. Chinese women’s garment brands are still relatively backwards in technology, design, management and marketing compared with international women’s garment brands (icandata Research Centre, 2009a).

According to China SSAP (2009), although the women’s garment industry has
experienced rapid development [production, domestic sales and exports have maintained a high growth rate in the past 10 years] it also faces very serious challenges; some companies are in the red or on the verge of loss, and some have losses of over 20%. Generally, in the women’s garment industry product homogeneity, copy versions, unclear positioning and profit-oriented modes of operation have caused vicious competition in the form of discount promotion. The growing number of small and medium-sized companies paying little attention to branding has mainly concentrated on imitation without creativity. Most of them seek short-term profit, and the quality of their products is low. The middle and low-end women’s garment markets are facing a ‘glut’. The price war has turned competition into a vicious circle.

There are two major problems restricting the development of the women’s garment industry (China Appeal, 2009). First, a family management style is still dominant in the sector. Second, the brand characteristics and style are not clear, and imitation is excessive. Blind imitation and price wars can only drive these companies out of the market. This price war has received much attention from practitioners and researchers (van Heerde et al, 2008) with a conclusion that ‘Price wars can create economically devastating and psychologically debilitating situations that take an extraordinary toll on an individual, a company, and industry profitability. No matter who wins, the combatants all seem to end up worse off than before they joined the battle’ (Rao et al, 2000). Nevertheless, “price warring” is still commonly used by many companies. Chinese manufacturers only rely on price war and imitation, but without a long-term business plan and sustainable objectives for development, they cannot survive long.

As icandata Research Center (2010) point out, with the improvement in the level of women’s education, the development of multiculturalism, the increasing strength of the young women’s generation, female consumers’
attitudes are constantly changing and brand awareness is much stronger. The brand effects will become more apparent. Therefore, Chinese women’s garment manufacturers must pay attention to fostering innovation, continuously improving their technology and understanding the competitors’ consumers and the market in order to gain a firm footing in such an environment, thereby gaining a competitive edge.

7.4 Major Problems for Garment Brand Building

Clearly, the Chinese garment industry has made remarkable progress in recent years. However, as Li and Sun (2009 p.129) argued ‘... the development of the garment industry still cannot shake off the extensive model which is characterized by a quantity growth pattern.’ Apart from a few well-known national garment brands mentioned in the last section, there are many medium and small-sized garment manufacturers who are struggling. These garment manufacturers have struggled to influence the industry and consumers. As Wu and Lu (2008) indicated, brand and marketing strategy and industry structure have been major problems for these SMEs. As outlined earlier, most of these manufacturers have no long-term business plan and are short-sighted. These types of manufacturer will find it difficult to stay in the industry.

Apart from these SMEs, those bigger garment manufacturers with their own better-performing brands have still faced difficulties. Overall, international garment brands have much broader market penetration in the Chinese market, while Chinese garment brands are more recognized at the regional level. Chen and Shih (2004) identified the major problems of Chinese garment brand building (Table 6.5). Some problems identified by both researchers and experts for Chinese brand building in previous chapters have also been found in the garment industry’s branding, e.g. quality, management, marketing or branding
skill and innovation.

Table 7.5 The Weaknesses of Chinese Garment Industry

<table>
<thead>
<tr>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most enterprises are small, with labour-intensive production methods,</td>
</tr>
<tr>
<td>low capitalization and a low level of computerization;</td>
</tr>
<tr>
<td>Profitability is generally low; around one-fifth of garment manufacturers are losing money;</td>
</tr>
<tr>
<td>Enterprises tend to have high financial risk</td>
</tr>
<tr>
<td>There is a shortage of senior management and design talent</td>
</tr>
<tr>
<td>The quality of raw materials is poor</td>
</tr>
<tr>
<td>Overall product quality and added value are low</td>
</tr>
<tr>
<td>Garment brands tend to all have similar positioning; few companies have a distinctive core version</td>
</tr>
<tr>
<td>Garment design is behind the times</td>
</tr>
</tbody>
</table>

Source: adapted from Chen and Shih (2004)

**Management**

In the previous investigation into the automobile sector, the management problem was identified by other academics and was also identified as one of the weaknesses in that industry. In the garment industry too it is one of the main problems. Chen and Shih (2004) pointed out that there is a shortage of senior management among Chinese garment manufacturing companies. They are only interested in quick sales, and ignore long-term development and brand building. All these reasons contribute to a series of problems such as a lack of investment in brand equity, poor management and a lack of talent in design. This is common among other manufacturers in those other industries which have been discussed earlier. In the interview with garment branding exerts,
they all agree with this point of view. As one of them states:

*Chinese garment manufacturing companies lack ability in brand operation and there is a huge gap with international brands from strategic sense to promotion. The main problem is the talent issue, both for design and management. There is a lack of talent in management teams throughout the garment industry and companies.*

*Interviewee S.*

Overall, the management level of garment companies is low, which restricts further development of the business. In small and medium-sized garment manufacturing companies, Xue (2007) emphasized that the problem of building brands internally lies in the management expertise of managers, who have a poor understanding of branding. Thus, in a sense we can say that the troubles for businesses in the areas of capital and technology depend on the management expertise and understanding of business operators. This demonstrates that the management expertise of a company’s managers has a significant impact on business development and corporate brand building. In these interviews, experts have the same opinion as Xue (2007).

*The management expertise of Chinese garment company leaders has largely decided the progress of garment brands.*

*Interviewee Q.*
Once again, Li and Lian (2009) argue that the management teams in garment companies lack management skill and ability. Most Chinese garment manufacturing companies started as family businesses, and the family business management mode still applies in today’s businesses, especially in small and medium-sized companies. During the interviews one of the experts pointed out:

_The Chinese garment industry has low barriers to entry and the management skill of company owners is very low. The biggest problem is the family business management style. The success of a business depends heavily on the business owners who cannot be called entrepreneurs, because they do not know how to operate businesses._

_Interviewee S._

Experts believe that there are relatively large differences between Chinese companies and Western companies in terms of the rule of law, especially in the clothing industry.

_The vast majority of China’s garment manufacturing companies are private, and the companies’ growth and development relies on the wisdom, management and decisions of individual leaders. In Chinese companies the leader plays an important role, while Western companies are more corporate governance-structured and rely more on the management team to lead the companies._

_Interviewee R._

The leaders of men’s garment companies such as SHANSHAN, YOUNGOR, SEPTWOLVES and K-BOXING have shown the importance of leadership in
their business (Table 6.1). They strongly believe that the management expertise of Chinese garment companies leaders determines their brand development and the progress of Chinese garment brands.

Table 7.6 Examples of top Chinese garment brands

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Sale Revenues in 2011 / Million RMB</th>
<th>Target Market</th>
<th>Main Products</th>
<th>Brands Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youngor</td>
<td>6,197 (Including 2,321 for OEM export)</td>
<td>Medium &amp; High-end/35-45 Business people/male 40-55 Public sector employees/male 25-35 Young fashion consumers/male</td>
<td>Suit Casual wear</td>
<td>Youngor GY Mayor CEO Youngor Hanma</td>
</tr>
<tr>
<td>Shanshan Young, healthy and fashion</td>
<td>3,002</td>
<td>Medium &amp; High-end Wide range of target market depends on different sub-brand/ male &amp; female</td>
<td>Suit Shirt Casual wear</td>
<td>Shanshan 22sub-brands e.g. ELTENO, Finsun</td>
</tr>
<tr>
<td>Septwolves</td>
<td>2,920</td>
<td>30-40 male</td>
<td>Jacket Suit</td>
<td>Septwolves SWSPORT. SWKIDS</td>
</tr>
<tr>
<td>K-Boxing</td>
<td>Over 2,000</td>
<td>Medium &amp; High-end Middle age-public sector employees, leader and owners of SMEs.</td>
<td>Jacket Casual Wear</td>
<td>K-Boxing</td>
</tr>
</tbody>
</table>

The total garment industry sales revenue in 2011 1-11: 502,470 Million.


All four of the above brands have achieved a certain recognition among Chinese consumers compared to many Chinese garment manufacturers, although their current market share is not that. The decision makers of these manufacturers have played an important role in strategic planning, since they
will be responsible for the long-term development of the company. These decision makers have realized that building brands is the only way to survive and to secure a better future. They have been able to transfer themselves from OEMs to ODMs by focusing on design, branding and marketing.

**Quality of Products and Raw Materials**

The quality issue has been mentioned often in previous discussions. The association with poor quality has long been a serious problem affecting Chinese brand building. In Chen and Shih’s (2004) (Table 5.1) study, they again pointed to the quality problem in the garment industry, especially the poor quality of raw materials. For most small and medium-sized garment manufacturing companies, this has been a serious problem. However, in our interviews, experts pointed out that for most garment brands quality has been a problem.

*Most Chinese garment brands have quickly grown up in both size and volume in a short time, but the product quality has declined. The top management have paid increased attention to M&As, multi-brand strategy, strategic planning for going public and brand marketing, but they no longer focus on production and quality. In addition, the product capacity expansion is completed through the OEM, and the overall management and quality control system have not kept up, which can cause big problems.*

*Interviewee R.*

**Branding Knowledge**

Chinese garment manufacturers in general invest little in brand equity. At the same time, Chinese garment manufacturers have a poor level of branding skills
(Ning and Liao, 2007). Although this has improved in recent years, most garment manufacturers still lack an understanding of branding. This view has further been supported by Zang (2009). Chinese garment manufacturing companies rely too heavily on advertising and advertising endorsers for communication. According to Ning and Liao (2007), 99% of garment brands use advertising and advertising endorsers. In the interview with garment branding experts, they pointed out this issue as well.

TV ads are still the main method for Chinese garment companies to build their brand relationship, which will not work for brands to establish a deeper relationship with consumers. Companies should understand both the material and spiritual needs of consumers.

*Interviewee R.*

Homogenization exists in advertising. The content and creativity have to be improved, and innovative advertising and marketing will generate greater benefits.

*Interviewee R.*

Many garment manufacturers, especially small and medium-sized manufacturers, confuse advertising with branding in a naive belief that more advertisement will create brand awareness (Xue, 2007). Despite their advertising, they invest less in brand equity. In essence, they are selling products, not building brands.

In general terms, the role of advertising is to create awareness of the product being promoted, giving information to consumers regarding the product and its features, where it could be purchased, what the product usage is, etc. Yet, apart
from this role, advertising in China contains little that is good, a lot that is mediocre, and a reasonable amount of advertisements that are extremely bad. Although most Chinese companies have the money to advertise their brands, this does not mean they have the marketing skills and experience to exploit the favourable image created by advertising in the minds of consumers towards their brands.

European companies such as Zara and H&M have the necessary marketing skills to better exploit and gain from advertising than Chinese companies in their domestic market. Global companies do not simply advertise, they also make an emotional linkage between their brand and consumers’ needs. Chinese companies have yet to learn this type of marketing skill.

At present, Chinese companies are not able to identify the uniqueness of their brand for the purposes of promotion. Chinese companies tend to be doing and saying the same thing to all the consumers in the Chinese market, thereby missing the opportunity to emphasize their competitive advantage. Meanwhile, the phenomenon of ‘ambush marketing’ approaches (hijacking another's marketing campaign strategy) makes it difficult for consumers to differentiate one product from myriad others.

In addition, one interviewee pointed out that Chinese garment brands heavily promote the quality of products, yet ignore building an emotional connection with consumers. For instance, Youngor, a famous Chinese clothing manufacturer, uses ‘anti-wrinkle product’ as their main promotional content. JOEONE, a male garment brand which is well known for trousers, uses ‘trouser expert’ as its main promotional content.
Too much emphasis on the quality of the product, ignoring the spirit of the brand.

Interviewee R.

Quality trust, of course, is a core element of brand communication. However, in the competitive market context, quality will not support the development of a strong brand, and a brand needs more added-value to improve the structural integrity of the brand. Chinese garment brands should achieve an effective brand differentiation and ensure the creation of brand culture and brand spirit. A successful brand should stimulate human desires with a unique atmosphere; then the brand will be deep-rooted. The Swarovski brand, with a unique charm that has long been planted in the minds of customers, is a good example of the importance of brand spirit in branding.

Positioning

Unclear positioning is a common problem among Chinese garment companies. Chen and Shilh (2004) pointed out that that almost all Chinese garment brands tend to have similar positioning, and very few have a distinctive core vision. Ning and Liao (2007) support this point of view, and further argued that Chinese garment manufacturing brands have unclear positioning. In fact, failure to establish a position in the minds of the consumers could send a very confusing message to consumers.

Failure to recognize their own position within the garment market leads companies to fail to align with their core competences. The absence of core competences leads companies to compete on price alone. This is happening among most Chinese manufacturers, which leaves the manufacturing
companies selling products at little or no margin. In Lang and Zhao’s (2008) research into women’s garment brands, it is clear that those well-performing brands such as ONLY, ESPRIT and ETAM with a higher market share all have clear positioning (Lang and Zhao, 2008).

Ogilvy defined positioning in ‘Confessions of An Advertising Man’ as ‘what the product does, and who it is for?’ (Ogilvy, 2007). Different consumers have different needs and wants; therefore, those garment manufacturers should identify different needs among different groups, which will in turn that enable manufacturers to position their products or brands appropriately, and to have a distinct identity.

Design Talent and Innovation

A lack of talent in design has been another main problem for the development of the Chinese garment industry. Garment design is “behind the times” (Chen and Shih, 2004). A gap exists between the designer and the production line, which results in the slower updating of products (Li and Sun, 2009). Most of the garments exported are designed by foreign companies, and those products are also made from imported, high-quality fabrics. Chinese garment manufacturers place relatively little emphasis on innovation and research and development. Experts addressed this very problem in the interviews:

*Brand imitation is a very serious phenomenon in China. A lack of good designers is one of the important reasons. Those Chinese garment brands should consider how to establish a team of designers with style. To improve design, Chinese garment brands may wish to set up R&D designer centres overseas. With a wealth of design talent overseas and a creative atmosphere, the design capability of Chinese products can be upgraded quickly. An*
example is Li Ning, the sport goods brand who established the first global R&D centre in Portland, US.

Interviewee S.

7.5 Examples of Successful Foreign Brands in the Chinese Garment Industry

Having reviewed the situation of Chinese garment manufacturers, we now turn to foreign garment brands’ performance in China. In a previous section of this chapter it was seen that foreign garment brands perform strongly in the high-end market in the Chinese garment industry e.g. LVMH and Giorgio Armani. Apart from these prestige brands, many middle-market players have also entered the Chinese market and focused on the huge number of consumers in this emerging market in order to maintain their revenues. These foreign brands aim to win greater favour with Chinese consumers; they have overcome challenges in the Chinese market through strategic planning and insightful communication. One might argue that Chinese local brands might not be capable of competing with these prestige brands. However, as outlined earlier in this chapter, some middle-market players such as ZARA H&M with a distinct personality swiftly occupied the middle and low-end garment markets in China. Success is demonstrable not only for prestige brands, but also for lower market players.

In recent years, many foreign value garment brands have entered the Chinese market and appeared in the high street or shopping malls in major cities such as Beijing and Shanghai, for example, Gap (U.S), yoyiku (Japan), H&M (Switzerland), ZARA (Spain) and C&A (Germany). These brands have won favour with Chinese consumers in a very short period of time through

For example, ZARA entered the Chinese market in 2006, and currently it has 33 chain stores in China, and their sales revenues continued to rise from 2006 to 2008 by RMB 129 million (approx. 20 million USD) million, RMB 250 million (Approx. 39 million USD) and RMB 369 million (Approx. 58 million USD) respectively (China Academic Journal Electronic Publishing House, 2012). Meanwhile, H&M entered the Chinese market in 2007 and they too expanded rapidly.

ZARA and H&M both target the mid-end segment, and they open stores in city shopping centres or mid-high consumption areas in the first and second-tier markets. The main reason for their rapid success in China is incorporating the SPA (Specialty Store Retailer of Private Label Apparel) system into their operation. ZARA is an excellent example of how SPA works. They are fully integrated from manufacturing to sales, including material procurement, efficient teams of designers, product development, rapid production, efficient logistics and distribution and final sales.

The private label strategy has been studied by many academics, with a general conclusion of various beneficial effects (e.g. Tamura, 1991; Steiner, 2004; Bruer et al, 2005; Vahie and Paswan, 2006). Establishing private labels may maintain manufacturers’ long-run competitive advantages (Tamura, 1991). The specialty story strategy has focused on the effectiveness of vertical integration towards the manufacturers and retailers (Villas-Boas, 2007). The SPA business model was proposed by Donald Fisher, ex-CEO of America retailing giant The Gap, in 1986 (Urakami and Wu, 2010). Many garment companies adopted this strategy and have been successful in both home and international garment markets.
Taking ZARA as an example, adopting the SPA mode in their operations has compressed operational costs and ensured a swift updating of their product range. Their low prices and ‘fast fashion’ soon attracted Chinese consumers. Compared to the huge volumes of Chinese garment manufacturers, ZARA has provided a limited but fast-changing product in the shortest possible time to meet consumers’ needs in fashion at lower prices. Today’s fashion is linked more with self-image and a sense of individualism (Wilcox, 2001). Zara’s limited but fast fashion product strategy is consistent with this trend in fashion.

As previously discussed, China is the world’s garment ‘manufactory’ with a large OEM base, but nevertheless lacking brands. In the highly-competitive garment sales market, ZARA’s success merits investigation by Chinese garment manufacturers, especially its customer-oriented, vertically-integrated and efficient management. To respond to new market conditions, Chinese large-scale garment manufacturers might need first to consider a private label strategy and a specialty store strategy. As discussed earlier, this has been implemented by some Chinese garment manufacturers such as Shanshan and Youngor, providing them with unique competitive advantages, differentiating themselves from the brands created by competitors and optimizing their income from the production line.

7.6 Move Upwards

Needless to say, having been manufacturers for many foreign garment companies has provided opportunities for Chinese garment manufacturers to learn. However, Chinese garment manufacturers cannot always maintain this learning process without their own innovation, without which companies will certainly lose market share. Some large garment manufacturing companies will be still controlled by others even if there are sufficient overseas orders to
survive. To find a place in both domestic and international markets, they need their own brands.

New industrialized strategies and brand development strategies are needed to upgrade Chinese garment industry to possessing principles of ‘quality, innovation, fast response and Social responsibility’ (The China Economic Information Statistics Database (2012). Cultivating original garment brands would improve Chinese garment manufacturers’ competitiveness in both the domestic and international market.

Firstly, Chinese garment manufacturing companies who are determined to seek development should take the first step in brand strategy and update their traditional ways of thinking. Only a thorough change away from the pursuit of short-term profits to business innovation can achieve better development for these companies.

Chinese garment manufacturing companies should aim to move up the value chain. Brand building helps create a unique identity and quality image so that companies may differentiate their products with those of the competition. Chinese garment manufacturers need to continually develop strategies that help them stay ahead of the competition. As Li and Sun (2009) suggested, the Chinese garments industry should carry out original design manufacturing (ODM) and own-brand manufacturing (OBM) approaches in order to achieve industrial upgrading. In the value chain, Chinese manufacturing industry should move from manufacturing to R&D design and brand marketing (illustration 6.1). Good design features could enhance Chinese manufactured products’ safety and reliability; in addition, strengthening marketing and distribution have also been important for Chinese garment manufacturers to improve their position in the value chain.
However, the higher cost of increasing added value cannot be ignored. Given the current situation of the Chinese garment manufacturers, especially the small and medium-sized manufacturers who are still struggling to survive, it is difficult to upgrade their technology and design in a short period. The profit-orientated and short-sighted behaviour of Chinese garment manufacturers makes it more difficult to achieve brand building. Although some of them have already realized the importance of brand building, the fact that they lack resources such as capital and talent in management and design has limited their ability to build brands.

In addition, Chen (2010) suggested that garment brands and design and marketing should go hand in hand. Whether in design or marketing, in fact, all these companies find it difficult to grasp the key to the development of garment brands. If the companies concentrate solely on product design, they will ignore the needs of consumers. Meanwhile, branded products will always be behind in the market if garment companies focus entirely on marketing.
Consequently, design and marketing are interdependent; only the two together can form garment brands.

To improve, Chinese garment manufacturing companies should focus more on three areas: design, branding skills and quality control, which should be done systematically.

*Interviewee Q.*

To compete with foreign brands, the experts suggested that Chinese garment manufacturing companies should first improve the own competitiveness. International brands have taken a lead in the market in terms of brand influence and product design etc.

*Chinese companies should first understand the psychological and spiritual needs of consumers, refine the spirit of the brands which can move consumers’ feeling in order to get acceptance by consumers at the spiritual level and to improve brand loyalty and influence. Improve the design, establish R&D centres, improve overall management and supply chain management.*

*Interviewee R.*

Facing the advantages of foreign brands, Chinese garment brands should develop their own characteristics.

*Interviewee S.*
Moreover, through the rapid development of China’s garment industry, the market segmentation is getting smaller and more detailed. Many leading companies with certain strengths hope to better meet market demand through a multi-brand strategy. Chapter Five touched upon the fact that rapid expansion has contributed to the decline of some national brands. In the garment industry, rapid expansion might also cause problems for leading companies. While this is recognized, experts suggest that companies should be careful when implementing a multi-brand strategy; in particular those medium-sized companies without competitiveness should in general avoid this.

*Implementation of a multi-brand strategy will greatly scatter all aspects of company resources. This inappropriate operation will not just cause problems for new brands, but will also impact on the main brands. China garment manufacturing companies should concentrate their resources on a single brand and make it stronger and bigger before considering a multi-brand strategy.*

*Interviewee Q.*

For example, SHANSHAN, China’s garment industry leader, has developed several brands which have failed to have an impact on the market; only its core brand has maintained a good performance.

In the above discussion, most researchers and interviewees believe that China’s garment brands should focus mainly on R&D, culture precipitation and design talent, but a contrasting point of view was held by one interviewee.

*For most Chinese garment manufacturing companies, survival and*
development are essential. Different companies are at different development stages and those foreign brands, especially European brands, have been through decades or even centuries of developing their brands and of course they achieved the arts, creativity and culture stage. However, Chinese garment manufacturing companies have not. Chinese garment brands have been established in a very short period, and therefore lack cultural accumulation and support. Culture needs time to accumulate.

*Interviewee S.*

### 7.7 Conclusion

Chinese garment manufacturers no longer have the advantage of being low-cost due to the increasing number of emerging developing countries who have more advantages in low labour costs. Developing own brands has become the only way for the future development of the garment industry and manufacturing companies. The Chinese garment industry needs to move upwards along the value chain by improving product quality, design, branding, management etc.

The economic downturn has affected manufacturing companies’ business, and they realize they must change to survive. To survive, they must be innovative. First, they need to accelerate industry innovation systems, and the government should support enterprises establishing R&D institutions by using high technology to upgrade traditional industries. For SMEs, industry combination is an important and necessary step. It brings manufacturing companies benefits in terms of increasing competitive power. Without strong competitive advantages, brand building might become purely theoretical. At the same time,
large and leading Chinese garment manufacturing companies need to implement a branding strategy to enhance their brand value.

To conclude, the Chinese garment industry expects to ‘have a positive change in growth mode and a successful industrial upgrading by speeding up scientific and technological progress and adjusting the industrial structure and product portfolio’ (China Economic Information Statistic Database, 2011).
Chapter Eight

What the Experts Say

8.0 Introduction

During this research, nineteen top Chinese marketing and branding experts (including three garment brands specialists) have been interviewed in order to test the data collected through secondary research, and also to gain further insights into Chinese brands and branding strategies. In the previous discussions, interviewees shared their views and opinions in different cases, and useful discussions ensued regarding issues such as whether China has real brands, the reasons for the decline of national brands, problems of branding and the strategy for going global through M&As by Chinese companies.
8.1 Quality Issues

The survey on the image of ‘Made in China’ carried out by Interbrand was discussed early in Chapter Two. The word ‘low-quality’ has been frequently used by consumers worldwide to describe ‘Made in China’. In the cases studies, quality has been raised again. In the in-depth interview, the concerns of the issues of quality with Chinese products and their correlation with Chinese branding were discussed further.

First, all interviewees shared the same view that the quality of Chinese products has improved significantly in recent years. This is a result of fierce competition, though quality issues still exist in some manufacturing companies. However, few interviewees believed that the quality issues have been exaggerated by foreign media and competitors. At the same time, all interviewees have called upon the manufacturers to focus on product quality to build credibility and to improve the image of ‘Made in China’. Meanwhile, few interviewees expected the government to improve quality control systems and to assist manufacturers to rebuild consumer confidence with regards to ‘Made in China’. More details follow.

The quality crises of Chinese products such as the milk powder scandal and the case of the children’s toys have certainly negatively impacted on the perception of ‘Made in China’. In fact, according to interviewees, China product quality has improved in many product lines in recent years, and most products have no problems with quality. These individual cases have damaged the overall perception of Chinese products.

However, some interviewees argued that the negative perception of Chinese products has been the result of increasing competition in global ‘integration’. They suggest that, in such fierce competition, foreign competitors and the
media have belittled ‘Made in China’ and the facts have been exaggerated. At the same time, the interviewees also state that the quality problem of Chinese products cannot be ignored. As one of interviewee puts it:

*Although the foreign competition and media have exaggerated the cases, the fact is that a quality problem with Chinese products objectively exists.*

*Interviewee C.*

All interviewees shared the same view that quality is the fundamental element of any product, and it is a basic requirement of company survival. UNIDO (2006) defined the quality of a product as ‘its ability to fulfill the customers' needs and expectations’. Lack of quality will result in a loss of corporate reputation.

*Product quality is not simply a key factor in brand building; it is the most basic prerequisite for survival. As a product, it should meet quality standards.*

*Interviewee D*

Interviewees further explored the reasons for the low quality of Chinese products. Excessive investment in manufacturing industry has led the industry to excessive manufacturing capacity and extensive competition. Without the added value of brands, those manufacturing-based companies have to cut costs to maximize profits. The process of cutting costs must have some hidden danger. In earlier discussions, it was clearly demonstrated that Chinese companies want quick success and quick profits, and lack brand consciousness. In the interviews, this was confirmed by experts.
Chinese manufacturing companies desire quick profits and lack brand consciousness. They use consumers’ emotional and mindless consumption to gain profit, and have surrendered the foundation of brand-product. When consumers recognize the problem of products, brand vanishes.

Interviewee H.

As some interviewees pointed out, the current quality issue for Chinese products might be a necessary step that Chinese companies need to go through during the development process, as was the experience of Japan many years ago. However, Chinese manufacturing companies ought to take this issue seriously and learn from their mistakes in order to ultimately change the poor perception of ‘Made in China’. Japanese companies have been able to reach a high level of product quality, which has enabled Japan to shake off the negative image of ‘Made in Japan’. It has enabled Japanese brands to enjoy a good reputation in the international market. As the interviewees emphasized, Chinese companies must produce high quality products in order to earn respect from customers.

The poor image of Chinese products is accurate, and Chinese companies should rely on themselves to change. Chinese companies should face the problem, not hide, and they must be honest.

Interviewee B.

Chinese companies should pay attention to credibility and to producing high-quality products. More Chinese companies with credibility and high-quality will form a mainstream which will improve the image of ‘Made in China’.
At the same time, with this positive attitude towards the issue of ‘Made in China’ being under the spotlight, some interviewees believed that this prospect raises alarm among Chinese companies, as they realize that product quality and brand are inseparable. Any deficiency in quality will lead to the elimination of a brand. To some extent, these exposed cases play an important role in urging Chinese companies to improve product quality.

*The negative impact of these cases shows the concerns and needs of consumers regarding ‘Made in China’. It also shows customers’ expectations of ‘Made in China.’*

As for the Chinese government, they should strictly control product quality and deal strictly with low-quality product issues. One interviewee mentioned that the Chinese government’s response and handling methods with current incidents shows their attitude towards cracking down on low-quality products. However, another interviewee stated that the Chinese government has not set rigorous standards in order to balance the interests of all in dealing with quality violation cases. This would mean a serious blow to domestic consumers’ confidence in domestic products.

As discussed in Chapter Two, Chinese consumers have a very positive attitude towards foreign brands, and Chinese companies are struggling to compete with foreign brands in the home market. If the Chinese government does not strictly enforce quality violations, it will make the situation for Chinese products and brands more difficult when competing with foreign companies in the domestic market, which will provide foreign brands with an opportunity to further gain
trust from the domestic market.

After the individual company’s violation has been confirmed by the government, consumers do not see the results of the relevant penalty. The Chinese government tries first to make the mistake sound less serious and then to reduce it to nothing. This attitude makes Chinese companies’ image even worse.

Interviewee H.

The Government must deal strictly with violations cases of product quality. This will help companies emerge from the negative effects of ‘Made in China’.

Interviewee F.

Additionally, interviewees further pointed out that such Chinese companies should improve crisis management skills in order to minimize the damage that these crises caused to brands and companies. For example, in the investigation into the decline of national brands, Chundu’s case has shown the price a company can pay for poor public relation crisis management skills.

Chinese companies should be capable of handling the crisis, not let the crisis be hugely magnified so as to impact on the survival of the entire company.

Interviewee F.

To conclude the discussion on this question, one interviewee suggested that product quality and credibility are the fundamental elements of branding. At
the same time, a company’s mechanism and systems, management mode, talent and team are all vital. They are all keys to the healthy development of a company. Only a healthy company can further develop its brands. The interviewee further stressed that conscience and honesty assure products’ quality. These will guarantee the quality of products and the company’s reputation. Those Chinese companies who are in search of quick success and short-term profit should especially give this some consideration.

*It is very funny to talk about branding when companies do not speak of conscience, morality, personality and goodwill. How many Chinese companies have high morals and are worthy of respect?*

*Interviewee H.*

In Chapter Three, Holt’s research (2004) showed three characteristics that consumers associate with global brands: quality signal, global myth and social responsibility. Perceived quality has been the most important factor in why consumers choose (global) brands. The poor perception of Chinese product quality will certainly affect Chinese manufacturers’ brand building. As interviewees emphasized, Chinese manufacturers must start from the basic step of producing quality products in order to change the poor image associated with low quality and credibility.

Although many Chinese manufacturing companies, as the interviewees affirmed, are improving their product quality, the recent quality scandals have deeply affected consumers’ perception of ‘Made in China’. For example, Midler (2009) published a book with the harsh title of ‘Poorly made in China’, which explained why Chinese products are poorly made. Saving money by reducing specifications may simply lead to monetary losses for manufacturing companies. At the same time, one interviewee argued that poor quality control by the government is
another important factor contributing to the poor image of ‘Made in China’. Without a consideration of honesty and credibility, there is no social responsibility, no global myth, hence no strong brands.

Changing the perception of ‘Made in China’ among both internal and external consumers has been an essential task for Chinese manufacturers at the present stage. Perceived quality drives other aspects of how bands are perceived, and this is a major strategy for trust for a company. Furthermore, it has been shown to be the only factor to drive financial performance among all brand associations (Aaker, 1996b). However, Aaker argues that it takes time for consumers to verify the previous image of poor quality. Simply creating a quality product or service might not be enough to change the situation, because the perception is created by consumers’ experience of the previous image. Chinese manufacturers companies should realize that all brands are built by trust and authenticity.

8.2 Imitation and Innovation

In the early discussion in Chapter two, some authors pointed out that piracy is a serious problem in China. They also indicate that in China most companies, especially SMEs, do not focus on R & D (research and development) or building their own brands; rather, they imitate other brands. In the long term, this is not conducive to the establishment of a company’s own brand. They pointed out that Chinese companies need to focus on innovation and that Chinese brands should establish their own personality.

In the interviews, all interviewees argued that piracy and imitation are two different things. Piracy is of course illegal, but imitation is a strategy. Some interviewees agreed with the above statement, and they believe that Chinese consumers like to follow the latest trends, which results in many companies
not wanting to waste energy on R&D, but imitate the existing competitive brands. These Chinese companies are often able to access the market with low-cost strategies but make considerable profits as competitive brands. They further pointed out that this is very dangerous. With this approach, Chinese companies will be forever in a backward state with weak competitive power. Once a competitive brand attacks the Chinese companies, these Chinese companies will be unable to withstand the blow.

*Only following others with imitation is not conductive one’s brand building.*

*Interviewee P.*

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.

*Interviewee N.*

However, two interviewees disagreed with the above statement. They argued that the issue is not that Chinese companies do not focus on R&D and brand building. The imitation issue is caused by the pressure of survival and the inability to brand build. At the same time, they believe that there is a long way to go for Chinese brand building. They summarized three reasons: a lack of long-term brand planning in the companies; imperfect market economic systems; instability of consumption characteristics under rapid economic development and a poor understanding of their customers.

*To survive, companies, especially small and medium-sized companies, must move quickly otherwise there is no chance of survival.*
Interviewee J.

Although there are difficulties for manufacturing companies’ brand building, there are also some positive branding stories discussed in the previous chapters such as some garment brands (e.g. Shanshan and Youngor). Those brands focused on designing and brand building at an early time, and they have attained a certain awareness among domestic consumers while most manufacturers are still struggling in the battle for survival. The declines of national brands discussed in Chapter Five showed that lack of innovation is one of major factors attributed to the failure of those brands.

We can see from the previous discussion that China has extensively invested in manufacturing industry and focused on OEM. Although some manufacturing companies have made efforts to restructure their business model, focusing on brand building and achieving a certain success in the domestic market and some impact in the overseas market, a large number of manufacturing companies from different industries are still in the business of imitating established brands.

Research concurs with what some interviewees asserted i.e. that imitation is not a sustainable basis for success and a company needs innovation, not imitation. However, as some interviewees argued, innovation is a viable starting point, especially for those manufacturing companies who lack necessary resources. As the above interviewees described, it is not the fact that Chinese companies did not focus on R&D and brand building, but that the imitation issue has been caused by the pressure of survival and inability in brand building. Imitation could be a starting point, but manufacturing companies should build foundations and develop key knowledge and skills through imitation and develop something new. It might not be the greatest way,
but it might be a suitable strategy for Chinese manufacturing companies to develop their capabilities. However, those manufacturing companies must have the will to innovate and to leverage what they have learnt.

After a review of Western-based literature on imitation and innovation strategy, the empirical results from Zhou’s (2005) cross-industry survey in China showed that innovation strategy leads to better new product performance compared to an imitation strategy. Moreover, innovation strategy is superior, especially in an increasingly uncertain environment with rapid technology changes and fierce competition. At the same time, this is not a self-improving plan; the government should be more encouraging and assist manufacturing companies to move away from imitation to innovation in the next few years.

Innovation is always a source of competitive advantage. Many academics have agreed with the need for innovation for a brand. (e.g. Kapferer, 1992;2004) and Koene (2003). Innovation keeps brands interesting and fresh. Consumers always expect value, but value promises change as companies grow. Therefore brands need innovation in order to keep their promise to consumers. Consumer and investors will not buy or invest without a value concept. Innovation and brand branding always fit together and each has its own impact.

8.3 Technology, Marketing and Branding Skills

In an earlier discussion, researchers expressed the belief that Chinese technology has developed rapidly in recent years, and that Chinese companies do not lack technical capacity to develop high-quality products, but they do not understand about brands and branding. They do not know how to brand their products. In particular, many companies have not really grasped marketing, branding and brand management skills. In the interviews, agreement with this
statement far outweighed any disagreement.

Most interviewees agreed with the above argument. They believe Chinese companies have no clear understanding of either brand building ideas or methods. However, very few interviewees believed that brand building in Chinese companies is still at an early stage and cannot to be compared with western brands.

For most interviewees who believe that the Chinese companies lack understanding and skills in brand building, they pointed out that in the past companies did not pay attention to branding, especially brand promotion and management. However, the increasing market competition has led many companies to recognize the importance of brand building, especially after experiencing the economic crisis. All of this has led company leaders naturally to learn and to understand marketing, branding and management.

However, as the interviewees pointed out, Chinese entrepreneurs only know theory without understanding. In fact they do not know how to develop or cultivate a brand, and they often give up brand building for the sake of immediate benefits. This is also the one of the important reasons why Chinese brands are not well developed.

*I very much agree that many companies do not understand that the nature of business is to build a brand, rather than low-cost manufacturing. The recognition of brand by Chinese companies still remains at the imitation stage, and they do not realize that marketing has undergone a change after the Internet and the global economy, which is becoming the core of the business.*

*Interviewee P.*
One interviewee thought that some Chinese companies are conducting related marketing branding activity in a way which they think is right. Again, this interviewee further pointed out that Chinese companies currently lack an understanding of brands and brand building strategies. Mainly, there are two misunderstandings regarding branding among Chinese companies. First, they think a brand should be famous, and they try to build their ‘brand’ through advertising in order to gain success in a short time. Second, they think that brand building is a complicated process which is too far from their business. They are fearful and unwilling to try to build a brand. In conclusion, insufficient knowledge of marketing and branding has contributed to these two misunderstandings of branding.

*Chinese companies are selling products, not brands. They do not know branding is the packaging and dressing of the products. 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 try to sell more goods. They do not realize the true value of the brand. When a company starts, it should start to build a brand.*

*Interviewee H.*

There is a common phenomenon in Chinese companies which has been pointed out by interviewees: people who understand technology do not understand management and sales management. Interviewees further argue that brand building requires the wisdom and integration of a number of departments. Therefore, they are simply not prepared for brand building. Brand building is a long-term process, so the interviewee suggested that Chinese companies should not only learn from Western theory and practice, but also develop their own characteristics. They should have the courage to
build brands from the start gradually, to plan carefully and to target the right market, to understand consumer behaviour through constant communication and to invest energy in the brand for the long-term.

At the beginning of the development of a business, a brand management team should be set up including technology, management and marketing teams. And they should develop the brand image, brand positioning, brand personality, and then lead the brand to grow healthily from the beginning.

Interviewee M.

Some interviewees believe that more and more business owners actively participate in management training courses, but do not implement what they have learned in practice. The experts pointed out that the brand building process requires time and requires a system. For Chinese companies, one of the key elements is to enhance and improve brand value; another is the establishment of a comprehensive branding management system.

Chinese enterprises do not lack talent, but lack entrepreneurial talent and creative talents. They do not lack technology, but a deep understanding of brand and branding.

Interviewee E.

The above interviewees have extensive experience of the lack of brand building knowledge and techniques of Chinese companies. They believe that the most important action for Chinese companies is to remove the idea of instant success. An individual interviewee further argued that the government bears some responsibility for this problem. In the past, the governmental
industrial policies lacked brand building guidelines and encouragement.

As a branding expert, I wish to establish a branding knowledge forum, walk into companies, talk to the entrepreneurs to spread branding, marketing, advertising, management and other basic knowledge.

By interviewee H.

Although one individual interviewed agreed that Chinese enterprises lack brand building and management techniques, he did not agree that Chinese companies do not lack technology. He acknowledges the existence of the fast development of technology at the national level, but at the company level this may not be the case.

Particularly those doing brand management of SMEs, private enterprises, most of them still lack the technical capacity to develop high-quality products, so in order to survive they just simply practice imitation and piracy. Of course, technology and the capacity of enterprises in general is rising, but technology is still a problem for many SMEs, even large companies aiming to produce high standard products.

Interviewee O.

This argument fits with the previous discussion. It was indicated earlier that Chinese companies generally lack technology and rely heavily on foreign technology, especially in the field of high-tech products such as the core chips of TVs and DVDs, and the car engines, which are all imported from foreign companies. Interviewees mentioned that their experience of working with many Chinese companies, especially SMEs, shows that not many of them really care about technology or the improvement of product quality.
One interviewee does not agree with the above viewpoint. He believes that it is not fair to compare Chinese brands and branding with western companies; he argues that Chinese companies started brand building very recently and the current situation is unavoidable.

Different experience, different time, different environment…., it is unfair to compare current Chinese brands and branding with those well-established global brands which have taken decades or even centuries to develop. Chinese brands need a learning process, and problems encountered in the process of learning are inevitable.

Interviewee R.

After in-depth interviews with top branding consultants, it can be seen that all interviewees have a thorough understanding of branding and marketing. They have rich experience of working with Chinese manufacturing companies for brand building purposes. Two of these interviewees are branding theorists, as discussed in Chapter Three. The majority of these experts have cited the lack of marketing, branding knowledge and skills by Chinese manufacturing companies, especially SMEs. All their comments are consistent with previous investigations suggesting that Chinese companies realize the need for branding but they have no patience. They are eager to learn from Western practice, and they expect help from experts or through overseas M&As. However, they lack professional brand knowledge and skill-sets, and they still perceive branding as primarily related to brand name and advertising dollars.

In Chapter Three, the seven band approaches proposed by Heding et al (2009) were discussed. From their study we can see that branding and brand management is not simple, and it relates directly to a company’s business
strategy. It is an integrated part of company management and it is a systematic project that needs a strong strategic foundation. Four Chinese banding theorists in Chapter Three also claimed that brand building is a systematic project, and needs a multidimensional approach using a variety of models together to create a favourable image.

Chinese companies hire experienced people from Western companies and benefit from the existing marketing channels through overseas M&As; however, this is not enough for Chinese companies to improve their branding. They must have a thorough understanding of branding and build a strong strategic foundation, rather than moving quickly.

It is reasonable to argue (as does the above interviewee) that it is not fair to compare Chinese brands and branding with Western brands. From previous investigations in Chapter Two and Chapter Three, it is clear that Chinese brand building is still at an early stage in practice and theory. However, Chinese companies should be prepared to go global and use brands as a leverage to break into new markets and to sustain their businesses. As Quelch (1999) highlighted, global brands matter more now than they did in the past.

8.4 The Future of Chinese Brands

During the earlier discussion, both positive and negative aspects of Chinese branding have been analyzed. In the in-depth interview with experts, the future of Chinese brands and branding have been further discussed.

In the interviews, most of these branding experts believe that China has achieved a certain success in brand building. They are optimistic about Chinese brand building, and they believe that China will have an increasing number of valuable and influential brands. Some interviewees consider
Chinese manufacturing to have only just begun to make progress after the reforms of 1978 which released China from the confines of a planned economy and began to open China up to the outside world. The fact that the establishment of brands only started from this time would suggest that great progress has been made in recent years.

*Chinese companies have been continually learning through a ‘copy-transformation-independence’ process, and are now making progress towards becoming innovative. At present, private companies are not strong enough to go global.’*

*Interviewee K.*

*I believe that with the development of an improved market economy, increasing brand awareness among companies and improved branding operations, Chinese companies will find a suitable way to develop their own brands that is more consistent with market realities in China.*

*Interviewee G.*

All interviewees believe that the prospects for Chinese brands are bright. Although Chinese brands currently face fierce competition, the outlook for brand building by Chinese companies is still bright in the long term. In the past, Chinese companies ignored the importance of branding, which left them in a weak position compared to their competitors. A large number of foreign brands entering the domestic market have greatly influenced Chinese consumers and made an already highly competitive domestic market more intense. In the face of intense competition and the impact of foreign brands, Chinese companies
can only develop their own brands and cultivate customer loyalty in order to survive and develop.

The main reason for the booming brand-building among Chinese companies is market competition and the various pressures companies face.

Interviewee D.

Brand-building among national businesses is the reason for the boom, mainly because the market competition and the business pressures facing all aspects of change.

Interviewee F.

With the accelerated integration with international markets, brand awareness among Chinese companies has been awakening. More and more companies are beginning to pay attention to brand building, and the branding operation is at a strategic level. Fierce market competition will also encourage Chinese companies to further improve and enhance their branding.

Interviewee C.

In addition, following an increasing pool of marketing and branding talent, the popularization and understanding of marketing and branding knowledge, Chinese companies will be able to build international brands. However, it will take some time for Chinese companies, especially in some mature, modern industries. The rapid increase in national power will also help Chinese companies to build international brands. The huge price paid by Chinese companies in the past has enabled Chinese companies to become more mature
and strong.

With an optimistic attitude towards the future of Chinese branding, two interviewees also express a cautious attitude. They believe that there are a few good Chinese brands which can be models for other Chinese companies. Yet overall, many Chinese companies still do not have enough of a thorough understanding of branding, and many of them lack the capacity and willingness to build brands. As he suggests, it will take a period of time for Chinese companies to successfully build brands, especially those small and medium-sized companies who lack capital, technology and management skills.

*Many Chinese companies remain at the very beginning stage of brand building; the willingness and ability to brand build is still inadequate.*

*Interviewee P.*

Some experts are not so optimistic about brand building by private companies. One interviewee even believes that it will be extremely difficult for private companies to build their brands within a 50 year period or even longer. An investigation into the garment industry has supported this point of view.

*For at least the next 50 years there is no possibility of a privately-owned Chinese brand entering the top ten of China’s top 500, still less the global top ten.*

*Interviewee O.*
To survive is the primary problem that small and medium-sized companies face. However, large companies lack a strategic plan for branding. According to the views of those interviewed, the following points to which Chinese companies need to pay attention in their brand building have been summarized.

First, Chinese company leaders should remove their short-term profit orientation and take the long-term development approach while increasing their awareness of brand building. The previous discussion argued that most Chinese companies lack a long-term development plan and are short-sighted. All interviewees agreed with this point of view, and they further pointed out that eyes of many Chinese companies are on short-term interests and quick profits, which has caused many large companies to fail or go bankrupt. Many years of hard work have been destroyed, for example, the disappearance of national brands as discussed in Chapter Five.

With the rapid development of the Chinese economy, business has entered a new era. In the new environment, companies face pressures of increasing competition and less profit. Although maximizing profits is the final goal of all companies, management should understand that there must be a long-term vision in order to plan for their businesses’ future. The operation of a company should be seen as a complete system, and company leaders should improve the whole system rather than improving only some parts. The interviewees suggested that Chinese companies and their leaders should not rush headlong into action when they see the market potential. They should take the whole situation into account and plan accordingly.

*Chinese business leaders should first overcome the problems of short-term profit orientation. They should have a long-term view and business plan; develop effective mechanisms and systems in the business, and build an efficient team.*
Changes in corporate leadership and strategic thinking are the first important steps Chinese companies need to take. However, this is not easy. As the interviewees claimed, to upgrade the thinking of branding is difficult and to change the mind of Chinese entrepreneurs is even more difficult. Yet they did point out that Chinese companies and leaders must update their philosophy of branding in order to stand out from the fierce competition.

Although there is an increasing understanding of branding among many Chinese company leaders who wish to gain competitive power through brand building, which is very commendable, short-term profit orientation still prevails in Chinese companies and they have failed to give deeper thought to nurturing their brands.

*They need to change their thinking about brand building, to be thorough in the long-term.*

*Companies should have a clear branding strategy at a practical and tactical level, and to implement branding in every tactical action; continue to learn marketing and branding skills to enhance innovation.*

The leaders and management of Chinese companies should fully study and understand market research, brand planning, design, communication, marketing and maintenance of brands. However, this is a process requiring time. In particular, many specific approaches and strategies need to be implemented only after they have been thoroughly understood by leaders.
and management teams.

*Interviewee K.*

At the same time, the interviewees emphasized that Chinese companies should focus on product development in order to meet the rapidly-changing market and customer needs. Product development is a core issue of business. They believe that the competitiveness of companies will be enhanced through continually introducing new, competitive products, which is a fundamental element of a company’s growth.

*If Chinese companies can further enhance their R&D and product technology, and also further develop better marketing skills, the added value of Chinese brands will be further enhanced.*

*Interviewee L.*

The interviewees also pointed out that Chinese companies should establish a corporate culture that is customer-centred. The previous discussion suggested that Chinese companies generally do not have a clear positioning and customer segmentation. They ignore customers’ needs and wants, and only focus on mass production and sales. The interviewees here further argued that although more customers are better, not all customers are profitable.

Company leaders should understand their products must be able to truly create value for consumers, and it is fundamental for Chinese companies to participate in brand competition. Companies should have a clear positioning, rather than blindly expanding their customer base. With a clear target market,
companies need to invest more time in building customer relationships in order to develop brand loyalty. They again emphasized that Chinese companies can no longer only use traditional marketing methods to simply meet customers’ physical needs, but provide customers with products that bring a specific or personalized service, so customers will achieve a feeling of respect and self-worth; this feeling will produce brand loyalty.

With the development of society and rising incomes, consumers need more than just products, they need psychological satisfaction. The meeting of their psychological needs will bring brand loyalty.

*Interviewee R.*

Chinese companies should have ‘mind reading’ skills, to know how to quickly learn the consumers’ various subconscious needs.

*Interviewee J.*

The interviewees referred to another crucial aspect which was touched upon in the previous discussion. Chinese companies blindly expand business and brands without considering their actual condition, which has caused huge losses, even bankruptcy. Once again, the interviewees suggested that Chinese companies should proceed from reality, focus on core business and avoid blindly expanding.

It is common among Chinese companies for both large and small companies to seem desperate to have brand extension, and they believe that many different products can be sold to different consumers in order to make more profit. In the investigation of top Chinese garment brands, almost all those top brands
such as Youngor have entered many other industries. Yet the results might not be that positive. For example, Youngor has had to re-focus on the garment business as their main business. In the interviews, experts provided various examples of business extension by some large companies such as Haier and Midea who had failed in that extension. These are relatively large-scale and better-established brands, and their failures in business extension is a good warning to those relatively small companies who are eager to extend their brands or business. Therefore, Chinese companies should focus all their resources on developing their core business or brands, not simply expansion.

*If branding strategy planning design does not proceed from the actual conditions of the business, then the vision will be like a beautiful illusion.*

*Interviewee J.*

*Brand building not rooted in reality will not pass the market tests.*

*Interviewee J.*

Finally, interviewees suggested that the Government and local organizations ought to guide companies, particularly manufacturing companies who have less management, marketing and branding knowledge and skills. One individual interviewed pointed out that the number of domestic marketing, branding and consulting practitioners is insufficient, which causes an immature brand building chain.
Therefore, the government needs to do its best to create and organize marketing and branding consulting teams to better support companies to popularize knowledge of marketing and branding, and to adapt the thinking of entrepreneurs to focus on brand building.

To conclude, all interviewees agreed that Chinese companies building their brands, whether SOEs or non-SOEs, should prepare themselves psychologically for a protracted struggle.

8.5 Conclusion

Problems have been identified by experts from the field which are consistent with the previous findings. Most of those interviewed agreed with the questions which were based on the previous findings. Although there are alternative views put forward by a very few interviewees, they nevertheless agreed with the main problems Chinese companies face when building their own brands, as raised by previous findings.

Although experts agreed that there are many problems with Chinese companies' brand building in terms of poor quality product, poor marketing and branding skills and poor management, they still have a positive attitude towards the future of Chinese brands. They believe Chinese companies will create well-known global brands, but this will take time. They believe Chinese companies are improving in many ways such as the improvement of attitudes towards brand building practice, willingness to learn more about branding knowledge and a recognition of the importance of brand building. At the same time they suggested Chinese companies remove the mind-set of quick success and short-term profit orientation, and in their place have a long-term strategic plan for their businesses and for their branding.
With patience, step-by-step with a strategic plan, it is certain Chinese companies can build their own brands in the future. However, innovation cannot be ignored. As the interviewees suggested, Chinese companies should not just learn from Western companies, but also to be innovative in technology, product lines, management and their business operations, which will help Chinese companies to create personalities for their brands. However, as the interviewees argued, this will not be easy for Chinese companies to achieve, especially SMEs.

Main problems of Chinese brand building were discussed by interviewees and few interviewees believe that Chinese brand building started very recently, and the problems currently faced are inevitable. They argue that other global brands, such as was the case with Japanese brands, also had similar problems in their early stages.
Chapter Nine
Discussion

9.0 Introduction

After comprehensive secondary research and in-depth interviews with nineteen leading Chinese branding experts (including three with garment branding experts), the current situation of Chinese brands and branding strategies in both domestic and global markets has become clear. The factors which have a direct or indirect influence on Chinese brand building have been identified.

From the secondary research to primary research, there is a consistency in the data collected from different methods. Previous investigations suggested that the situation of Chinese brands is insufficiently robust to compete with foreign brands in the domestic market, and also not strong enough to ‘go global’. In the domestic market, Chinese brands are under pressure not only from well-performing foreign brands, but also from a price war with small domestic companies. Most companies are not able to go global, and those large companies who are already established brands have not been recognized by consumers from the developed markets.

There is a positive attitude regarding the future development of Chinese brands, though achieving success will not be a simple task. The purpose of this chapter is to summarize and discuss the barriers to brand building by Chinese companies. Seven brand management approaches proposed by Heding et al (2009) are applied to analyses the current Chinese brand management situation. Suggestions and recommendations for future Chinese brand building are also provided as well.
9.1 Major Barriers to Chinese Manufacturing Companies’ Branding

This investigation shows that the major problems for current Chinese manufacturing companies include a poor image of ‘Made in China’ in terms of poor quality, weak R&D and a poor level of branding marketing knowledge and skills. However, as argued earlier, the current economic and market system might also be factors contributing to these problems.

The poor perception of ‘Made in China’ has been the main challenge for Chinese brands, and it undoubtedly has a negative effect on Chinese companies’ brand building both inside and outside the Chinese market. When talking about branding, perception is all that matters. As discussed earlier, a poor quality product outweighs any amount of advertising because of ‘word of mouth’ (Smith and Taylor 2002). Without a positive consumer experience, any marketing activities are bound to fail.

Product quality and quality control issues have been the first challenges for Chinese companies to overcome. Although interviewees argue that product quality has recently been improved among Chinese companies, current product quality scandals are affecting the collective reputation of Chinese products and brands.

Another factor contributing to the poor perception of Chinese brands and products is a lack of identity. Lack of brand identity has affected Chinese bands’ positioning and differentiation, which also affects brand awareness. Some Chinese manufacturing companies with better performance focus on the strength of their companies and products rather than building brand identity, while some SMEs focus on production, imitation and price wars.

Lacking marketing capability and a consistent message have also contributed to the poor perception of ‘Made in China’. Insufficient management
experience and skills among Chinese companies has led to costly mistakes, especially when they step outside China. Lacking skilled executives and leaders among Chinese manufacturing companies has directly affected their ability to develop marketing strategies.

9.2 Theoretical Analysis

Apart from investigating Chinese manufacturing companies’ brand building in practice, the research also needs to examine theory to analyses the execution of brand management by Chinese companies. It aims to explore how theory within brand management can inform the practice.

In Chapter Three, we discussed seven brand approaches which present branding from different perspectives based on different ontological perspectives. The seven brand approaches proposed by Heding et al (2009) serve as a structure to explain the observed phenomenon.

Economic Approach

In the economic approach, the marketing mix and four Ps have been used by marketers to manage brands and to influence consumers’ brand choice. The focus of the economic approach is to ensure a next transaction. The branding in the economic approach is to make products stand out from the crowded and the brand value creation relies on how marketers design brands and then communicate to consumers (Heding et al, 2009).

As discussed previously, poor image of product quality, innovation and communication all appear to be major problems in Chinese brand building practice. From product to distribution, it appears that there is no value creation in Chinese companies’ branding practice. Although Chinese manufacturing
companies realize the importance of promotion (advertising), there is no interaction between the elements in the marketing mix. Consumers are passive receivers of communication in the economic approach, so consumers will only purchase the products which deliver the most value. Therefore, capabilities in marketing mix design and communication have become the most important tasks for Chinese marketers.

In the case of Chinese brand building, the economic approach might not be able to explain the observed phenomenon. Price is not the only aspect Chinese companies should compete on. Chinese marketers should adjust their marketing mix in order to ensure good quality products and correct communication. Cheaper prices, imitation, poor quality products and blind investment in advertising will not create any value for brands.

The Identity Approach

The identity approach in brand management moves away from product branding in the economic approach towards corporate branding which is at the strategic level. As discussed in Chapter three ‘the general aim of corporate branding is to build a sustainable bond between the branded company and its customers through a clear value proposition’ (Schults and de Chernatony, 2002:28). Therefore, a brand expresses one unified and coherent identity for the corporation to build the brand (Heding et al, 2009).

In the case of Chinese brand building, the lack of strategic approaches in management has caused a poor integration of internal and external communication, and thereby failed to create a coherent expression across all channels. The corporate branding approach requires Chinese manufacturing companies to have an overall organizational restructuring and the core of this restructuring effort needs to achieve closer cooperation between all different
departments. A misalignment in identity can weaken brand value and consumers’ experience. This lack of strategic approach affects Chinese manufacturing companies’ corporate branding.

At the same time, in the case of Chinese overseas M&As, the two organizations’ image and cultures should be aligned in order to sustain Chinese acquisition of brands. However, the findings in Chapters Four and Six demonstrate that the lack of knowledge and skill in management and brand management restrict Chinese manufacturers ability to successfully align acquired brands with their own corporate vision or even to lose their own brands in brand collaboration. Such a mismatch between two companies’ cultural and strategic visions would damage the brand (Hatch & Schults, 2001).

The Consumer-Based Approach

In the consumer-based approach, the consumer is considered as the owners of the brands, although this is not entirely the case (Heding et al, 2009). Marketers in brand management in the consumer-based approach aim to develop better strategic decisions on marketing mix action, based on the investigation of how consumers think, feel and believe about brands (Keller, 1993). Awareness, image, attributes, benefits, experiences, attitude and feeling from the brand knowledge in the consumer-based approach. Consistent, strong, unique and favourable brand associations are required to build brand equity.

In the case of Chinese brand building, there is no evidence of strong, unique and favourable associations that have been built by Chinese manufacturing companies for their brands. Poor image and experience as perceived by consumers have disconnected Chinese brands from such aspects that consumers’ value. The lack of research and understanding of consumers by Chinese companies have led Chinese companies to blindly invest in their
brand building through massive production and advertising.

Understanding the diversity among Chinese consumers and the applications for marketing strategies is important for Chinese manufacturing companies who wish to build successful brands. For example, what their consumers value, how to connect their brands to the aspects consumers value and what they should do to infuse the customer experience with things that are consistent with consumer values are all pertinent questions. All these efforts would help Chinese companies to refine their products or communication strategies. As discussed in Chapter Three, one of two categories of brand equity definition from academics is that brand equity is the value of a brand to the consumers (Rangaswamy et al, 1993; Kamakura and Russell, 1993; Keller, 1993; Aaker, 1991; Kim and Lehmann, 1990). The brand strength and consumer experience are of great significance in brand building.

Personality Approach

The emotional bond between brands and consumers is focused on in the personal approach, which enables consumers to express themselves (Belk 1998; Ahuvia, 2005). The personality approach was inspired by Aaker (1997) and it assumes that consumers consume brands because they contribute to their construction and expression of identity. A product’s physical attributes and its brand personality are associated with higher brand attributes and purchase intentions. Therefore, brand management in the personality approach focuses on creating brand personality and using brand personality to bring the brand strategy to life.

It is essential for Chinese manufacturing companies to create personality for their brands. However, there is negative perception of Chinese brand personality. ‘Made in China’ seems to have a negative connection in a
personality approach. Although some Chinese manufacturing companies have made efforts in band building and have achieved a certain success in the domestic market and some international markets, the negative connotation of ‘Made in China‘ contributes to the overall image of Chinese products and brands.

As brand personality is one of the core dimensions of brand equity, marketers need to build the emotional side of brand image and to improve consumers’ experience of brands. As mentioned previously, the brand experience consumers have with Chinese products and the poor image of ‘Made in China’ damages consumers’ emotional image of Chinese brands. Although advertising plays an important role in building brand personality, the functional benefit of a brand is also essential. Only by exploiting both functional and emotional associations assigned to a brand by its consumers can ensure positive brand attributes.

For example, many brands are easily differentiated by their functional benefits, but imitation and a lack of innovation have not led Chinese brands to stand out from the crowd. Marketers then need to rely on emotional benefits if functional benefits are not identifiable or differentiated. It is clear from previous investigations that Chinese manufacturing companies and their brands have not achieved these two aspects. The brand personality of Chinese brands has been affected by their product attributes and characteristics that consumer perceive, for example reliability, quality, honesty and competence.

To develop a strong personality, Chinese manufacturing companies need to have a clear picture of their business goals and objectives, and they further need to understand consumers’ feeling, prejudices, habits, motivations and desires. They also need to gain an understanding of how their brands fit into consumers’ lives and how to respond to the changes of consumers.
Relational Approach

The relational approach is highly difficult to manage because the brand value and meaning are created together via the behaviours and collaboration of companies and consumers (Tuominen, 2007). In other words, consumers take an active role in the creation of brand meaning in the relational approach (Heding, 2009). As in the personality approach, consumers develop relationship with brands to fulfill self-related needs, and the relation with brand add meaning to consumers’ lives and selves.

In the case of Chinese brand building, most manufacturing companies are shortsighted and seek quick money. They focus on copying other companies’ products and ignore consumer research. Although they might achieve short-term ‘success’, they may face a battle of survival in the long run.

Although some Chinese companies have made significant efforts in brand branding, they are not in tune with a relational approach which would communicate that Chinese brands are true friends to consumers. Consumers do not appreciate such effort, because the poor image of ‘Made in China’ is deeply rooted in consumers’ minds. Therefore, communication strategies have become extremely important for those companies who have a better performance in brand building. But companies have not grasped the art of communication. Taking the top Chinese garment brands as discussed as an example, the main communication strategies they have adopted are advertising and advertising endorsement; the content of communication mainly focuses on the quality of their products rather than building emotional connections with consumers.

Consumers’ trust has been built through brand value, and consumers will be
loyal only if they have trust in brands. In addition, brand loyalty can be built and maintained through relationship building and maintenance, which is the first step in building brands. Chinese companies might need to consider how to make people trust their brands, then build long term relationships with consumers.

**Community Approach**

In the community approach, brand value creation is formed by consumers and the brands in a triadic relationship. Social perspective has been included in the communication approach and brand value creation is not just between a consumer and a brand, but also between consumers (Heding et al, 2009). As discussed in Chapter Three, consumers form a community around the brand which becomes their focal point of interaction where they share brand experiences and brand stories. Brand management in the community approach is more about managing the community around the brands. Through brand community, brand managers can obtain feedback from consumers and gain insights into how consumers create a meaning for the brand. Community members can be the most loyal users of the brands, but members of the community can also reject the community of the brand collectively (Munia and O’Guinn’s, 2001).

In the community approach, brand managers have little control over communication (Muniz & Schau, 2007). The community approach related to the personality approach but adds more social elements. According to Fournier (2005), there are three markers embedded in the community approach namely: shared consciousness, traditions and rituals, and a sense of moral responsibility. The community will collectively go against the brand if the brand action goes against the above three markers.
In the case of Chinese brand building, there is insufficient evidence from our investigation to examine their community approach. The reaction of Chinese companies towards the consumer response is not very much in tune with the community approach. Most Chinese companies continue in linear communication and lack interaction with their consumers.

Western companies are superior in terms of their ability to communicate via online media. Compared to Western companies, Chinese companies’ communication strategies are not that professional or clear. Although there is a growing trend by Chinese companies to use the internet, most manufacturing companies are still aggressively using advertising, especially TV advertising, to communicate and to create brand awareness.

Improving poor communication skills by Chinese manufacturing companies could make a huge difference in the way that they relate to their consumers and the resultant relationship that they share with their consumers.

The Cultural Approach

The cultural approach is different from other approaches in that it only operates on a macro-level, rather dealing with individual consumers (Holt, 2005). Culture has an impact on consumption patterns of individuals and companies; consumers tend to follow certain consumption patterns. All successful global brands have been able to forge a deep connection with culture (Holt, 2004). As discussed in Chapter Three, consumers are embedded in and influenced by the surrounding culture, and brand value is created through ‘playing an active role in mainstream culture’ (Heding et al, 2009:211). At the same time, managing culture around a brand requires a shift in marketing capabilities.
As Holt (2004) highlights, a brand is a provider of storytelling and myth. Overseas M&As and foreign companies’ joint ventures have provided opportunities for Chinese companies to grow and to access the global market. Collaboration with foreign companies and brands can be characterized as parts of the story Chinese brands are telling. It helps Chinese companies to reinvent the brand’s myths and to recreate a positive brand image.

Although China has a different culture from Western countries, domestic consumers’ preference for foreign brands has positive effects on the reinvention of Chinese brands’ myths. Meanwhile, the myth of those acquired or collaborated multinational brands also have positive effects on foreign consumers’ acceptance of Chinese brands. However, it is not an easy task for Chinese companies to manage acquired or collaborated companies and to reinvent the myth. In order to take full advantages of global resources and opportunities, Chinese companies should build up their internal and management capabilities. However, this study has demonstrated that the lack of talents in companies and, for globalization, poor governance systems, and organizational structures might not support Chinese companies’ globalization.

By acquiring companies with well-known brand names, Chinese manufacturers can quickly access global distribution networks and be recognized internationally. It is a short cut for a company to enter the international market, and is a time and cost saving strategy compared to organic growth. As discussed in Chapter three M&A is a fast track for companies to grow (Seth et al, 2000; Buckley and Ghauri, 2002; Shimizu et al, 2004). Through M&As Chinese companies can expand into new products or markets, renew their market positions at a speed not only achievable through internal development but also increase
their brand awareness.

The above discussion shows that there are many factors affecting the perception of Chinese brands. These factors include brand image, brand personality, brand associations and communication message. Therefore, Chinese companies should realise that building relationships with consumers is essential in brand building, rather than focusing only on sales. Also, providing cues on quality, credibility and value of their brands can influence perception of consumers towards their brands and to assist consumers in making purchase decisions. Meanwhile, the analysis suggests Chinese companies have generally lacked branding knowledge, proper brand strategies and models. Although branding is now major concern for many Chinese executives and marketers, how to build and manage brands is a difficult task indeed for them. Chinese companies lack clear branding strategic objectives and detailed metrics to measure when their objectives have been met. They should look beyond their traditional management system which has been developed in volume in the past twenty years. For example, standard marketing approaches have been adopted by Chinese marketers and companies, rather than integrated brand building techniques.

9.3 Recommendations

Government

The government should promote a good market environment with supportive policies in order to encourage companies to build their own brands and to effectively protect domestic brands. First, the government should support companies to establish core technology R&D centers to encourage
independent innovation. The technology in the Chinese manufacturing industry is poor with low value-added products and a low capacity for independent innovation. Additionally, the Chinese government should increase the support for R&D, in order to promote market-orientation, to create innovation, to add value to their products and thereby increase the core competitiveness of Chinese manufacturing companies.

The Chinese government has given strong support to SOEs in both policy and finance, especially for those who ‘go global’. As a few individual experts argue in the interviews, there will need to be some strong Chinese brand names appearing in the global market with the government’s support which will pave the way for other Chinese companies’ globalization in the future. Although there is some agreement, it is suggested that the Chinese government should also support those private companies who have potential.

To support those large manufacturing companies, the government should focus on encouraging independent innovation through the establishment of R&D centers. Meanwhile, the government should also support private companies in the manufacturing sector who have potential by providing equal treatment with regard to market access, finance and policy.

It is believed that supporting private manufacturing companies will strengthen their new product development, and industry adjustment, which will also encourage and mobilize the enthusiasm of private companies. It is necessary for the government to guide and assist private companies in strengthening industrial alliances or the integration of resources. The M&As undertaken by Chinese manufacturing companies in the domestic market constitute an important step in increasing the competitiveness of Chinese manufacturing companies in order to pool resources to build a base for creating brands in the near future, especially in those with scattered industries and resources, such as the garment industry.
At the same time, the support of private manufacturing companies by the government has another advantage, which is to possibly enhance the sense of competition among SOEs in order to encourage them to actively participate in competition then gradually break the monopoly, relaxing market access, developing and improving relevant policies and regulations, and finally gradually introducing a non-publicly owned economy.

Second, the government should strengthen the legal system by establishing IPR protective legislation. On the one hand, to address the serious piracy problem which has negative effects on company innovation, penalties should be intensified, and a monitoring system should be established. Although the Chinese government has made efforts to crack down on piracy, it is still not enough. Imperfections in the market economy and regulations have negative effects on brand development, so that genuine brands face chaotic, unfair competition in the market environment.

Some companies with brands concentrate on indirect competition, but many companies may implement a distortion of competition. In the case of inadequate intellectual property protection, the brand’s trademark is often counterfeited and imitated, or faces other forms of infringement. In addition to the lack of effective discipline and relevant laws, these distortions of competition often cause great losses to well-known brands.

The government needs to take further action to increase the protection of intellectual property, and severely punish the abuse of occupation trademarks, copyright etc. This will encourage Chinese companies to develop technology and independent innovation. On the other hand, the government should be aware of their own lack of attention to the protection of domestic brands, which has already had serious consequences for joint ventures with foreign investment as well as for domestic brands participating in overseas M&As.
If the government does not protect domestic brands immediately, foreign companies and their brands will further sweep the domestic market with joint ventures which will hit the confidence of local companies, and may also lead to Chinese companies losing a large amount of intangible assets and markets. The relevant legal measures need to be applied to protect domestic brands in joint ventures in order to prevent foreign capital’s hostile takeovers. At the same time, the growing number of overseas M&As by Chinese companies obliges the government to introduce foreign-related IPR legislation and systems to better respond to assist Chinese companies in overseas expansion.

Finally, it is suggested that it is necessary for the government to team up with marketing and branding specialists to popularize marketing branding knowledge and skills in order to increase branding awareness among companies. In the interviews, some experts pointed out that one of the main reasons for Chinese companies lagging behind in brand building is poor understanding of brand building, which also leads to poorly directed brand expansion.

During the interview process, some experts expressed their willingness to assist companies’ brand building. During the early stage of interviews contacting a number of marketing managers and staff in some manufacturing companies, it was found that marketing people in manufacturing companies have some marketing and branding knowledge, but they are not proficient. They do not know how to apply this knowledge in practice. Therefore, the interview targets changed to top marketing and branding experts from developed regions with over five years’ branding consultancy experience within the Chinese market, as well as being active branding practitioners and active authors in Chinese branding publications. In addition to their expertise in brand building, they have a more profound understanding of Chinese companies’ situation in this area.
With experience in assisting companies with branding, most interviewees believe that the leaders of companies are only concerned with short-term benefits, and lack awareness of the value of brands, which means expert branding plans for companies are accepted only with difficulty. All those companies want from experts is help in selling greater quantities of their product. As a number of experts mentioned, it will be extremely difficult to change manufacturing company leaders’ traditional business concepts.

However, it was agreed among some interviewees that popularizing marketing and branding should be the first step in assisting companies to start brand building, which would help manufacturing companies’ to be aware of the value of the brand. The government and experts from the field together may provide some training programs such as business management, brand building, marketing practice etc. They could also work with the business to assist and supervise companies in brand building practice.

For example, experts should guide companies to develop some basic branding skills such as positioning and brand communication, skills which Chinese companies lack. It is important for Chinese companies to master the skills of building a brand’s image, not simply use TV advertising and price war tactics. Experts should also supervise companies in developing a long-term branding strategic plan in order to create a strong brand image, to create a unique image in the customer’s mind by fully understanding the market demand and target market for both physical and psychological needs.

The Company Aspect

Following the above discussion, with government and expert guidelines, company leaders should be fully aware of the changed environment and they should realize that they can no longer run their businesses as they did in the past, otherwise they will be eliminated from the market. Company leaders
need to pay more attention to brand building and development, remove the idea of quick success and quick profits. They should understand that brand building is a long process and they should be patient. Chinese companies are generally impetuous and have no long-term strategic plan, a fact which has been pointed out by both interviewees and previous researchers. Chinese companies have unrealistic expectations of branding, hoping to secure quick growth in sale revenues, yet often disappointed with short-term results.

For SMEs, it is also crucial to change their idea of brand building as something that can only be considered by larger companies. They too should try to build their own brands. Many multinational brands started from a small or family business, and it is a process for businesses or brands to grow. Any successful company will go through a period of growth and capital accumulation. Therefore, dealing with brand building is related to long-term business development.

Being OEM or in unlicensed production, Chinese manufacturing companies run the risk of going out of business. In the current economic environment with intense competition, businesses rely on their brands to survive, and the intangible value of brands can bring huge profits to a business. In this situation, the conceptualization and decision making by company leaders play an extremely important role.

Company leaders should realize that businesses must be innovative in order to survive, and their companies should enhance their R&D capability or new product development which will assist companies to produce high quality products. As the interviewees mentioned earlier, product quality is key for a company to enter brand competition; improving the product quality should be considered as urgent, due to the poor image of ‘Made in China’ in consumers’ minds in both domestic and global markets. Imitation and homogeneity are serious problems among Chinese manufacturing companies, and a lack of
personality in brands is also a factor. These factors should attention the attention of Chinese companies; paying attention to product design and innovation will help companies to establish the characteristics and personality of their products and brands instead of blindly copying others.

In the previous discussion about overseas M&As by Chinese companies, it was argued that Chinese companies are not fully equipped to go global. Most Chinese companies have not established a competitive advantage in the domestic market, yet are eager to ‘go global’. The fact remains that most of their globalization plans were unsuccessful and a huge price has been paid, especially in the field of overseas M&As. Without government support, the process of their globalization may be more complicated and difficult. In the domestic market, they are unable to compete with foreign brands; it will be more difficult for them to compete in a developed market. This does not mean that Chinese companies should not consider globalization; rather it suggests that Chinese companies need to enhance their competitive advantage by mastering basic skills in the domestic market before moving on, initially increasing their strength through M&As in their industry in the domestic market.

Companies should strengthen cooperation between local brands and companies in order to achieve a strong combination. It suggests that M&As between local companies is a more realistic strategy for Chinese companies to grow. The integration of technology, production, channels, brands, markets and other advantages from different companies often creates a stronger company with more competitiveness, which will help Chinese companies to build strong brands, thereby competing with foreign brands in the domestic market and being well prepared to expand.

Globalization is an unavoidable process for companies to undertake, otherwise the market will be easily occupied by those global brands. Chinese companies
can compete strongly with those foreign brands in domestic markets only if Chinese companies have global brands. However, the Chinese may pay a high price if they are not well prepared when moving into this area. The failure of overseas M&As by Chinese companies has demonstrated this.

The Chinese market still has huge potential and huge unexplored areas, especially in the second and third tier markets. A huge domestic market provides a place for Chinese companies to practise and improve. This is where Chinese companies should build up their capacity step by step in improving product quality, service and branding skills in order to be ‘ready to go global’, rather than merely ‘eager to go global’.

9.4 Conclusion

In this chapter, we have given an overview of the exploration of the seven brand approaches proposed by Heding et al (2009). We can now conclude that none of the seven brand approaches can explain the phenomenon of Chinese brand building. This may be due to the lack of professional brand knowledge, experience and skills-sets within Chinese companies. Many Chinese companies, especially their leaders, still perceive branding as mainly related to company identity and advertising investment. This lack of a clear brand-oriented culture has led most Chinese companies to focus on short-term sales and production, rather than the sustainable investment levels required to establish brands.

Building a brand is not only the responsibility of an individual company; it will also involve the government, social organizations (e.g. China General Chamber of Commerce including China Association of Automobile Manufactures and Consumers’ Association etc.) and consumers, together to
create a synergy. The research findings from both secondary and primary data suggest that the government policy on the protection of domestic brands is inadequate. Therefore, it implies that the Chinese government should realize that foreign investment in the domestic market can have an enormous impact on the national economy, despite the positive aspects of foreign investment. The Chinese government should swiftly introduce relevant laws and regulations against hostile takeover monopolies by foreign companies in the Chinese market, while also setting up institutions to assist overseas M&As by Chinese companies.

Chinese company leaders must change their mind-set from short term profit orientation to brand centred, although this is not easy, as the experts acknowledge. Whether large or small, companies should all be brand centred, accumulate capital to enhance capacity in brand building and they should be patient.

Even though the above suggestions are reasonable, brand building is a very challenging task for Chinese companies in the present situation regarding companies, markets and imperfect laws and regulations. It is not an easy task to change the mind-set of those manufacturing company leaders who have long been OEM. Lack of resources in capital, technology and talent in management and design has put brand building out of reach for Chinese companies, especially for SMEs. Therefore, supervision by the Chinese government, social organizations and intermediary organizations are crucial for the development of Chinese brand building.
Chapter Ten

Conclusion

10.0 Research Conclusion

As previously stated, the aim of this research is to investigate the current situation of Chinese brands and branding strategies with particular attention to the manufacturing sector; to examine how recent branding theory can inform Chinese brand building; and to identify techniques to facilitate Chinese brand building.

The study begins with an introduction to the research interests and background. The phenomenon of a lack of brands for an economic powerhouse - China - has made the researcher interested in the exploration of the Chinese branding story. The research has shown not only the Chinese branding story in the domestic market but also the story of its globalization.

In order to have a general understanding of Chinese brands and branding, the background and market environment have been described in Chapter Two. The chapter collected various relevant data in terms of the Chinese business environment, market, the government role in business and policies, and marketing and branding practices etc. It provides issues which directly or indirectly affect Chinese brand building. The problems and challenges of Chinese brands and brand building have also been identified initially.

In Chapter Three seven brand management approaches proposed by Heding et al (2009) and other branding theories have been discussed, and serve as a
structure to explain the observed phenomenon for the later research.

Based on a preliminary analysis, Chapter Four outlines the research methodological approach, along with justifications. The qualitative approach has been adopted, which includes in-depth interviews with 19 top Chinese branding experts who have practical experience in assisting Chinese companies in brand building.

For a further understanding of Chinese brands and branding, Chapter Five focused on the following investigations: an investigation of Chinese brands from the global ranking lists, declined national brands, the situation in the domestic market and those companies who have already entered the global market.

Chapter Six focused on the investigation of Chinese companies’ globalization through overseas M&As, with particular focus on the automobile industry. The investigation shows that there has been an eagerness on the part of Chinese manufacturers to expand with over ambitious plans. Acquiring well-established brands is useful to enhance the image of Chinese manufacturers’ own brands, but it does not mean Chinese manufactures can maintain and manage the acquired brands.

Chapter Seven provided an insights into the garment industry; China is the world’s biggest exporter of garments with a huge volume of sales, yet no world-class brand. Three Chinese top garment branding consultants shared their views and provided an in-depth understanding of Chinese brand building. The investigation suggests that companies developing their own brands has become the only way for the future development of those SMEs, while those bigger Chinese garment manufacturing companies need to implement a branding strategy to enhance their brand value.
Chapter Eight extended the previous investigation further by interviewing 16 branding experts on specific topics such as quality issues, technology, marketing and branding skills which are developed from previous findings. Descriptive statistics were used to analyze the data collected from the experts.

With a constant comparative approach, Chapter Eight summarized all the data collected from the analyses of secondary data and in-depth interviews with experts. Key findings are presented in Chapter. Seven brand management approaches proposed by Heding et al (2009) are applied to analyse the current situation of Chinese brand management.

Based on the secondary research and in-depth interviews with branding experts, the research summarized the situation for Chinese companies, especially manufacturing companies, who are in a very difficult situation as regards competing with foreign brands in both domestic and developed markets. In the domestic market, Chinese companies and brands are struggling to compete with foreign brands; some large companies with government support have tapped into the developed market, but generally have not been recognized.

The research has summarized the main problems and challenges that Chinese brand building faces in terms of poor understanding of branding and lack of capability in brand building. However, the most important factors are the companies’ shortsighted desire for quick profits and the poor quality of company leaders. Simultaneously, the government’s support for state-owned companies or state holding companies has resulted in less stress and competition among state-owned companies. Nevertheless, most SMEs are still in the disadvantageous situation of lacking resources and still being involved in imitation stages and price wars. The weak legal system as regards piracy has negative effects on innovation.
Although the research ascertained that there is increasing brand awareness among Chinese companies due to the changed environment and the realization of the importance of branding, as those experts from the field explain, brand building for Chinese companies, especially manufacturing companies, is not that simple. There are difficulties for Chinese companies, especially manufacturing companies, in the capabilities required for brand building. However, external factors in terms of industry structure and government policy and regulations also play an important role.

There is no doubt that Chinese companies need to improve their branding knowledge and capacities as previous investigations have suggested in terms of marketing, and brand communication. However, research suggests that, currently, the most important aim for Chinese companies should be to improve their product quality, to remove the negative perception of ‘Made in China’, and to build up confidence in consumers both internally and externally.

This requires companies to increase their sense of honesty while recognizing that quality is the most basic requirement for building brands. In addition to self-discipline, the government should strengthen the quality control system and further strengthen the legal system against piracy. At the same time, the Chinese government needs to establish a proper legal system to protect Chinese brands in the domestic market in order to prevent malicious occupation by foreign companies and to protect and assist domestic brands when entering foreign markets.

The government should support non-state owned companies more, especially those who have the potential to assist companies to establish R&D centres, to encourage innovation. It is believed that government assistance for non-state owned companies will help increase innovative capacity and competitiveness, although it may also reduce protection for SOEs in order to promote competition.
Another recommendation is that Chinese companies should not be too eager to go abroad whilst they are not fully prepared. The domestic market provides a good opportunity for Chinese companies to learn to grow. Step by step building of capability from the domestic market is the necessary stage all Chinese companies have to go through before going abroad. Chinese companies can grow through M&As in the domestic market rather than be in a hurry to seek overseas M&As.

During the research, the in-depth interviews with 19 Chinese branding experts have been vital for the researcher to gain an insight into the Chinese branding situation. Based on their experience working with companies, they provided insights into Chinese companies’ current issues in brand building

10.1 Research Contributions

The findings of this research have contributed to existing theory and have also added to the managerial contributions to Chinese companies.

Theoretical Implications

First, the research findings have complemented the previous literature. This thesis provides further insights into the Chinese brand building situation and it lays the foundation for future research focusing on Chinese brand building. This research has provided a general understanding of current issues with Chinese branding, including all possible factors which could directly or indirectly affect Chinese brand building, rather than simply examine them in isolation. The investigation has incorporated a wide range of aspects including companies, policy makers, consumers, technology and innovation etc. In recent years, an increasing number of academics have begun to focus on
Chinese brand building issues. As discussed earlier, the previous literature focuses on different single aspects of the Chinese branding elements; no study has carried out on a comprehensive analysis of current issues of Chinese branding, in particular manufacturing branding. The causes of each problem are often manifold. Therefore, analysis of a problem should be from various aspects and angles. Chinese brand building is a complex issue, and the previous literature has failed to fully describe the situation regarding Chinese brand building.

Secondly, findings from this thesis made it clear that Chinese branding theory is undeveloped. Chinese companies’ branding lacks a systematic theoretical system. In the Chapter three, we can see Chinese branding theory has been developed only in recent years, and all branding theories developed by Chinese theorists are borrowed from the West. Research findings lead the research to recognize and address the importance of application of brand management theory in Chinese branding practice.

Secondly, the research findings support the existing theory of branding and brand management. Branding in China is an exciting topic in recent years, and it is worth making sense of Chinese brand building and brand management practice by investigating how existing brand management theories can be applied to Chinese branding. This research uses Heding et al (2009)’s seven brand management approaches to study how the theories respond to the Chinese brand building case. Over the past two decades, many academics in the West have investigated branding from functional aspects to relational and social perspectives. The brand development has shifted from an individual ‘micro’ level to a social and cultural ‘macro’ level. However, it is essential to ascertain whether these brand theories are applicable to Chinese brand building.

The research findings show that the existing brand management theories are
fundamental for Chinese companies to improve their branding. Existing branding theories provide comprehensive systematic guidelines for Chinese academics and companies to learn from. The existing branding theories can valuably be applied to Chinese companies’ brand building practice.

Managerial Implications

In terms of implications for Chinese companies and marketers, the finding of this research shows that Chinese companies wishing to improve their branding should seek a systematic brand management system. Application of Heding et al.’s (2009) seven brand approaches to Chinese branding shows that Chinese companies, especially manufacturing companies, lack a clear brand-oriented culture and sustainable investment in branding due to the lack of professional brand knowledge and skills-sets.

Secondly, this research highlights some of the important aspects that Chinese brand building should focus on, starting with a view of the current conditions, in particular for manufacturing companies. The author agrees with some academics and experts who suggest that Chinese companies should improve skills and knowledge in marketing, branding communication and management, and improve the use of technology. However, time is short due to the production-orientation mind-set, lack of resources and the imperfect market environment. Although Chinese companies, in particular manufacturing companies, realize the importance of building brands, in practice they do not know where to start and they still have little of long-term strategic brand building. As discussed earlier regarding Heding et al (2009)’s seven brand management approaches, Chinese companies are generally not ready to build their brands strategically. It thus becomes extremely difficult and also unrealistic for most Chinese companies to build a brand in a short period of time. Therefore, this research highlights the essential and basic steps Chinese companies should start within brand building, rather than simply improving
their branding skills. This thesis also highlights the government’s role in assisting Chinese companies’ brand building.

10.2 Research Limitations

The investigation in this research included a wide range of aspects in order to provide a general understanding of current issues in Chinese brand branding, but each and every aspect of Chinese branding has not been addressed in the desired depth due to time and cost limitations. For each aspect, there is a need for further exploration and in-depth research.

This research focuses on Chinese brand building in the domestic market, and also its expansion into developed markets. However, it has not examined the Chinese brands’ performance in developing markets. In future research, there is a need to explore Chinese brand performance in developing markets, which may help researchers to identify further relevant issues for a Chinese company’s globalization strategy.

In addition, this research has focused on the views of experts to explore the issue of Chinese brand building, rather than on those of manufacturers’ because of time and cost restraints, as well as the difficulty of contacting manufacturers and concerns about the quality of the data collected. In order to have a better understanding of Chinese manufacturing brand building, it is important to investigate from the manufacturing side. This needs to be considered in future research.
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Appendixes I

In-depth Interview Question A&B
**A. In-depth Interview Questions (General)**

1) 长期以来，中国是国外公司和品牌的生产加工商，却缺乏全球品牌。近年来，政府和企业都在为建立和推广本地品牌努力。2008年已有15个中国品牌在全球500品牌名单中。您认为近年来中国品牌建立和推广成效怎样？您对中国的品牌有什么看法？

(For a long term, China has been manufacturer to the world and to Multinational brands but has lacked own brands. In recent years, both Chinese government and companies have made an effort to build brands. In 2008, there were 15 Chinese brands in the Global Top 500 list. What is your opinion regarding the success of Chinese brand building in recent years and how do you view Chinese brands in general?)

2) 根据调查数据显示（INTERBRAND），在全球市场中‘中国制造’的形象不佳，形容中国产品的词汇大多是‘便宜’‘低质量’‘缺乏创新’和‘缺乏信誉’。近年来发生的玩具回收和毒牛奶事件也被大面积的在海外报道。这对中国品牌和产品信誉形象影响很大。您是如何看待这个问题的，您是否认为产品的质量保证是中国建立品牌以及其信誉度的关键？

(According to INTERBRAND’s survey, ‘Made in China’ has suffered from negative perceptions. Phrase used to describe ‘Made in China have included ‘cheap’, ‘low quality’ and ‘lack of innovation and credibility’. The recent quality crises reported in overseas media which have seriously affected perception of Chinese products and...
brands. How do you regard problem and do you agreed that quality is the key issue for Chinese brand building and for Chinese brands to establish their credibility?

3) 在中国盗版问题很严重，大多数企业，特别是中国一些小型企业，没有把精力放在研发建立自己的品牌，而是模仿其他品牌。从长远发展来看，这并不有利于本地品牌建立。有人指出中国要建立自己的品牌需要创新，中国品牌要建立自己的个性。您是怎样看待这个问题的？

(Piracy is a serious problem in China, most companies especially SMEs have not focused on building their brands, but on imitating other brands. Some people have suggested that Chinese companies need to establish brands through innovation and Chinese brands need to establish their own personality. How do you view this question?)

4) 在国内很多行业和市场中，国外品牌和产品占有了大量份额。面对国外品牌的强势，中国本土品牌的发展受到了很大的冲击。很多中国品牌也陆陆续续地消失了或者是落入了外国企业的口袋。而国外企业通过吞吃本地品牌，轻易地打入了本地市场。对本地品牌来说怎样尽量避免这种状况，怎样才能提高竞争的能力？

(In many domestic industries and markets, foreign brands and products have occupied a large market share. Strong foreign competition has had a great impact on domestic brands. Many Chinese brands disappeared through M&As or joint ventures by
foreign companies in the domestic market. As a result of swallowing up local brands, foreign companies have then found it easy to penetrate the local market. How do local companies and brands avoid this situation and how can Chinese companies improve their competitiveness?

5) 近年来中国科技发展很快，一些人认为中国企业并不缺乏技术和能力研发高品质产品，但是缺乏对品牌的理解，不懂得怎样将产品做成本品牌。特别是很多企业还没有真正的掌握有关市场营销，品牌建立，推广和品牌管理的知识和技巧。您认同这种说法吗？您对中国企业，品牌的管理和营销有何见解？

Chinese science and technology have developed rapidly in recent years, some people believe that Chinese companies do not lack technology or the capacity to develop high quality products, but lack an understanding of branding and do not know how to turn products into brands. In particular, many companies lack the knowledge and skill necessary to run a marketing operation, to establish a brand or to successfully promote and manage the brand. What is your opinion regarding the above statement? What is your experience in assisting their brand building?

6) 现在很多中国企业将扩过并购作为捷径，以求能通过收购国外品牌更快加入海外市场。然而很多企业急于求成，欠缺考虑和对收购目标的分析，买到的都是麻烦。大多数收购的都是西方大公司急于卖掉的非核心业务。您认为中国企业海外并购的挑战是什么？中国企业应该怎样减少风险？
(Now many Chinese companies move into global market through overseas M&As and they view brand acquisition as a short cut for Chinese companies to go global. However, experience shows that it has not been success. Many companies in their eagerness for quick result have failed to think through their action or fully analyze the true potential of target purchases. As a result, they have often bought into trouble by purchasing ‘hollow’ companies that western companies have been only to willing to unload. What challenges do you Chinese companies will face when taking overseas M&As? And how should Chinese companies reduce risks?)

7) 您对中国将来在品牌建立方面持乐观态度吗？在哪一些方面您认为中国品牌建立需要提高和改进？

(Are you optimistic about the future of Chinese brands? In which areas you think Chinese brand building needs to be improved?)

8) 除了以上的问题，如果您还有什么附加的见解，将非常感谢！

Any additional opinions would be welcome. Many Thanks!
B. In-depth interview questions (Garment Branding)

1) You have your opinion regarding the current situation of current Chinese garment brands?

2) You have your opinion of Chinese garment brand building, promotion and management? what problems or strengths can you identify?

3) ‘The quality of Chinese garment companies leaders decide the progress of their brand building’. To what extent do you agree with this view?

4) How do you see the future status of Chinese garment brands will be?

5) What will be crucial factors deciding the future of Chinese garment brands? Can you identify any strategies to improve the situation of Chinese domestic garment brands?
6) 针对国外强势的服装品牌，中国服装品牌应该怎样提高自我，增强竞争力？

(How should the Chinese face of strong foreign competitors?)

7) 除了以上的问题，如果您还有什么附加的见解，将非常感谢！

(Any additional opinions would be welcome. Many Thanks!)
Appendix II

Interviewee Data Transcription
Interviewee Data Transcription

A-Q: GENERAL BRANDING CONSULTANTS
R-S: GARMENT BRANDING CONSULTANTS

Interviewee A

Q1.

Robert Woodruff, former President of Coca-Cola, once said: “Even if the company collapsed overnight, Coca-Cola would be able to rebuild its empire in a short time on the basis of its brand assets.” This tells us the vital importance of a brand to a company. Brand building has become the strategic goal of numerous enterprises. China has also made pleasing progress in this respect thanks to the efforts of Chinese enterprises and brand-owners over the recent years. In terms of vertical comparison, fifteen Chinese brands were listed among the world’s top 500 brands in 2008. This is the best proof of the progress of Chinese brands. To be honest, it is not an easy thing to be listed among the world’s top 500 brands. Those listed brands deserve congratulations and celebration, of course. However, retaining and raising their place on the list in the long run requires efforts by Chinese brands. What we are trying to build are not meteoric brands that disappear that like a flash in the pan, but star brands that radiate forever. In terms of worldwide horizontal comparison, however, the present status of Chinese brands is not that cheerful. In the
Top 500 World Brands released in 2008, there were only fifteen Chinese brands, far behind the 243 entries from the USA. Moreover, only China Mobile and CCTV were among the top 100 brands. This indicates China still has a long way to go in brand building. Chinese enterprises should abide by the business philosophy of survival by brands, continue their efforts in brand building and take a correct brand-building route.

Q.2

Brand is not a slogan, or a name, or a trademark. A good brand should be something that consumers can truly feel. If we compare a brand to a skyscraper, then the product is the foundation. A brand is first of all built on the products. The consumers’ love for, and loyalty to, a brand is also built on their trust in products’ functionality and value. The product is the most essential platform for communication with consumers. Without the solid foundation of products, it is impossible to erect the skyscraper of brand. A brand without the support of reliable products is just like a mirage that may vanish instantly. Those brands that failed because of product problems one after another provide the most convincing proof of this. Hence, to build a long-lasting brand, an indestructible foundation of products must be laid. For example, MERCEDES-BENZ captivates millions of car fans with its visible and tangible excellent quality, the solid foundation of the brand. On the basis of confidence in its product quality, BENZ Corporation dares to challenge in its advertisement: “If anybody finds a BENZ car malfunctions and is forced to “anchor”, we will give you ten thousand US dollars”. The foundation of high-quality products has resulted in the fame of the BENZ brand and brought it to fifth place in the list of Top 500 World Brands in 2008.

Q.3.

Imitation is a stage during the evolution of ‘Made in China’. Looking back at the past, we may find that ‘Made in Germany’ was widely criticized during the Industrial Revolution period of the UK; ‘Made in Japan’ was not that popular among Americans; ‘Made in South Korea’ did not gain credit in China until the mid-1990s. The transition from ‘Made in China’ to “China Creation” cannot be accomplished at a stroke. However, as the innovative ability of Chinese enterprises improves, ‘Made in China’
is also evolving step by step. To be more specific, Made in China passes through three stages:

Stage one: Draw a tiger after a cat, alike in appearance but not in demeanour. This “drawing technique” has no technical content. The works produced are alike in appearance but not in demeanour, and don’t deserve a compliment. Now they can just copy everything that sells well in department stores and then dump them at extremely low prices on the market. From LEONARDO shoes to Armani clothes; from LV bags to Rolex watches, imitation is omnipresent. According to the news on the internet, a carpenter even made an exact mock-up of a Ferrari.

Stage two: Draw a cat after a cat, not really a cat but very catlike. In contrast to the first group, this second type of enterprises has moved from the stage of drawing a tiger after a cat to the stage of drawing a cat after a cat. The targets they model on have upgraded from labour-intensive to technology-intensive products. They outdo the first group, whether in terms of company capacity, brand strength or standard of imitation. The works produced are presentable, though there is still a gap with the real “cat”. These enterprises usually can skilfully add some of their own creativity into the inventions of others, and naturally turn others’ things into their own possessions by saving much effort through careful design and clever reconstruction. Hence, their products are applauded in the marketplace and praised by consumers. It is indeed a coup on several levels.

Stage three: Draw a panda after a cat, doing better than the master. As compared with the first two groups, this group of enterprises has reached a higher level. Their works boil down to one Chinese saying, the pupil does better than the master. They are not only good at learning from others, but also excel in providing innovations for upgrading the things borrowed to create their own “drawings”. QQ, an instant messaging tool very popular among millions of young Chinese, also succeeded by imitation at the beginning. Firstly there was ICQ abroad and then OICQ came into being in China. Following repeated improvements, the present QQ finally took shape. In fact, QQ and ICQ are not much different in terms of technology. QQ is more popular than ICQ because Ma Huateng had a good understanding of the requirements of the Chinese market, and was able to
make innovations and better adapt QQ to the habits of Chinese users. Therefore, QQ succeeded in the end.

Whether drawing a tiger or a panda after a 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 out-perform others and help ‘Made in China’ achieve popularity around the world.

Q4.

Today, the competition between different nations is economic competition, and it is most directly reflected in brand competition. A large number of national brands have merged or been acquired by foreign brands in recent years for various reasons: for example, Unilever taking control of Zhonghua toothpaste; 72% equity of Nanfu battery acquired by Gillette, Robust acquired by Danone, Xiaohushi acquired by L’OREAL; SEB from France (Number one brand of small household appliances in the world) taking control of Supor and Dabao acquired by Johnson&Johnson.

In the face of aggressive foreign brands, Chinese brands need not be sheep being led to the slaughter. After all, we have native advantages. We must be masters of our own territory. However, as an old saying goes, if you want to forge iron, you must be tough enough yourself. To resist the attack of foreign brands, Chinese brands must build up their ability and learn from internationally-renowned brands to enhance their brand strength, R&D capability, product power and marketing capability, in addition to native advantages. In terms of brand building, renowned international brands, especially luxury brands, are good at providing a narrative, while Chinese brands are incapable of this trick. How to “sell a narrative” is what we need to learn. In terms of brand management, we also need to continually pursue new and original brand building concepts, such as the ‘total brand management’ adopted by some famous international enterprises.

Q 5.

There are a number of well-known Chinese products in the world, but celebrated Chinese brands are few in number. Most Chinese quality products are like meat left in the pot until it goes bad, and people of other countries have no opportunity to even experience their flavour. For example, China is the homeland of tea, but lacks a famous international tea
brand. China produces 1,200,000 tons of tea every year, only 300,000 tons of which are exported. Despite having the largest area of tea production in the world, China has little influence on the international market. The annual output value of the entire Chinese tea industry is 30 billion Yuan, while the annual output value of Lipton tea alone is approximately 23 billion Yuan, equivalent to more than two-thirds of the tea production value of China. Because of this, it is said that 70,000 Chinese tea factories cannot match one Lipton factory in the UK. In fact, Chinese tea is merely an example that epitomizes the embarrassing state of Chinese brands. How can we build our quality products into renowned brands? Let’s take tea as an example. We could dig deep into the tea culture, brand culture and product culture, and create product value to change the world’s perception of Chinese teas as a low-value product.

Of course, brand building and management requires certain rules and techniques, and enterprises and brand-owners must keep learning and making improvements. However, in relation to rules and techniques, enterprises need to spend more effort on the basics. A brand is built step by step. Expectations of quick success and short-term benefit should be discouraged. The statistics of one survey show 36% of 100 prestigious enterprises in the world have a history of more than one hundred years, 28% about 80-100 years, 25% about 50-80 years and only 6% less than 50 years.

Q 6.

The acquisition of foreign brands which have advantages of independent intellectual property rights and overseas distribution channels can greatly enhance the international competitiveness of Chinese enterprises. Countless Chinese enterprises have opted for an overseas M&A strategy. To name a few: Lenovo acquired the PC business of IBM, CNOOC merged and acquired oil and gas resources abroad, SAIC merged and acquired Korea-based SsangYong Motor and Daewoo, TCL acquired Schneider, the colour TV division of THOMSON and the cell phone division of Alcatel, Haier acquired Maytag, the US-based leading household appliance manufacturer…..Premier Wen Jiabao announced the intention to use foreign exchange reserves to support and speed up overseas expansion and M&A activities of Chinese enterprises, and to “quicken the pace” of the ‘go into the world’ strategy.
It is a good thing to ‘go out’, but, for Chinese enterprises, to take firm steps is more important. In overseas M&As, Chinese enterprises need to pay attention to the following aspects. They must accumulate experience and make progress in international operations and learn lessons from cases of M&A failure. They must pay attention to the fusion of Chinese and western culture. To respond to the differing lifestyles and habits of consumers in a new market environment, enterprises need to make insightful and in-depth analyses, rather than depend on past experience. For example, Nigeria, with a hot and dry climate, has a huge demand for frozen water. It is not uncommon see streets peddlers with bags of frozen water on their shoulders. However, they have not been able to find a suitable freezer. It is not easy to take frozen water bags out of an ordinary horizontal freezer, while the ice-making space of fridges is too small. So Haier tailor-made a vertical freezer for that country. It is easy to put in and take out things. The drawers can be removed and the ice-making space is enlarged. Now the Haier freezer is the best seller in Nigeria.

Q 7.

Shelly Lazarus, Chairman and CEO of Ogilvy Public Relations Worldwide, has been dubbed the “Most Powerful Woman in Advertising” by the American media and the “Most Influential Woman in the USA” by Fortune for six consecutive years. At the beginning of 2005, this powerful woman with a graceful and beautiful Chinese name said in an interview for the famous finance and economics magazine, Business Week: “Lenovo and Haier are not brands. So far, China doesn’t have a real brand!” This article was reprinted in the media and caused a sensation in China. Ogilvy responded immediately and explained several times: Shelly Lazarus never said that Haier and Lenovo were not brands. They were not only brands, but also brands with huge potential. People were somewhat relieved. However, Ogilvy spoilt the effects by saying: Shelly Lazarus was saying Haier and Lenovo were brands, but Chinese brands had not reached the stage to fully demonstrate their brand connotation yet, but they were brands with huge potential.

Chinese brands are rising like a surging tide. In recent years, as soon as China had gained competitive strength in a certain area, two theories were
voiced around the world: ‘the threat of China’ and ‘the collapse of China’. The same is true for Chinese brands.

A slight tone of sour grapes can be sensed from the words of this Ogilvy CEO. She is rigidly clinging to western experience and theories and didn’t realize China is the last virgin land in the world where brands are growing the most rapidly. China is still the largest production and supply base in the world, and Chinese enterprises do not lack advantages in production and quality. Our ability to do OEM for so many world-class brands is proof of this. Numerous Chinese brands have solved the problem of survival. In the future, any added value of products made in China relies mainly on brand building. Japan started brand building in the 1980s and South Korea led the brand boom of the 1990s. Now it is China’s turn. China is entering the golden age of building next-generation influential brands.

The success of Haier and Lenovo, among others, in brand building demonstrates the determination, confidence and capability of Chinese enterprises in creating our own powerful brands.

Objectively speaking, the shocking words of the Ogilvy CEO also remind us honestly that, as a whole, Chinese brands are not competitive for the time being. This indicates that what Chinese enterprises need most is scientific and systematic strategic planning for brands.

It might be said that this is the best and the worst era of brand building in China. How it will turn out depends on how enterprises make their choice.
Interviewee B

Q1.

The so-called “for a long period of time” in your question is not that “long” really. It has been only three decades since China launched reform and has opened up, and in these three decades China emerged bit by bit, like toothpaste from a tube. There were countless doubts and reversals in its course. After 1989, Li Shufu, the founder of Geely, even handed over his enterprise to the government again and went to Shenzhen in person waiting on the side line. People did not believe the reform and opening-up was irrevocable and that we could really start our own businesses until Deng Xiaoping’s southern tour in 1992.

Hence, all Chinese enterprises have a very short history. It is too early to discuss whether we lack global brands. I am often asked in China: “Why is there no century-old brand in China?” I think your question is incomplete. The complete sentence should be: “Chinese enterprises have been working hard for more than a decade, how come not one single century-old brand has been built yet?” Is this still a logical question?

China is bound to take up more places in the list of the world’s top 500 brands, more than 100 places at least, I guess. The founders of these enterprises are aged from 30 to 60 now and their enterprises are mostly under 15 years old. They have a tenfold growth space at home, and thus haven’t reached the phase of international market development yet. The following Chinese brands which you list as being among top 500: Haier/Lenovo/ Industrial and Commercial Bank of China/State Grid/Bank of China/China Life Insurance/Changhong/China Railway Group/Air China/Sinopec/CCTV/China Mobile/CNPC/China Merchants and Bank/Tsinghua Tongfang.

All of them are monopoly state-owned enterprises except Haier, Lenovo, Tsinghua, Changhong and Tsinghua Tongfang. These enterprises are powerful simply because of the enormous Chinese market and their monopoly.
China will soon become the second largest economy in the world. In fact, for most of its history, China was the largest economy in the world. The prosperity of today’s China marks the reoccurrence of the rule of China’s history once again—long-term stability of society after the end of war always leads to a return to normality, and a chance for people to prosper and for society to flourish. From the Wenjing emperor during the Han Dynasty, to the Zhenguang emperor during the Tang Dynasty, to the unprecedented boom in science, culture and economy during the Song Dynasty, despite military weaknesses, to the Golden Age of the Qing Dynasty and down to today’s reforms and opening-up, this rule has been followed through without exception.

Our enormous market produces gigantic enterprises. The monopoly state-owned enterprises are the first to become international. In other ten or twenty years there will be fifty or a hundred Chinese brands in the top 500. Of course, there is a precondition for this, i.e. ‘do not toss’ as President Hu Jintao said.

Q2.

The poor image of Chinese products is accurate, and Chinese companies should rely on themselves to change. Chinese companies should face the problem, not hide, and they must be honest. The poor impression created is the result of genuine failings; they are of our own making, and we must remedy them ourselves. When the stunning Olympics opening ceremony was unveiled in Beijing, every Chinese enterprise, every Chinese product, I think, increased its brand value. Nobody in the world thought the Beijing Olympics cheap, low-quality or devoid of innovation, though we dare not say it brought 100% good credit, as there was the case of the singing deception. It is a pity that soon after that time the shocking poisonous milk scandal was uncovered. We completely lost the brand value earned in the Olympics.

This problem cannot be solved by cover-ups or propaganda, but must be addressed honestly. We must be trustworthy persons and make high-quality products. We must uncover the problems ourselves and not wait for others. Chinese companies should pay attention to credibility, to produce high-quality products. More Chinese companies with credibility and high-
quality will form a mainstream which will improve the image of ‘Made in China’. When more Chinese people and enterprises behave in this way and this behaviour becomes the mainstream, the image of Made in China will be better. This cannot be delivered simply through the right ‘packaging’. The Olympics was the most successful packaging of Chinese brand image in the last sixty years, but all our efforts were in vain because of the poisonous milk scandal.

The solution to this problem is to follow the old saying ‘xing shan ji de’ i.e. it depends on the accumulative effect of consistently ethical behaviour.

Q3.

This question contains two key words. One is plagiarism, and the other is imitation. These two issues are different in nature. The former is illegal, while the latter is a matter of strategy. 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.

To imitate or to innovate: I think this is a matter of business strategy. TEVA in Israel is focused on a strategy of providing pirated drugs. It doesn’t invest its money in R&D but in patent lawsuits. It realized sales revenues of USD 14 billion this year, with a market value of USD 45 billion and a PE ratio of 45. Its brand value is far higher than most patent drug makers. Its CEO is the idol of Israel. You may study this case.

What is imitation? What is innovation? TEVA is an example of product imitation but also model innovation.

“Most enterprises, especially SMEs, do not expend energy on R&D and brand-building, but on imitating other brands.” This is not true. Every Chinese entrepreneur I know is trying their best to develop their own characteristics and brands. Do not imagine that all Chinese bosses are yokels.

Q4.
Personally, I hope the Chinese market will become a free market of perfect competition, wherein both international and national brands, both state-owned and private enterprises, can exert their talents and compete freely. Have “many Chinese brands disappeared?” Tenfold and even hundred-fold, new Chinese brands are coming forth. This is the market. Are Chinese brands pocketed by foreign enterprises? We thank them for that. We cannot make money from them but can sell them to get cash. If we could make them better and bigger, we wouldn’t have sold them. “Foreign enterprises easily penetrate into the local market by acquiring local brands”. Such a situation is nonexistent. Is it really that easy? There is no free lunch under the sun, and China won’t offer it. Those who can seize the local market won’t be easily bought by anyone, and those who can be easily bought are unlikely to have market value. Coca-Cola wanted to acquire Huiyuan, but it was turned down by the Ministry of Commerce. Danone has no advantage at all in the face of Wahaha.

Power belongs to the powerful. It is by no means innate in some foreign brands or national brands.

China is an enormous and rapidly-growing market. Any capable businessman can have unlimited opportunities and space for rapid growth here. It is a traveler’s tale to say how foreign brands have gobbled us up overwhelmingly. If we can keep doing it, we will make money ourselves. If we cannot or don’t want to anymore, and someone wants to buy it, shouldn’t we be grateful?

Q5.

China is not ignorant of brands. Chinese entrepreneurs master far more “knowledge and techniques of marketing, brand building, promotion and brand management” than those professional managers of international enterprises. The reason is simple. The former have developed a 10-billion brand from scratch in ten-plus years, and personally experienced the whole course of business development from start-up and are embarking on the journey from 10 billion to 100 billion. The latter are managing a 100-billion brand but the brand was already an international brand when they were born. Those are century-old brands, right? They didn’t grow with the brands from the very beginning.
If we compare a century-old 100-billion international brand with a 10-year 10-billion Chinese brand, I don’t see that the Chinese enterprises are backwards and incapable. Actually, Chinese bosses are much smarter!

All Chinese entrepreneurs are founders. This is the largest entrepreneur group in the world, as well as the largest knowledge asset in the business world.

In the next ten to twenty years, China will have many world-class brands and will become the global centre of new business thought. Youngsters from all over the world will come to China to learn business.

Q6.

I think the major “trouble” lies in the legal environment and cultural differences. We have a lot to learn in this respect. High social system costs, powerful labour unions, low work efficiency, life-oriented rather than work-oriented philosophy are the main risks in overseas M&As, and they require us to learn new ways to survive. Hence, I think Chinese enterprises engaged in overseas M&As must first of all learn how to be a popular corporate citizen locally, and how to get along with people of other cultural and institutional backgrounds. In China, entrepreneurs never encountered such problems, because trade unions and labour are the most vulnerable groups.

None of the other problems is a major problem in my opinion. “Many Chinese enterprises are too eager to win and don’t give much thought to or carry out analysis of the targets they buy and have bought more trouble.” This is overstating the truth. The bosses are buying enterprises with their own money, and are far more cautious than others.

Multinational companies are very experienced and mature in brand management, and they tend to sell off their worthless sub-business brands. All acquisitions are others’ “non-core” businesses. Who will sell “core” business to you? If they are not “anxious to sell”, how can we get the chance to buy? We buy because we need, and others sell because they don’t need. We shouldn’t feel in an unfavourable situation just because others don’t need. We don’t need to take away others’ favourites to feel
good, do we?

Q7.

Be optimistic. It is too much to ask for “don’t play silly games”. As long as we can “toss less”, in two decades there will be a whole new world. Needless to say, improvement and progress is being made every day.

Q8.

If Chinese society can keep from “tossing” in the next three decades and provide a favourable environment to enterprises, 100 to 200 Chinese brands will be seen among the list of the world’s top 500 brands. All Chinese entrepreneurs have grown up in the tough environment and are “special forces”, founders and highly-capable people. The overall growth speed of Chinese enterprises will outrun any period in human history, with the enormous Chinese market behind it, and the support of the culture of “job first, life second” of the Chinese.

China had an exceptional scientist and entrepreneur in Wang Xuan, the deceased academic of the Chinese Academy of Sciences, Chairman of Founder Holdings. In a speech after he became an academician he said, “My technology was the most advanced and the best in the world when I was in my 30s, but nobody showed any interest in me. Now I am told I cannot compete with the youngsters in technology, instead I have become an academician.”

His words are modest but profound. The world’s top 500 brands today are those academics. China has millions of entrepreneurs like Wang Xuan in his 30s. You may say he is backwards and you are worried about him and want to teach him, but in fact he is more clear-minded than anybody.
Q1.

An immense improvement has been seen in brand building and promotion awareness in China in recent years. With the accelerated integration with international markets, brand awareness among Chinese companies has been awakened. More and more companies have begun to pay attention to brand building, and the branding operation is at a strategic level. Fierce market competition will also encourage Chinese companies to further improve and enhance their branding. On the one hand, people’s awareness has improved. They realize a price war has no future in an increasingly heated market competition and will hurt the profitability of not only their rivals, but also their own, and will do harm to the industry. On the other hand, this kind of awareness may also be developed by force, especially among OEMs or processing enterprises in coastal regions such as Guangdong, Jiangsu and Zhejiang. Against the backdrop of a global financial crisis, the original low-price and scale economy model no long works. Low profit and low added-value led to the bankruptcy of numerous SMEs in Guangdong, Jiangsu and Zhejiang at the end of last year. Hence, private entrepreneurs have to think about making a change, building their own brands and improving brand premiums and added-value. However, a long and uphill journey lies ahead for Chinese brands. On the one hand, SME bosses are somewhat short-sighted, go after short-term benefits and quick operations to make huge profits and have no patience with brand-building. On the other hand, under the impact of famous and foreign brands, Chinese SMEs are faced with greater difficulties and higher costs in building their own brands. No matter how, it is imperative to build brands, enhance the added value of products and change the development model that wins market share by right of low price and economies of scale. There is also a necessity to change the growth pattern and industrial structure of the Chinese economy. Only in this way can Chinese enterprises grow stronger and go global. Only in this way can the Chinese economy undergo real development. Only in this way can Chinese brands become world-famous brands.
Q2.

In my personal view, ‘Made in China’ has a poor image in the world because, on the one hand, foreign competitors and media often disparage “Made in China” due to competition upgrading and flattening in the course of globalization; and, on the other hand poor quality and credit problems indeed exist in some ‘Made in China’ products. Although the foreign competition and media have exaggerated the case, the fact of a quality problem with Chinese products objectively exists. China has far fewer prestigious brands of good quality than Japan. Quality is the basis of brand and reputation, but I also think corporate mechanisms, systems, management models, talent and teamwork cannot be neglected as well. These are also crucial to the steady development of an enterprise. In this respect, I admire Vanke.

Q3.

In my personal view, we need to look at this issue dialectically. Several thousand years ago, there was no such thing as a patent or intellectual property in the world. Four inventions by China pushed human society forward unselfishly without applying for patents. Several thousand years later, in the globalized market game rules, the developed economies have the power of speech and laid down the game rules. China has to obey game rules, such as those of the WTO, in order to become a player in the global economy. Of course, there is also a matter of an interest game between countries. Imitation might be an inevitable phase. Japan and South Korea developed top 500 corporations by imitation, for example Panasonic, Toyota, Sony and Samsung. The daunting thing is that China must not stop at the imitation phase; instead we must advance and evolve, have our own core technology and intellectual property, build our own powerful brands and change the image of Chinese brands as pure imitators.
Q4.

I think there are several factors: 1. Under the laws of a market economy, it is the survival of the fittest, and it is inevitable that the weak will be eliminated. By undergoing this tempering, Chinese brands can become increasingly strong. Almost all Chinese enterprises start small and weak and are not protected by relevant industrial and economic policies of the government (here we mainly refer to private enterprises, excluding state-owned enterprises); 2. Some entrepreneurs are short-sighted, and only want to pocket the cash, and choose to be acquired rather than continuing to develop their enterprises for all sorts of reasons; 3. Some policies of the government are inappropriate, and have suppressed and restricted the development of private enterprises while supporting foreign enterprises at the early stage, which has contributed to the disappearance of Chinese brands; 4. As a result of corruption and power-cash trade in the course of the reform of state-owned enterprises, some premium national brands were surrendered to foreign interests.

In order to better compete against foreign brands: 1. Bosses must be farsighted, patient and persistent; 2. Chinese companies should learn from advanced foreign companies and establish reasonable mechanisms and systems based on their own situation in order to build a united, efficient and creative team. 3. Put together a united, highly-efficient and creative team; and 4. Gain an insight into the market and know more about international laws and game rules to prepare for going abroad.

Q5.

I disagree with this viewpoint. I had the chance to know many SMEs and feel not many of them are dedicated to developing technology and improving quality. In the eyes of many bosses, brand building equals hype or planning, which sounds more attractive. Desire for quick success and instant benefit is not a rare phenomenon. In fact, China hasn’t made much achievement in the high-tech sector! Core chips of TVs and DVDs are made abroad, car motors are made abroad, core components of computers and digital cameras are made abroad and most drugs are generic drugs. In
this respect, the performance of Huawei is admirable. I think a shortage of talents with international experience and a lack of guidance and encouragement for Chinese brands in past industrial policies are some of the drawbacks.

Q6.

I think we must think these things through before starting overseas M&As or investment: 1. Whether Chinese acquirers have appropriate knowledge and understanding of international markets, the relevant regulations and rules. 2. Whether the condition and ability of Chinese acquirers can digest acquired brands and companies. 3. Whether Chinese acquirers have capabilities regarding different cultures and management modes after acquisitions. 4. Whether Chinese acquirers have a strong international management team and corresponding systems etc. Otherwise, international M&As will not be a shortcut, but big trouble. For example, the move to internationalize by TCL and Lenovo was not a total success. International investment by Pingan was even more ridiculous.

Q7.

I am cautiously optimistic about this. Chinese enterprises have learned lessons from many costly failures, and are bound to become more mature, powerful and competent to confront international competition and expand their presence globally. On the other hand, while gaining benefits, advanced foreign enterprises have forced or taught some clever and hard-working Chinese enterprises to acquire advanced concepts and models. The world is advancing, and so must China. Chinese business leaders must be farsighted and give up their desire for quick success and instant benefits, make long-term plans and be patient; set up fair and efficient corporate mechanisms and systems, and put together a professional high-performance team.
Q1.

Brand building has had some effect in China in recent years. Chinese brands have developed prominently, despite it being a short period since opening-up and reform was initiated in 1979. Developed countries have a long brand development history. Brands have developed for many years in the UK and for 200 hundred years in the USA. Since reform and opening-up in 1979, brand-development in China has experienced sloganising, inspiration and brand-mania stages. In fact, brand development didn’t start in China until 1998. It has been only ten or so years. Chinese brands have been growing rapidly, though they are still no match for, and unable to compete against, international brands for the time being.

The development of Chinese brands is subject to the influence of the external environment. First, a cheap labour force naturally turns China into a manufacturing centre rather than a brand centre. Second, the huge Chinese market has embraced local production of foreign enterprises. Third, the Chinese enterprises and government haven’t achieved optimum effectiveness in the trading market for technology.

These stages of brand building China has experienced are not a bad thing, but a process of accumulation. Gradually China will start developing proprietary brands.

The mainstream development slogan of Chinese society is “independent innovation”, “proprietary intellectual property” and “proprietary brands”.

Both the Chinese government and enterprises are working hard on these things. The global economic crisis in August 2009 is not an adverse event for China. It forced Chinese enterprises without brands to start the adjustment of their industrial structure and proprietary brand building.
Q2.

Product quality is the most fundamental requirement of brand building in China. Brand equals product quality. The quality of a branded product should be good enough. Product quality is not simply a key factor in the brand building; it is the most basic prerequisite for survival. As a product, it should meet quality standards. The Chinese government now attaches great importance to product quality control. Task forces have been set up to monitor product quality. For example, the Food Safety Leadership Group is led directly by Deputy Premier of the State Council. In recent years, the government has been quite strict in quality control. No product unqualified in quality can enter the market. However, it takes time to achieve high quality for all products made in China.

Foreign countries have set high standards for product quality. For example, Japan has many requirements for products. Products that don’t measure up to others’ requirements cannot be exported. This is not a bad thing for Chinese enterprises as well, because it can push Chinese enterprises to improve their product quality. There will be a general improvement when Chinese enterprises improve the quality of their products.

Q3.

China put into practice the market economy not long ago and is inexperienced. Though we have technologies, we lack brand management technology. Many enterprises are not familiar with the basic wages laws. All the cosmetics producers who cooperated with foreign enterprises were gradually devoured. Foreign enterprises gradually take up more and more market share through cooperation with local brands. Many cases of national brands being swallowed up by foreign enterprises occurred before 2000. Since 2000, the situation has been better. Many domestic entrepreneurs have no brand management and ownership awareness and are incapable of brand management. But improvements have been seen in recent years.
Q4.

I partially disagree with the China imitation theory. Imitation is a scientific approach. Many enterprises lack the time, resources or technology to make innovations. So they adapt and adjust others’ technology, but this is not imitation. This is appropriate for some enterprises.

Q5.

In past overseas M&A cases, Chinese enterprises were mostly exploring and inspecting. At that time, most Chinese enterprises had no fixed model, and risked M&As once they had an idea and support from the government. They have paid dearly for that. Because of those bitter lessons, Chinese enterprises are now beginning to give overseas M&As their rational and careful consideration. The current overseas M&A activities of China make sense. The latest global economic crisis has created new overseas M&A opportunities for China. Fewer risks are being taken in this round of Chinese overseas M&As.

Q6.

The main reason for the boom in brand-building among Chinese companies is market competition and the various pressures companies face. In the future, regions in China with developed economies, such as coastal cities, will do better in brand building. Past lessons and experience and the pressure of the present environment will force them to do better in brand building.

Product problem: product quality must be good enough. This is a thing we must do. Chinese enterprises must value quality rather than quantity.

Strengthen diversification and extension of brands, but don’t be impetuous. Develop brand-building teams and improve the capability of brand teams.
**Interviewee E**

**Q1.**
Here, two aspects are involved: one is global, and the other is Chinese.
From a global perspective, it hasn’t been long since China started to reform and open up. We have some national brands, but no international brands. Those Chinese companies listed among the world top 500 companies are mostly central enterprises. Private enterprises are developing rapidly. For example Li Ning started by imitation, but now stands on its own feet and is a leading brand in the badminton field. Chinese enterprises have made notable progress in brand building.

**Q2.**

The poor image of Chinese brands resulted from three factors. Firstly, quality. The processing industry of China includes reprocessing. A considerable proportion of materials in reprocessing are not decided upon by Chinese enterprises. They are only manufacturers, not designers. When there is any problem with the products, the Chinese enterprises are blamed. Second, the production volume of Chinese manufacturers is enormous. Some defects are tolerable. Third, the media, especially the western media, have demonized and exaggerated the quality problems of China. These problems have certainly had an impact on the overall brand image of China, especially on purchase tendencies, but have had no influence on individual brands. Quality is the first element in brand building. Consumers’ trust comes from quality.

**Q3.**

We should look at this issue in two parts.
It hasn’t been long since China started developing its economy. We are at the imitation stage in many regards, and have great difficulty in entering the market. Chinese enterprises are gradually changing this situation, but it takes time. For example, all production activities in Wenzhou were imitations at the beginning, but now there are quite a number of proprietary brands. Though Chinese enterprises are imitating and the
imitation approach is inadvisable, it is understandable. This is an inevitable phase at the beginning of development.

Q4.

At the early stage of reform and opening-up, the Chinese were poor and certainly admired advanced western technologies, products and brands. After coming into the Chinese market, foreign enterprises acquired local brands directly and penetrated the Chinese market quickly by discarding local brands. This is their competitive trick. Recently, some changes can be noticed in the phenomenon of foreign brand worship in China. This means China is more confident and the reputation of national brands is better. The market share of many local brands has exceeded that of foreign brands. The Chinese government is also more confident. They used to think all foreign enterprises were good, and granted preferential policies to them and, as a result, impeded the development of national brands. The preferential policies the government offered to foreign enterprises, for example tax reduction, led to an unfair competitive environment. Certain government policies are misguided. In particular, the previous support given to foreign companies also served to undermine and limit the development of private companies. In particular, this has contributed to the disappearance of Chinese national brands. The government wanted to trade markets for technology at the beginning.

Before reform and opening-up, there was no such word as “market” in China. Though now the market economy has been put into practice, in fact it is a semi-market and a semi-planned economy. It is not a perfect market economy. Chinese enterprises do not lack talent, but lack entrepreneurial talent and creative talents. They do not lack technology, but a deep understanding of brand and branding. Hence, often there is no choice but to imitate. Many new products and new technologies have been imitated in China in a short time. The education and exam systems of China led to China’s shortage of creative talents. If the education system of China is changed, the situation of creative talent shortage will also change.

Q5.

Overseas M&As at the early stages were reckless. Once there was an opportunity, action was taken without thought. This is the psychology of
arrivistes. Purchase decisions are made without knowing the western corporate culture and general culture. It is unrealistic to apply ways of doing business in China to western enterprises. Hence, it has cost dearly. However, some overseas M&A actions going on now are laudable, for example, resource M&As. Many enterprises are more cool-minded when it comes to overseas M&As.

Q6.

In China, some industries are very powerful; some are weak, very weak, weak in production capacity, weak in brand building. The Chinese are very impetuous now. Chinese enterprises are impatient. However, brand building needs time, devotion, capital and markets. The biggest problem at the moment is the impetuosity of some Chinese enterprises. Chinese entrepreneurs must change their mindset so as to build competitive brands. There is no entrepreneur in the real sense in China. The leaders of those big enterprises are politicians. SME bosses are money-oriented businessmen. China is not short of businessmen, but short of real entrepreneurs.

Q7.

I don’t think it is the right time for Chinese brands to go abroad now. The Chinese market is huge. Chinese enterprises should build up their inner strength and make their brands stronger at home first, and go abroad when their brands are more powerful and influential. Chinese enterprises are very weak in terms of soft skills and not competent to enter the western market. We should focus on the domestic market, develop gradually and strengthen our abilities.
Interviewee F

Q1.

a. From a macro perspective, some government bodies are supportive of the reorganization and merger of enterprises. The process of enterprises becoming bigger and stronger is also a process of brand building, making a brand bigger and stronger; Chinese companies should be integrated into a few strong brands through mergers and acquisitions in the industry in order to enhance their competitive capacity.

b. As China has gradually geared to the world, Chinese enterprises have developed stronger business operation abilities and brand awareness. More and more enterprises have begun to attach great importance to brand building. The result of market development is to eliminate inferior brands and retain superior brands.

c. Consumers also pursue brands at the point of consumption.

d. The company I work for (Goodbaby) is a leading brand in infant and child commodities in China (Goodbaby is widely-known and enjoys a good reputation and awareness). Our business sales grow rapidly every year and didn’t slow down even this year. This is an example of successful promotion and brand building of a Chinese enterprise happening around me. China will have more and more brands. The strong development momentum of Chinese brands is bound to lead to one result—Brand China! Brand-building among national businesses is the reason for the boom, mainly because of market competition and business pressures facing all aspects of change.

Q2.

The negative impact of these cases shows the concerns and needs of consumers regarding ‘Made in China’. It also shows customers’ expectation of Made in China. Negative examples happen to prove the
Chinese government and consumers have raised their requirements of brands and enterprises. The adverse reaction to Made in China in the global market also reflects the world’s attention to and need for Made in China. These have something to do with the basic limitations of China. In the past, Japanese enterprises also received such so-called credit. This might be an avoidable process.

The Chinese government has demonstrated its attitude by reclaiming toys and dealing with the poisonous milk scandal. The government must deal strictly with violations of product quality cases. This will help companies emerge from the negative effects of ‘Made in China’. The problems that occur in the course of growth of a promising nation won’t obstruct its rapid and correct development.

Q3.

Some enterprises have the ability to be market leaders. Some enterprises don’t, so they can be No.3 and survive in a niche market and then become stronger. In this course, they gradually explore building their own brands. Some enterprises act as agents for international brands. Stones from another hill may be used to polish jade. In helping raise somebody else’s son, the growth of somebody else’s son may be beneficial to the growth of your own son.

Q4.

This is indeed a serious problem. Chinese enterprises must lay a solid foundation in a down-to-earth manner. The development of an enterprise is a systematic program. Heated market competition nowadays requires enterprises to have a genuine regard for clients and consumers, and on this basis, formulate their development strategy, make continuous improvement in merchandise, their team, marketing methods and growth models and form a sound business development model or system to help them grow bigger and stronger. In addition, Chinese companies should be capable of handling a crisis, and not let the crisis be hugely magnified so as to impact on the survival of the entire company.
Q5.

I totally agree with this viewpoint. Some business owners in China, whether large or small, are conducting marketing, brand building and promotion activities in ways they deem appropriate. There are both successes and failures.

More and more business owners will actively take part in certain management training and learning programs, and put them into practice differently. Whatever the result is, ultimately they need to keep learning and making improvements, and the majority of business owners are doing so.

Q6.

Chinese enterprises are going abroad to purchase. This shows a kind of advance. With the precedent (TCL), I guess the successors can avoid repeating the same mistakes.

We need to pay attention to our own physical condition to see whether we can digest what we have eaten. (Not much thought is given to this question.)

Q7.

a. Create a corporate culture that is centred on customer satisfaction.

b. Discard the strategy that emphasises short-term profitability but neglects long-term growth; Chinese business leaders should first overcome the problems of short-term profit orientation and ignore the long-term development approach. They should have a long-term view and business plan; develop effective mechanisms and systems in the business and build an efficient team. Some enterprises’ counter the crisis by downsizing and cutting back projects; this actually involves intangible costs much higher than the tangible costs.
c. Change from performance assessment to total assessment; regard a business operation as a holistic system, and improve the system rather than the parts.
Interviewee G.

Q1.

Despite the achievements in Chinese brand building and promotion in recent years, we shouldn’t neglect the fact that most of the Chinese brands listed among the world’s top 500, such as China Mobile, State Grid, Sinopec, CNPC and China Railway are monopoly industries. These brands relying on a huge domestic base of consumers with limited choice are of little value. The establishment of brands of those genuine consumer products has stalled at a certain point in the process of raising their visibility. These brands, built on an enormous consumer population and limited choice of consumption, don’t have much value. Hence, China still has a long way to go in terms of brand building i.e., from manufacturing to invention, from product to brand, from imitation to surpassing. We believe as the market economy is perfected and many Chinese enterprises have stronger brand awareness and brand operation ability, Chinese enterprises will find a way of brand building that better suits the reality and development of the Chinese market and themselves; more and more brands will become influential brands with true value, and will even ascend to national brand level, find balanced support from technology, quality, price and culture, and gradually rid themselves of the poor image of Made in China.

Q2.

The product is the basic carrier of brand. The current image of products made in China in the global market has indeed given a negative endorsement to the overall brand building of made-in-China products. In particular, the recent poisonous toys and milk scandals have overshadowed the future of brand building in China. However, from a different perspective, these negative events and defects raise an alarm for Chinese brands and may become a force to spur them on to concentrate all their efforts and make improvements unremittingly. Following China’s entry into WTO, the Chinese market has been further opened. Chinese enterprises must try to settle themselves into the game rules of the international market as early as possible. This is a kind of forced growth. Quality and credit have become the most essential elements in competition,
while price is obviously a different issue. Given the present economic situation, more consumers tend to choose cheap quality products. This is an opportunity for Chinese enterprises. With relatively low labour costs and abundant resources, it is vital to seize the market and win consumers by virtue of cost advantage.

Q3.

It is not true that Chinese SMEs don’t care about brand building. Imitation is mainly a result of: survival pressures and a lack of skills in brand building, coupled with the lack of a long-term brand plan in most enterprises; the demonstrable effect of speculative success caused by the defective market economy system of China; volatile consumption attributes under the circumstances of the rapid development of the economy and an inadequate understanding of consumers by enterprises. Due to these factors, brand building is a long-term, tough task.

Innovation is imperative, and the prerequisites should be: an escalating brand operation to a strategic level; recognizing the brand competition trends of market development; converting highflying brand understanding into specific brand building actions; accumulating consumer recognition and loyalty through continuous brand innovation and operations and finally making one’s own brand image clearer in the minds of target consumers and then creating a diffusive brand influence effect.

Q4.

The impact of foreign brands on Chinese local brands is not a simple brand matter in the strict sense. First of all, we must notice the huge gap in strength between different enterprises. The powerful foreign enterprises that have grown up over several decades or even a century in a more mature market economy system certainly enjoy all the advantages over the much weaker Chinese enterprises in the same arena. On the one hand, they compete against Chinese enterprises by means of systematic and flawless marketing management measures. On the other hand, they acquire and suppress competing brands by means of capital operations. Chinese enterprises often choose to transfer their brands as assets to foreign enterprises (or merge into joint ventures in the form of assets) because of a
dire need for capital, technology, advanced management concepts and models. The top domestic brands in the Chinese market are the usual targets of M&As by predatory foreign brands. The method of winning market through acquisition by foreign brands has slowly weakened Chinese brands led to the disappearance of brands which Chinese companies had spent years to painstakingly developing. The acquisition of Chinese brands in China simply serves as a stepping stone for foreign brands into the Chinese market. In order to avoid such situations, domestic brands must be clearly aware of this kind of inequality in strength. Firstly, they must base their decision on a thorough evaluation of the present value and potential value of the brands, before bringing in foreign investment, and so avoid falling into the trap of the losses outweighing the gains. Secondly, they must pool together their resources, compete against famous, foreign, renowned brands in some segments wherein they have a certain edge, gradually accumulate strength and expand brand influence, while enhancing their brand operation ability and the overall business operation ability of the enterprises, thereby growing in the course of learning and competition.

Q5.

Exactly! Chinese enterprises are not devoid of technologies and abilities to develop high-quality products. What they are in dire need of are brand knowledge and brand building ideas and methods. 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 systematic 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 marketing management. Brand building is a time-consuming process. When it comes to brand management and marketing, after learning western systematic marketing theories and brand practice, Chinese enterprises should develop their own traits, have the courage to create brands, build real brands bit by bit, integrate brand planning and building into their development targets, know their target consumers better through constant communication based on their behaviour, consumption habits and values, and endow their brands
with lasting vitality.

Q6.

Chinese enterprises face numerous challenges in finance, law and abilities in the course of overseas M&As. Financial and legal issues won’t be discussed here. From the perspective of ability only, it involves insight, command and integration. Insight encompasses taking stock of one’s own resources and abilities, familiarity with the game rules and an evaluation of and resistance against risks, i.e. to make clear three questions, ‘Can we buy?’, ‘Can we make it stronger after buying it?’, and ‘What if there is problem?’ Mastery here embodies not only an understanding of different customers and markets, but also the speed to adapt to changes and study ability. Integration tests the inner strength of enterprises. In the face of a host of problems, e.g. differences between eastern and western culture, cultural differences between enterprises, connection between different management systems, brand structure in the coexistence of multiple brands, it is vital for us to make decisions, take actions correctly and generate an additive effect. In addition, Chinese enterprises should avoid falling into the trap of internationalization when it comes to overseas M&As. Internationalization doesn’t necessarily mean M&As. Enterprises must not take action recklessly as a result of misunderstanding, and end up failing.

Q7.

In the long run, Chinese enterprises are optimistic about brand building. I believe that, with the development of an improved market economy, increasing brand awareness among companies and improved branding operations, Chinese companies will find a suitable way to develop their own brands that is more consistent with market realities in China. The Chinese market is gearing up to the international market at a quicker pace. The brand awareness of enterprises has been awakened. More and more enterprises put brand planning and operation at the strategic level. We are gratified to see the outstanding performance of some brands by right of their insight into, and command of, domestic consumption behaviour and values. All of these are the result of the efforts of Chinese entrepreneurs and mass marketing professionals. However, this is far from enough. How to step out and go further is our aim and motivation. To more Chinese
enterprises cherishing a brand dream, progress and improvement must involve three aspects. Firstly, products as the basic carrier of brands must create true value for consumers. This is the passport to participating in brand competition. Secondly, to change thinking on brand building, to be thorough in the long-term; companies should have a clear branding strategy at a practical and tactical level, and implement the branding in every tactical action; continue to learn marketing and branding skills to enhance innovation. Thirdly, brands must be endowed with perpetual vitality through the continuous learning of, and innovation in, marketing management, and become the weapon of competition and fuel of development for enterprises.
Interviewee H

Q1.

Autumn is approaching. The harvest season is around the corner. To Chinese brands, I think it is still vibrant springtime. Spring is the most promising season. Spring is the most beautiful season. But, after all, it is not the season of harvesting but of planting. If we look closely into those Chinese enterprises listed in global top 500 brands or the world’s top 500 brands, we may find they haven’t gained their laurels for fine quality, but by right of quantity or volume. Many of the other top 500 companies are real “powers” amongst the world’s brands, while most of the listed Chinese companies are more like “robbers” who make their fortune by means of monopoly, force and being domineering. China mobile is an example of this with its unreasonable tolls imposed on customers, and to this day it cannot decide whether it will respond to public appeals for one-way toll collection. We can enumerate countless renowned Chinese brands, name brands, famous trademarks at any time. However, among such a large number of brands, how many enterprises really understand what is a “brand” is. The brand is widely known, but what about its quality, taste, character and morality? Many enterprises in possession of name brands don’t care about these things, but naively think brands are built by placing ads on CCTV, inviting stars to act as ambassadors and then inventing a catchy slogan. Brand image, brand association, brand philosophy, brand core value, or whatever: they are totally ignorant of these things. The mass of Chinese consumers know even less about brands, and believe enterprises advertising on TV every day are famous brands and good companies with reliable quality and good credit. Hence, consumers are willing to pay the bill. Fantastic! This provides a good opportunity for so-called brands to put “advertising first, quality second and make big fortune”. Anyway, it is springtime. You will harvest if you sow. A few days ago I visited some state-owned enterprises in a provincial capital. To be honest with you, no change seems to have happened to those state-owned enterprises, though it has been sixty years since the founding of the PRC. The banner, Long Live Chairman Mao, is still hanging in the auditorium. How can they be called brands? Even their trademarks are crude and vulgar. Hence, too many Chinese enterprises need brand building. For brand planning companies, this is not only spring, but summer as well. The
season for a brand-building boom is indeed coming.

Q2.

Hu Shi said, “Sow what you hope to reap.” Or, put another way; if you harvest something, you must have sown it. “Toy recall” and “poisonous milk” scandals are by no means some chance occurrence. We may even say some immoral and inferior Chinese enterprises are stewing in their own juices. In my view, at the present phase of growth of Chinese enterprises, “quality assurance of products is not the key to brand building and credit standing of China”; rather, conscience, moral character and goodwill will assure product quality, and are vital to brand building and the standing of China. Without regard for “conscience, moral, character and goodwill”, it is silly and ridiculous to talk about brands. Chinese manufacturing companies desire quick profits and lack brand consciousness. They use consumers’ emotional and mindless consumption to gain profit, and surrendered the foundation of their brand-products. When consumers recognize the problems of products, brand vanishes.

With a quality issue, after the individual company’s violation has been confirmed by the government, consumers do not see the results of the relevant penalty. The Chinese government tries first to make the mistake sound less serious, and then to reduce it to nothing. This attitude makes Chinese companies’ image even worse.

The Chinese nation is admirable because we cherish love and loyalty. Ours is a nation that attaches the utmost importance to virtue and human relationships. Ours is a nation that has faith in “he who is beloved by the people will win the world.” Let’s look at Chinese enterprises and entrepreneurs. It is very funny to talk about branding when companies do not speak of conscience, morality, personality and goodwill. How many Chinese companies have high morals and are worthy of respect?

Q3.

The other day, I wrote an article, “Chery, can you rely on imitation forever?” It was reprinted in various media and perhaps seen by someone working for Chery. Their PR Company actually sent me an email saying
that my article is aiming at them too specifically and asking if I can rephrase my words. How interesting! Seeing the criticism about them, they don’t introspect or thank the critic for his attention and good intention, but take it for granted that any person criticizing them is their enemy; it is a negative thing, and all they want to do is to find a media friend to “recall release”. Have you heard this word? I didn’t know it until a few days ago. It is said that “recall release” is actually a lucrative business now. Some companies are specializing in this business. A piece of news that has been released can be recalled. Who has heard of this? Especially in internet news, any article criticizing a company can be recalled for money. Alas! Let’s save the talk about “innovation”, or “personality”. Let’s talk about “generosity” and “mindset” first. I spent so much time writing that article, with the intention of reminding Chery not to step into a narrow path, but into the correct path. Chery also has the chance to become an excellent Chinese brand, but I had not expected them to hate me.

Q4.

Speaking of foreign brands merging and even devouring Chinese brands, this is not necessarily a bad thing. You are merged or devoured because you are weak, not competitive, and not strong enough to survive; so you are forced to grow. How to enhance competitiveness? We should start with ourselves and identify our unique core abilities that are not easy to copy. I have been consistently promoting “honest marketing”, that is, to behave, do things, run brands and conduct marketing without sham, airs and graces, or fooling others as well as oneself. Find out the true meaning and value of the existence of an enterprise; Chinese companies should steadily and surely develop their brands and marketing to understand their customers, understand the times and the world we live in. They should create new products and create new businesses. At every stage, they should show concern for their customers and be able to put themselves in their shoes. Of course it sounds nice, but how many enterprises can put this into practice? Or how many enterprises indeed know how to? In fact, it doesn’t matter whether they understand or not. What is important is that you know you don’t understand, and know how to seek help from companies and experts who do understand.

On the one hand, foreign companies use well-established marketing
management tools to compete with Chinese companies; on the other hand, they carry out acquisitions and attacks on competitors at the capital operational level. Chinese companies with urgent needs for capital and other resources either sell ownership of their brands or use brands as assets in order to enter a joint venture, which ultimately means that brands that the Chinese have painstakingly built up become a weapon for foreign companies to use to open up the Chinese domestic market.

Q5.

The viewpoint of those “people” is correct. I think so too. Chinese companies are selling products, not brands. They do not know branding is the packaging and dressing of the products. 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 to sell more goods. They do not realize the true value of the brand. When a company starts, it should start to build a brand. I often hear some entrepreneurs saying: we are not that powerful for the moment. Mr. Xu, we can’t do the brand thing. We just want you to give us some tips on marketing, so that we can sell more products. See, this is what brand is in the eyes of Chinese entrepreneurs. They always think building a brand takes lots of money and is unrealistic, but sales are realistic. They don’t realize a brand has to be built whether you have money or not. From the moment a company comes into being, from the moment a company has its name, the basis of the brand comes into existence and brand building starts. You must identify your value and philosophy, your brand appeal and culture. To put it in simple terms, why have you founded this company? What is your dream? What is your goal? What competitive values and products can you offer? Why should consumers give you money? If all of these questions are made clear, your brand strategy is formulated. You are already a brand. Next, you need to match your products with your brand strategy, and never go against your original intent and brand value. I think such a brand is a true brand and a true Chinese name brand. “Many enterprises haven’t really grasped relevant knowledge and techniques on marketing, brand building, promotion and brand management.” This is true. I continually try to spread this idea all the time. As a branding expert, I wish to establish a branding knowledge forum, walk into companies, talk to the entrepreneurs, to spread branding, marketing, advertising,
management and other basic knowledge, and do my part for the healthy
development of Chinese brands. As you said, both of us are Chinese, and if
we don’t do anything for Chinese brands, who will?

Q6.

They tend to be misled by the past glory and lustre of the enterprises they
intend to acquire, seeing only their past glory are blind to enormous
current problems. They take it for granted that a good brand can develop
forever, and that they will be able to make a fortune by taking it over and
changing it. They underestimate the IQ of those foreign operators and
sellers, and overestimate their own abilities. Change is not a problem, but
how to change? Are your measures really smarter than those of foreigners?
Hence, when it comes to M&As, you must know how to learn from
another’s’ strong points to offset your weaknesses. You must discern
whether the strength of others happens to be your weakness. Is the strength
you acquire able to make up for your weakness? Next, you should be
aware that what you are buying is not just a trademark, but more
importantly its quality. If in later integrated development you gradually
“lose” the quality of others, I think failure looms ahead. For example, the
news about Sichuan Tengzhong Heavy Industrial Machinery, a private
enterprise, acquiring Hummer stirred up many discussions and arguments.
In fact, it is not impossible for a snake to devour an elephant. But, you
must see how big the snake is, whether it can devour the whole elephant,
whether it can digest it after getting it down, whether its stomach will ache,
whether it will burst. All of these are problems. Moreover, though you own
another’s’ trademark, can you work out others’ qualities and tastes?

Q7.

I am optimistic, of course. I believe everyone living in this oriental pearl,
growing so rapidly, will hold an optimistic outlook on Chinese brands
because it has been only sixty years since the founding of the PRC, and the
new China is young; because it has been only thirty years since reform and
opening-up started, and this is a very short time. More and bigger miracles
and achievements will come. The springtime of prosperity is coming. In
what aspects should Chinese brands make progress and improvement in
my eyes? In fact, I touch on this above issue occasionally, and now I would
like to summarize it in a few phrases: strengthen common sense, return to simplicity and nature, and be what you claim to be.
Q1.

“The future big market will be in China. The future big brands will be in China.” Many top 500 companies have entered the Chinese market and are expanding with greater effort and investing more in this market than in any other country or region, which indicates the huge potential of the Chinese market. If you rank in the top three in an industry in China, you get admission to the international market. However, many Chinese enterprises are short-sighted and tend to rest on their laurels and lose the fighting spirit. Most of the enterprises listed among top 500 are state-owned or state-supported enterprises. Few of them are listed by right of their own efforts. Hence, brand building in China remains a long and uphill journey. We must plough into the market in a down to earth manner.

Q2.

Product quality assurance is the base of brand building and reputation. If product quality is not acceptable, it doesn’t make sense to talk about brand building or the internationalization of Chinese brands.

Negative news about Made in China spread across the world not just because of product quality. It also involved international trade barriers and international political factors. Many developed countries are in dread of China and are afraid products made in China might impact on their enterprises and products. Enterprises that are in contravention of their social responsibilities do exist in China, but in view of the overall development trends, Made in China is improving and will have a more definite and powerful position globally in the future.

Q3.

In the marketing circles of China, there is a kind of marketing policy called the “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
rights, 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. Then, we should
make breakthroughs and innovations in the course of following, and
gradually build the core value of our own brands. 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.

Q4.

As the Chinese market is gradually geared to the international market,
monopoly of the Chinese market or merger and acquisition of Chinese
brands by foreign giant multinationals is unavoidable. This proves “a big
country is rising and the Chinese market has huge potential.” A large
number of Chinese brands were either merged and acquired or disappeared
in succession because many of them are young, and few of them are as old
as a hundred years. Given corporate system problems, this phenomenon is
inevitable. The disappearance of these brands can only show that they
lacked a competitive edge or the strength to survive.

As for how local brands can compete against foreign brands, I suggest
starting with Chinese characteristics in developing the domestic market.
For example, Wang Lao Ji is a very successful case. This is something
foreign brands cannot match. “The more Chinese, the more competitive.”

Q5.

The Chinese market is a very complicated and volatile market. As far as
the Chinese market is concerned, I don’t agree with all of the above
viewpoints, because China has so many nationalities and such a diverse
market economy and consumption concepts in different regions. The
complexity of the Chinese market is a headache for many famous foreign
brands. In contrast, Chinese enterprises are more flexible. Of course, there
are enterprises who haven’t grasped the knowledge and techniques of
marketing, brand building and promotion, for example enterprises shifting
from foreign trade to domestic trade. With respect to the foreign markets,
Chinese enterprises have just started and need to know more about the
market conditions of different countries and explore their own brand
operation model.

Q6.

To merge and acquire energy enterprises is of benefit to the future development of Chinese enterprises and China. The major challenge, I think, is in the choice and analysis of “merger and acquisition of core business”. In the course of overseas M&As, more consideration should be given to international political factors and national policies, and of course a deep and careful analysis of the market must be made.

Q7.

In terms of the domestic market, China can be optimistic about brand building in the future, but needs to spend more effort on the international market. The following aspects need improvement: internal system reform of enterprises should be carried out by learning from the top 500 companies; different brand policies and marketing policies should be developed for different markets, and more work needs to be done on the high added-value of brands.

Q8.

In the future, China and India will be the two most important world markets. This also coincides with the development law of the rise of BRIC (China, India, Russia and Brazil). The domestic market provides a huge opportunity as well as a big challenge for Chinese brands. After all, the majority of the top 500 companies have entered the Chinese market and are developing rapidly and forcefully.
Q1.

The Chinese economy has flourished since the start of reform, the opening-up and the market economy. However, economic growth is not equivalent to the growth of Chinese brands. From my personal experience and observation of Chinese brands, brand building in China in the last thirty-plus years has been an absolute failure.

Don’t be overjoyed with fifteen Chinese brands being listed among the global top 500 in 2008. If you look closely, you may find that brands like China Mobile, ICBC and CNPC are in monopoly industries, apart from Lenovo at the end of the list being a private enterprise. This cannot represent the free competitive nature of the market.

I attribute China’s failure in brand building to the influence of the internal and external environment on enterprises:

1. **Internal influence:** most enterprises have an inclination internally for expanding their presence unremittingly and increasing their growth rate every year. However, the majority of them lose their way in pursuit of growth, and brands are gradually submerged in fierce competition.

Even today, Chinese enterprises possibly haven’t got one question clear. That is, enterprises are able to have grown so rapidly because the long-closed door to the Chinese market has finally opened, and the long-suppressed demand of consumers has been released. There is no need to worry about being able to sell as long as enterprises have production capacity.

Nevertheless, to date, the market economy has been overheated. The market has shifted from a seller’s market to a buyer’s market. In the meantime, the majority of Chinese enterprises are still intoxicated with the idea of selling for its own sake, totally ignorant of the dynamic development of the market, and come to an untimely end on their journey of reckless brand extension.
2. External influence: in a sense, Chinese enterprises are pathetic. Multi-nationals often have a theory, i.e. brand building requires a lot of money and means long-term deficits; moreover, some so-called advanced theories and advertising agencies of the western world also brag about brand building needing lots of advertising and try to intimidate Chinese enterprises strategically. As a result, Chinese enterprises are fearful of building brands, and simply focus on manufacturing instead. For this reason, China is mockingly called “The World’s workshop”.

If China loses confidence in brand building, Chinese brands will feel helpless in international competition and even in the Chinese market as market competition intensifies. The high-end market of most industries in China is dominated by foreign brands, for example household appliances, commodity chemicals and clothing.

All of these are caused by the internal and external environment of enterprises. Now, many Chinese enterprises have become aware of the necessity to change their attitude to brand building. This is good news. However, in terms of brand building, Chinese enterprises indeed need to be prepared psychologically for a protracted war.

Q2.

First of all, I was also furious at the “inferior milk formula scandal in China” and voiced my opinions in the media, noting that some Chinese enterprises indeed need to guarantee product quality and safety and improve product quality. However, based on my experience of the market, the quality of most products in China is good and reliable. The only thing we lack is brand influence and product image building.

Chinese products have a poor image in the international market because, on the one hand, some European and American countries take some countermeasures against Chinese products in order to protect their own markets, for example, exaggerating the quality and anti-dumping problems of Chinese products, which naturally degrades the image of Chinese products. When the financial crisis swept the world in 2008, many Chinese exporters collapsed, but didn't realize they failed to ride out the crisis
precisely because of problems in brand building. The majority of Chinese enterprises rely on foreign trade.

In addition, the root of the problem lies in the psychology of “desire for quick success and instant benefit” among Chinese enterprises. Because enterprises are mainly engaged in manufacturing and processing, without brand added-value, they have to cut costs in order to maximize profit, and cost saving is bound to beget hidden quality problems.

In fact, China has a history of more than five thousand years. There are many cheap but fine products in our life, for example, some traditional trade names. If Chinese enterprises knew how to build brands, they wouldn’t have left an impression of inferior products. Chinese enterprises lack experience only in brand building.

Q3.

This is an opportunity for the Chinese market! If the Chinese market is not attractive, why have more than 80% of top 500 companies come to China to make their profits? This is precisely the best moment to build brands.

The rapid growth of the Chinese market is bound to bring about a certain amount of chaos, for example the problem of plagiarism. But it is exactly such chaos that has created opportunities for many brands.

Chinese enterprises are those that are 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.

To survive, companies, especially small and medium-sized companies must maintain move quickly 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.
At dawn, antelopes and lions wake up on an African plain. They know a new race is about to begin. The antelope that runs the slowest knows if he can’t outrun the fastest lion today, he will be eaten and never have the chance to survive; whereas if the fastest lion cannot outrun the slowest antelope today, he will starve and lose the chance of another race. Hence, Chinese enterprises must forgo all unrealistic characteristics and innovation and tell ourselves to ‘come on’ in order to survive!

Q4.

Chinese brands are faced with competition more brutal than that faced by foreign brands one hundred years ago. It is a kind of extremely “asymmetric competition”. Foreign brands have been accumulating their strengths over a long period and have abundant capital, cash, technology and powerful brands, whereas Chinese companies are just entering the market and not only lack operating capital, but must face competitors much stronger than themselves. This is a game between professionals and amateurs.

Chinese brands have no way out. The only way to avoid being devoured by foreign enterprises or washed out by the market is to build brands. The best way to build brands is to develop a new category.

All successful brands in the world, whether Coca-Cola, Microsoft and Google abroad, or Wang Lao Ji, Kungfu and Gree emerging at home, have followed the rule of developing a new category. To develop a new category, we must be good at digging into the mind of consumers for new categories, creating differentiated brand characteristics and structure a competitive strategy focusing on strength for the long-term development of the enterprises.

Q5.

In fact, Chinese enterprises are not devoid of technologies or the ability to develop high-quality products, but don’t know how to build brands. I have personal experience in this respect. Many Chinese enterprises and entrepreneurs are often too confident about their products; they think they can make better products than their competitors, and they are certain to
have the last laugh.

However, the real world is cruel. More often than not they give up halfway. Chinese entrepreneurs take it for granted that they can win the market as long as they can turn out the best products and meet customers’ needs. This is the result of misleading advanced marketing theories.

Brand building is a very simple process, and not as complicated as some advanced marketing theories have suggested. Complicated things have no place to survive. China doesn’t understand brands are registered in the mind of consumers, not only in the State Administration for Industry and Commerce.

Q6.

I have no interest in M&A at all. Especially for Chinese enterprises, it is too early. Chinese enterprises should focus their money and energy on China, the local market that is to become the greatest in the world.

The M&A activities of Chinese enterprises originate from Chinese enterprise having the wrong strategic targets of getting bigger and stronger, and the psychology of pursuing quick success and instant benefit and expanding presence. If we look into the current M&A activities of Chinese enterprises carefully, we may find none of them is enjoying the sweet fruits of M&As. Even Lenovo, after acquiring the PC business of IBM, is still in the red. We may imagine how much work Lenovo had put in before the M&A. Who else in China has made as much preparation for an M&A as Lenovo! Let’s stop dreaming of expansion through M&As.

If a Chinese enterprise goes for overseas M&As regardless, then I have three pieces of advice that may help mitigate risks:

Firstly, pay attention to the position of the brand in the category. To merge or acquire an enterprise, its tangible assets are not the most important thing, but we must pay attention to its intangible assets, the position of the brand in the category. If the brand ranks no. 1 in the category it belongs to, this enterprise has potential M&A value, because after that continuous profit can be made from the pockets of consumers through brand operations.
Secondly, don’t bear long-term labour cost. Chinese enterprises have to bear huge labour costs in M&As of many foreign enterprises. This is worth our attention. If Chinese enterprises bear long-term labour costs, many hidden troubles will stand in the way of future growth. Enterprises are unlikely to attain high-speed growth and profit every year, but long-term labour costs exist at every minute of every day. We should be wary of that.

Thirdly, a local team must be built. Cultural shock is an often-discussed and obvious problem. Climate sickness naturally occurs if you acquire a local enterprise but don’t have a team that knows the region to run it. This is why many multinationals met their Waterloo after acquiring Chinese brands, even though they have ample capital, advanced technologies and brand management ability. Lack of management talent has been one of the main problems of Chinese companies in overseas M&As.

Q7.

This goes without saying. Otherwise, I wouldn’t be engaged in my present job of urging Chinese enterprises to build brands. Though Chinese brands are faced with fierce competition, their future is promising.

Chinese brands need to make improvements and progress in many aspects, which, according to my practical experience, boil down to the following key points:

First, update the concept of brand building. It is difficult to change the mindset of consumers, but even more difficult to change the mindset of Chinese enterprises and entrepreneurs. We must update our concept of brand building if Chinese brands want to excel in competition. Now Chinese enterprises and entrepreneurs know more about brand building and wish to build up their competitive edge through brand building. This deserves commendation.

However, within the concept of brand building among Chinese enterprises, the factor of desire for quick success and instant benefit still exists. They are unable to calm down and cultivate brands patiently. Figuratively speaking, it is easy to give birth to a baby, but it requires lots of effort by the parents to bring up the baby into being a good citizen.
Second, if branding strategy planning design does not proceed from the actual conditions of the business, then the vision will be like a beautiful illusion.

Deng Xiaoping said: “Being practical and realistic is the cornerstone of economic development.” Brand building not rooted in reality will not pass the market tests.

Third, focus on the operation of the business. It is too obvious for Chinese enterprises to see. Chinese enterprises tend to turn a blind eye to the obvious rule of focusing on the operation of the business. Unchecked brand extension has led Chinese enterprises into the mire.

Whether large enterprises like Haier and Mid, or small and unknown enterprises, all of them seem to be frantically extending their range of brands and believe that more products bring more profit, and totally forget the force of value at the beginning.

The sun is a powerful source of energy, but scattered light rays cannot penetrate a thin piece of paper; whereas a laser, though from a weak source of energy, can penetrate a piece of hard and thick steel plate by focusing on one point. Chinese brands had better focus!

Q8.

In the end I would like to highlight the relationship between brands and categories. This decides whether Chinese enterprises can succeed in brand building.

The category is water, the brand is a boat. Water can float the boat, but can also overturn the boat.

In commercial warfare, brands are the last thing we should neglect. After brands, category is the last thing we should neglect. What is meant by category here is different from what is talked about in factories. In factories, categories are divided by product attributes, and contain certain technical criteria. Moreover, it is also different from categories by which the shelves of supermarkets are arranged. Here category is based on the
minds of consumers and stems from ‘advantageous resources’ in cognition. Wang Lao Ji innovatively developed a new category of drink for preventing internal heat. It is based on the traditional understanding of the Chinese that herbal tea has some efficacy in “clearing heat, eliminating toxins and expelling dampness”. Herbal tea is an advantageous resource in the national consciousness. This is why Wang Lao Ji is so popular.

Chinese companies should have ‘mind reading’ skills, to know how to quickly learn the consumers’ various subconscious needs. Categories are stored in the mind of consumers. The single key is knowing how to build advantageous resources in consciousness. To dig into the mind of consumers, we must not look down on the human brain as being as small as a melon seed. It is the most profound and immeasurable headspring. As long as we dig accurately and deep enough, this headspring will provide continuous sweet water for brands. This is beyond the expectations of any brand builder, but is reasonable. Hence, when building brands, we must not forget the categories behind brands. They are most important of all.
To discuss this issue, we must look back on the historical revolution the manufacturing industry of China experienced. The new China after 1949 underwent the turbulent ten-year Cultural Revolution from 1966 to 1976, during which the entire national economy was disrupted and stagnant. After reform and opening-up occurred in 1978, the shackles of the planned economy were gradually lifted and the entire manufacturing industry recovered and began to develop. At the early stages of opening-up and reform, Shenzhen, the pilot city for example, got nothing besides land, policies and manpower. Capital, equipment, technologies and the market all relied on investment and development by foreign investors. This led to two situations. Firstly, a big country with a population of nearly one billion was suddenly set free from the shackles of long-time material shortage, and its consumption demand could be described by the phrase ‘nuclear explosion’. At that time, the biggest “pressure” on all manufacturers was how to expand and improve production capacity so as to meet the ever increasing market demand. Secondly, the majority of small bosses who were engaged in supporting production for foreign enterprises started up their business mainly for the purposes of improving their life, and few of them had ambition or long-term plan. In short, under the first situation, it was too easy to make money; one didn’t worry about being unable to sell out but not having enough products to sell, and few business owners cared about “brands”. In the second situation, it seemed unnecessary to create “brands” as this was merely a working procedure along the industrial chain.

It is more objective to talk about brand building and promotion in China in recent years by taking into account the narrative Chinese enterprises historically experienced. We may see after a thirty year boom Chinese companies have been continually learning through a ‘copy-transformation-independence’ process, and are now making progress towards becoming innovative. At present, private companies are not strong enough to go global. Let’s take Haier, the global top 500 brand, as an example. Haier Group developed on the basis of the Qingdao Fridge Factory, which was...
founded by importing the fridge manufacturing technologies of Liebherr in Germany in 1984. In the beginning, their fridges were named Qindao-Liebherr. Zhang Ruimin is an entrepreneur with vision. As early as in 1985, he staged a scene of “smashing a fridge” in front of all his employees due to quality defects, with the aim of arousing quality awareness and brand awareness in all the staff. In fact, it is a saying that 1998 was the starting year for Chinese enterprises getting involved in international competition: that is putting it a bit early.

We can see Chinese enterprises have made great efforts in brand building and promotion in recent years. As a matter of fact, the brand building of enterprises is closely related to, and mutually boosting to, the overall strength of the country. It is gratifying to know that China has made glorious achievements in national defence and the aviation industry even during the hard times right after the liberation of China. These important scientific research programs never stopped, and laid a solid foundation for the manufacturing industry of China. Especially in recent years, China has made outstanding progress in aviation and aerospace. The unparalleled 2008 Olympics and the National Day Parade not long ago have shown the world the glorious achievements of China in economic construction over the past thirty years. This is the national brand. A powerful national brand is bound to aid the advance of Made in China brands.

From the list of world top 500 brands from 2006 to 2008, we can see the number of Chinese brands listed increase at an amazing speed; six brands in 2006, twelve in 2007 and then fifteen in 2008. The number of listed brands ranks seventh in the world. Of course, we also notice most of the listed enterprises are state-owned enterprises. This is a good thing in the long run, though not worth celebrating for the moment. These SOEs first secured a good image for Chinese companies in the international market, and this benefited the establishment of ‘national brands’. This will also be of great help to those privately-owned businesses seeking to gradually begin the process of globalization. Private Chinese enterprises are not powerful enough for the time being, while these state-owned enterprises build a favourable overall image in the international market for Chinese enterprises on the basis of their overall strength in the first place. This may help build the “national brand” and make the journey of internationalization easier and more fruitful for private enterprises.
Chinese enterprises have undergone an extremely arduous and tortuous process. As for how to start brand building globally, in my personal view, what we need most is self-confidence! Because of lack of self-confidence, we tend to be timid and irresolute in marketing.

Q2.

The two examples you gave may explain the price paid by Chinese enterprises. Only that; the toll is dear and the lesson is bitter, but it doesn’t mean the credit of Chinese brands and products will never be able to recover after the setback. Let’s put aside whether “cheap, low quality, lack of innovation and bad reputation” are prevalent comments regarding Chinese products. Even if it is true, it is not caused only by Chinese enterprises. As mentioned previously, Chinese enterprises were basically “make-to-order” enterprises at the outset, with style, material, technology and price under the control of foreign customers. It may well be said that foreign customers enjoy the benefits ‘Made in China’ brings to them on the one hand, and suppress the margin of Chinese enterprises in every possible way on the other, which in fact impedes the development of Chinese enterprises. Hence, some measures enacted by the US government, including the tyre special protection case, are good news in my eyes. In the 1950s, Japan mainly exported textiles, plywood, shoes, toys and china. In 1972, Japan suffered an energy crisis and commodity prices soared. Labour costs rose by 39% in 1973 alone. Coupled with the USA’s blame for its trade deficit, the Japanese Yen began to adopt a free-floating policy. All of these factors together left Japanese enterprises no choice but to shift from labour-intensive industries to high-tech industries. This process is very similar to the present situation of China.

As we know, Sony and Toyota, among other renowned Japanese brands, were not popular in western countries, especially in the USA, at the outset, and they were also elbowed out of the market and regarded as low-end products. Akio Morita, the founder of Sony, visited the USA in person more than four hundred times and even settled his family in the USA for some time to focus on all his attention on promoting the Sony brand. As the result of persistent research on foreign markets and better and better,
leaner manufacturing, ‘Made in Japan’ finally secured a foot in the western market.

Johnson&Johnson, Coca-Cola and similar western enterprises spent more than one hundred years on market development and brand building. It is a different era now. Modern telecommunication technology, the internet and high-speed vehicles have changed the pace of everything in an era of globalization. Chinese enterprises perhaps don’t need to spend more than half a century on brand building as those western brands did, but still it must take them one or two decades.

Therefore, I firmly believe this is just a process. With these painful lessons learned in the course of development, especially the impact of this round of global financial crises, Chinese enterprises will recall past pain and change their development modes fundamentally.

Q3.

Yes, it takes time to move 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 the competition. Only a few brand enterprises with the strongest comprehensive abilities will survive. This is an avoidable process. Chinese SMEs, if they are capable, now lay store by R&D and brand building. Let’s take the low-end shoe-making industry, extensively blamed all the time, as an example. Quite a few enterprises have built their own brands and realised admirable achievements, for example, 361°, Anta, Red Dragonfly and AoKang.

Chinese brands need to have innovations and develop their character. This is an unquestionable and inevitable route. The core of this issue, in my eyes, is the “self-confidence” I mentioned in answering the first question. As the national power of China grows, its influence in the world and its
influence on the world economy are increasing. Many people predict China will overtake Japan next year to become the second largest economy in the world. By then, Chinese enterprises will be more and more confident in themselves, as well as in Chinese culture; the long-time blind obedience to western theories will change, and the world will have greater interest in Chinese culture. Therefore, it is absolutely possible for Chinese enterprises to start exploration and innovation with their unique, rich and profound cultural background. Similarly, the world is thinking about the Chinese way of development now, while in the past there was no other way besides the western way of development.

Wang Lao Ji, produced by the JDB Group, is a paradigm of brand innovation and has fully developed its personality. Wang Lao Ji is a brand invented totally on the basis of the traditional medicine culture of China, but it has been built as a fashionable beverage brand. Data show the brand influence and sales of Wang Lao Ji are second only to Coca-Cola in the Chinese market. Of course, this would be impossible without the continuous brand building and marketing effort of Wang Lao Ji.

However, I want to emphasize first of all we must make clear what is “character”. What is the “character” based on? In terms of development of the international market, “character” requires deep ongoing research into the consumption features of different markets, and “character” must be built on consumers’ recognition; otherwise, it is just “entertaining yourself”. Let’s take Haier as an example. Haier started to move into the American market in 1999, but at that time the American market was dominated by brands like GE and HP. The Americans didn’t even know how to pronounce “Haier”. So Haier changed its tactic and did OEM for an American brand, but the real intent of Haier was to get to know the American market, its consumer demand and its brand culture in the process. It was precisely during this process that Haier studied the American market carefully and found 200L to 700L fridges were dominant in the USA, but families in the USA were becoming smaller. Hence, Haier adopted a roundabout route and launched 50L, 76L and 110L small fridges, and thereby opened the door to the American market. This is the character of Haier. Zhang Ruimin said: because you want to create brands, you must create users and create demand. If you cannot create demand, you cannot create brands.
Let’s talk about “character” from another perspective. I think if we take “Chinese brands need to develop their “character” in common sense terms as “Chinese characteristics”, then we need to classify products. As far as modern industries such as household appliances, energy, finance and information are concerned, all of them have developed very broad appeal consumption markets; in the international market, they have more “commonness” than “character”. Besides careful research into consumers’ demand and developing differentiated products like Haier, I don’t think it is necessary for Chinese brands to pursue “character”. On the contrary, those traditional products that are unique in Chinese culture and may be put to the international market in the future need “Chinese character” in particular, for example “tea, music, painting and other cultural products”. Tongrentang did an excellent job in this respect.

Zhang Ruimin told a story. Once he visited Germany, and at dinner asked the wife of a distributor whether she had heard of Haier. She replied she had. Zhang asked what she thought of fridges made by Haier. She said they were not bad. Zhang further asked if she would buy a Haier fridge in Germany. She told him she would only buy Miller, because Miller was not a product, but a work of art.

Q4.

Kenichi Ohmae, the Japanese management science expert, said, “In China, if you were Hiroshi Yamauchi of Nintendo, the Chinese Hiroshi Yamauchi would have begun to invest the money in other industries,” because there are too many opportunities in China, and as a result some entrepreneurs lose vision and no longer work for internationalization. This comment hits the nail on the head. Many Chinese enterprises seek diversification once they have made some money. Besides clothing, they deal in real estate, telecommunication products, stock and so on. In a word, they covet and want to do everything that is lucrative, and end up failing more often than succeeding. Ultimately their main business declines. The moment a Chinese company starts to make money, they want to diversify. A company in the garment trade also moves into real estate or telecommunications. Wherever they see a source of profit, they cast greedy eyes over it. More
often than not, it ends in failure, and may even lead the core business to decline.

Therefore, local brands need to learn from the USA and Japan, and must change the money-oriented mindset and the aspiration for quick success and instant benefit. You must focus on any industry, as long as you make it No. 1 or No. 2. Build brands by building “products” and success in products and brands and money will be an unexpected windfall and a pleasant surprise.

Next, every industry in China should change the current situation of the industry. With weaknesses resulting from too many brands, too small a size, too small a market share, create several powerful big brands through consolidation by market means to strengthen competitiveness in order to resist the acquisition of local brands by foreign enterprises.

Q5.

It hasn’t been long since Chinese enterprises first made an attempt at brand internationalization. A learning process is necessary, but I don’t totally agree with the above comment. We notice that a domestic sportswear brand, Anta, defeated Adidas and Li-Ning on June 23, 2009, and became 2009-2012 sportswear partner of the Chinese Olympic Committee and obtained enormous market development resources with the Chinese Olympic Committee and Chinese sports delegation at the core. Anta furnished the Chinese sports delegation for eleven key comprehensive international games, including the 2010 Vancouver Olympic Winter Games, the 2010 Guangzhou Asian Games and the 2012 London Olympic Games. Meanwhile, it was also granted the right of market development from the Chinese Olympic Committee and the Chinese Sports Delegation.

With respect to capital, before reaching USD 100 million, Anta invested 13.8% of its business sales in 2008 in brand promotion, and plans to keep this ratio at 15% in the future.

I think Chinese enterprises still need to learn from big international brands with a modest attitude, and move forward steadily through rigorous market research and precise design in terms of brand management and marketing
against the backdrop of internationalization. Those who have gone abroad and are successful, such as Haier, are obliged to share what they have learned and experienced with domestic entrepreneurs. The Chinese nation is a nation that is good at learning and assimilation. Hence, the brand route of Chinese enterprises is bound to go through the process of “go out-learn-blend-innovate.”

Against the backdrop of globalization and a fast pace of life, my advice for Chinese enterprises regarding brand management and marketing is to respect the consumption culture of different regions and make reasonable innovations that fit the demand.

Q6.

Overseas M&As are one of the strategies for Chinese companies ‘going global’ and it can also improve Chinese brand image and technology. Chinese enterprises are faced with multiple challenges in overseas M&As, for example in culture, management and geography. In an interview, the former Chinese APEC top official and Chinese ambassador to Nigeria, Wang (Shanyu) Sheng said, “Overseas M&A is part of the international strategy of Chinese enterprises, but they do not know how to go out and have no experience, and are not well prepared.” This is where Chinese enterprises should improve themselves. On the other hand, certain western countries have taken a biased view of China, investing perfectly normal commercial activity with a political significance and setting up obstacles.

So, before conducting overseas M&As, Chinese enterprises must make as many preparations as possible and think it over as carefully as possible and be clear as to what they need exactly: technology, brand or channel? In the course of M&A negotiation, they should clarify everything as much as possible and know themselves as well as the enemy so as to minimize the risk of failure. Some enterprises have some experience in this respect. For example, if the Chinese party finds out the counterparty is not sincerely willing to be acquired, the Chinese party may find a local partner and acquire the small company of the local partner first, and turn the partner into both a shareholder and professional manager, and then have the partner acquire the target enterprise. This roundabout approach may serve as a reference model.
Q7.

I am very optimistic about the future of brand building in China.

1. In some mature modern industries, Chinese enterprises still have a long way to go to build influential brands.

2. This round of financial crises has obviously accelerated change in the economic pattern of the world. Every crisis brings about a new industrial revolution. During the last crisis, the USA seized the opportunity of the information technology revolution. For various reasons, China missed many opportunities. This time, we must not let them go. In the era of low-carbon economies, China will have its own brands in new energy development and usage in the future.

3. Substantial and rapid growth of the national power of China will help Chinese enterprises and brands expand into the international market. In particular, with the full development of Chinese culture in the future, China will design and build influential brands in many fields, including music, painting, movies and TV, animation, games, healthcare, pharmaceuticals and martial arts.

The leaders and management of Chinese companies should fully study and understand market research, brand planning, design, communication, marketing and maintenance of brands. However, this is a process requiring time. In particular, many specific approaches and strategies need to be implemented only after they have been thoroughly understood by leaders and management teams.
Interviewee L

Q1.
In fact, China has made notable achievements in brand building and promotion in recent years, and these achievements will continue. However, these achievements mostly occur in the local market, while in the global market performance is not satisfactory. Most of the Chinese brands listed in the global top 500 in 2008 were state-owned monopoly enterprises. We are looking forward to having more private brands listed in the global top 500.

Q2.
This is a process Chinese enterprises have to undergo to move from Made in China to Made by China. Products for Japan and South Korea experienced a similar stage in the past. The only question is how long this process will take. We hope more entrepreneurs will undertake the mission of changing the image of Chinese brands and leading Chinese brands for the international market.

Q3.
First of all, we must distinguish plagiarism from imitation. Plagiarism is illegal, but imitation is not. In a specific temporal and spatial environment (for example, the Boxed Pig Game environment in Game Theory), imitation is the most effective marketing strategy. From another perspective, imitation is also a kind of innovation. Many Chinese brands grow up in the course of imitation and gradually lead the whole industry to move forward.

Secondly, we must not blindly emphasize innovation and character. Innovation and personality is like seasoning in cooking, without which the dish doesn’t taste good, but too much of it and the dish is inedible. After all, the first problem SMEs have to deal with is survival, and then development. I believe the same is true in other countries.
Q4.

First, this problem aroused the attention of the Chinese a long time ago. And we are sparing no effort to protect national brands.

Second, we must look at this issue dialectically. Since China’s entry into the WTO, M&As by foreign enterprises in China have been one form of normal economic activity. Chinese capital is also merging and acquiring foreign brands abroad. It is just that Chinese capital is unskillful in this kind of operation due to the time factor.

Third, the entry of foreign enterprises into the domestic market with ease is less frequently seen nowadays. In many industries, foreign enterprises can hardly enter the Chinese market, for example, the household appliances market.

Q5.

This phenomenon does exist, especially in some underdeveloped industries. In order to solve this problem, first, business owners must be aware of brand strategy; second, the consulting and planning industry of China needs further development. Also, if Chinese companies can further enhance their R&D and product technology and further develop better marketing skills, the added value of Chinese brands will be further enhanced.

Q6.

I have no practical experience in overseas M&As and feel unable to provide valuable advice. What I can do is to give my best wishes.

Q7.

Of course, what Chinese brands need to improve most is the brand awareness of entrepreneurs.
Q8.

A localized perspective is required to study Chinese brands; otherwise it is hardly possible to see into the Chinese market.
Interviewee M

Q1.

Data show more foreign enterprises have shut down their production bases in China and moved them to less developed countries and regions such as Vietnam, so the definition of China as producer and processor is becoming a thing of the past.

China must have its own brands. For now, Chinese computer brands, Lenovo’s acquiring IBM and TCL’s acquiring TOMSON, made their decision under the condition of being extremely lacking in confidence. China has brands like Huawei, Haier and Galanz. They might be paradigms, but the majority of brands are unable to establish international fame. For Chinese brands, it is already admirable to have secured their presence in the Chinese market, because this is the largest market in the world.

China is at an elementary level in terms of brand building. Some entrepreneurs think advertising is equivalent to brand building. It turns out lots of money was spent on advertising, but brands were not built. Some entrepreneurs think advertising is equivalent to developing channels of communication. In the end, they often abort halfway due to funding problems. In my view, to build brands first of all we should make good products. Next, we should persist in doing this, because a brand is not built in one day.

Q2.

The Chinese have the conventional psychology of trusting to luck; as the old saying goes, “It is not too late to mend the pen even after some sheep have been lost”. Entrepreneurs are no exception. From the perspective of events, all quality events are good news. They remind entrepreneurs that a brand is not omnipotent. Any brand will be wiped out if it has any vulnerability in quality. Hence, the occurrence of the above-mentioned
typical events has a negative impact on the world’s impression of China, but has a positive effect on Chinese enterprises.

Q3.

Yes. As Chinese consumers tend to follow suit, many enterprises are unwilling to waste their energy on R&D, and instead choose to imitate existing brands. In fact, they are often able to enter at low cost and get equivalent margins to their competitors. This is very dangerous, as they always lag behind and are very vulnerable to competition. Once the competitors attack them, they are bound to be defeated.

Chinese brands indeed need to develop their own character. The major incentive comes from products and services. Only with superior products and services can a brand have character. If a brand is just an empty shell it is useless, no matter how beautiful it is.

Q4.

Local brands’ being acquired is unavoidable because they are not competitive or local entrepreneurs are not confident enough. Most domestic brand 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. In order to enhance competitiveness, first of all they must formulate business strategies. If an enterprise wants to be acquired by a foreign brand from the outset, it is a matter of course that it is acquired. Those enterprises without such a plan must grow through their own efforts and may acquire foreign brands in due course. This might be the hope for local brands to become bigger.

Q5.

Yes, you are right. In China, those who know technologies don’t know management, and those who know management don’t know sales. This is a universal phenomenon. However, brand building is a systematic job that requires integrating the wisdom of many departments. So, in China, entrepreneurs are not prepared mentally for how to build brands at all.
At the beginning of the development of a business, a brand management team should be set up including technology, management and marketing teams. And they should develop the brand image, brand positioning, brand personality, and then lead the brand to healthy growth from the beginning. In this way, brands are well nourished at the infant stage and grow healthy and strong.

Q6.

We should object to overseas M&As by Chinese enterprises because they rarely gain material benefit through acquisition. Instead, shareholding might be the easiest way to attain the goal. Overseas market and overseas advanced experience can be obtained by different means, rather than through direct purchase. Chinese companies should not promote overseas M&As at this stage. Basically, they can only purchase stuff with no value. Joint-stock is probably the easiest way to achieve their goals. Chinese companies can obtain resources they need through a variety of ways rather than direct purchase, especially when not well prepared.

Q7.

China is bound to see the birth of world-class brands, but it is hard now to estimate the specific time.

Chinese brands must have self-confidence because there will be no problem as long as products are competitive, and products can be delivered to the market through marketing with the support of the necessary advertisement placement. Huawei is able to get orders globally and should be our example.

Q8.

Most Chinese entrepreneurs just follow the flow and reconcile themselves to their situation. Therefore, China has many, and small, enterprises. In contrast to multi-national corporations, they are narrow-minded. This is a psychological problem with the Chinese and not difficult to overcome. We hope to see more big enterprises and brands rising in the days ahead.
Q1.

As we all know, China used to be the largest factory in the world. From a macro perspective, the country is a big brand, while enterprises are small brands. China is working on transformation actively and moving towards “a powerful brand nation” at a rapid pace.

It has been only thirty-plus years since the reforms and the opening-up of China. It has been only twenty-plus years from concept popularization, real cognition to extensive application of the brand theory in China. “Fifteen Chinese brands were listed among the global top 500 in 2008” as you said demonstrates the achievement of China in brand building.

If we analyze from the objective trend of evolution, we may find numerous business brands in China are at the phase of high-speed growth. It is necessary to drive the business boom and fuel economic growth by brands. However, it takes time to participate in global competition. The transition from “manufacturing-based economy” to “brand-based economy” is unquestionably a macro trend of this era.

In the brand era of China, brands are going to give an impetus to the economy, see quantitative accumulation and embrace a qualitative leap!

Q 2.

From a macro perspective, the Chinese government is improving and perfecting the enterprise supervision system. The above mentioned problems exist not only in Chinese enterprises. Let us recall events that often happen to Japanese auto brands, the risk of BSE in American beef brands as well, and more examples of this kind can be enumerated. Many of them are common crises in the development of enterprises and negative problems existing in the course of the high-speed growth of the world economy, and none are problems found in Chinese brands only.

What are the sampling criteria of the survey data of INTERBRAND? From what perspective? How much reference meaning is there? It is not my place to judge, but saying “Made in China gives a bad impression in the global market” is something of “an intentional and arbitrary assertion” in my eyes.

We should take an objective view of the phase of brand development. We all know there are three types of enterprise development models, OEM, ODM and OBM.
The evolution of OEM, ODM and OBM also takes time. “Cheap, low quality and devoid of innovation” are universal problems in many OEMs. Meanwhile, this is also a challenge in the evolution from OEM to ODM and OBM. Hence, numerous business brands in China need to take this challenge more seriously at the high-speed growth phase, and try their best to improve such an impression.

In short, this is a problem which is inevitable in the development of OBMs, and must be treated seriously and solved actively.

Q 3.

As I mentioned above, “numerous business brands in China are at the phase of high-speed growth.” Some SMEs indeed have big problems in the manner of their growth. 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. To be honest, learning, referencing, borrowing and imitation are necessary. Whether for individuals or companies, this is merely the path of growth, but plagiarism and imitation are two different concepts.

Innovation is the theme in the world. Chinese enterprises and brands must enhance their innovation capacity.

The more national, the more global. The national brand of China has set a good example to Chinese enterprises. The opening/closing ceremony of the 2008 Olympics and the 2009 parade contained many innovative elements and perfectly combined “Chinese style” with “world outlook”.

I believe Chinese enterprises will make notable improvements in character and innovative approaches in brand building in the future. Let’s wait and see.

Q 4.

This kind of shock wave is inevitable. Local brands in China cannot build up global competitive strength without stronger awareness of international brand competition.

The ecological chain provides a vivid example. If a snake devours an elephant, the snake may not be able to digest it, but big fish eating small fish is a law of nature. Hence, Chinese brands must improve their brand competitiveness continually to strengthen their brands and avoid unscrupulous competition. This is a fundamental solution.

Q 5.

This is a good question. I agree with this viewpoint. To enterprises, manufacturing capacity is important, but from the
commercial meaning of economic growth, it is vastly different from brands. The concept of a brand integrates innovation, creativity, market and marketing elements, so it shows an outcome that is totally different from manufacturing and sales.

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

What is a brand? A brand is a commercial complex that integrates many elements, including corporate culture, concept, manufacturing, commodity, service, marketing, advertising, communication and public relations.

Modern enterprises certainly have different brand requirements at different phases of development. Trying to help the shoots grow by pulling them upward won’t work. To effectively evoke brand energy, we must keep potential business development balanced, i.e. “dynamic growth of brands”. To build up brand competitiveness is the core pivot to enable enterprises to sustain the “dynamic growth of brands”!

**Q 6.**

Both this issue and the previous issue involve two sides. On the one hand, foreign brands acquire Chinese brands, and on the other hand Chinese brands acquire foreign brands. In fact, both are about strategies, tactics, methods and techniques for brand internationalization.

Whether for Chinese enterprises or foreign enterprises, multi-national M&As are certainly a shortcut to getting a local foothold for their brand system and a manifestation of brand internationalization.

Chinese enterprises should weigh every overseas M&A option objectively from a global perspective and long-term development trend, because the “non-core” business the seller is anxious to sell is not necessarily useless, and perhaps just doesn’t suit the development need of the seller’s system. As for whether it suits the buyer, that requires circumstantial analysis. We must see whether we have complete and accurate knowledge of the local culture and the reality of the brands; otherwise, many unexpected troubles will appear.

**Q 7.**

On the whole, I am optimistic for sure, but it is not blind optimism.

As I mentioned in *Brand Era: the Chinese Way of Brand Planning, Strategies and Cases*, it is a kind of “cautious optimism”.

Speaking of brand, my heart is burdened. I feel burdened, because the word “brand” is loaded with too many things: history, culture, good faith, value, goodwill, word of mouth, taste, style, etc.; from the growth of a
brand, it also weighs heavily. Brand creation, planning, operation, development and maintenance, none of these is a piece of cake. Some brands were built with the effort of one or even several generations.

Brand is responsibility, brand is morality, and brand is even more about conscience!

Speaking of brand, my heart is optimistic! I am optimistic, because the concept of brand is receiving greater attention in China. Time passes. When the first and second wave of the economic tide stirred by business brands became a thing of the past, some collapsed, some survived, some were new born, and some are rising. Our local brands advance wave upon wave and grow in the course of reflection; our proprietary brands emerge like bamboo after a spring rain, and are baptized in wind and rain; our Chinese brands have a global outlook and are fighting in the market! Chinese brands, proprietary brands, are gradually deemed as a new dynamic indicator of the economic growth of China, a vital and indispensable element in a new, open, business society, and the key to open the future market.

The core of the improvement and progress China needs to make in brand building is long-term brand awareness, rather than short-term brand methodology. Facts have proved in the course of development and growth of enterprises that those who have set long-term brand strategic goals and have brand awareness and an idea of long-term brand operation, have the chance to grow bigger and more quickly.
Interviewee O

Before answering your question, I would like to talk about some social problems I noticed in society in China as a lead-in to the answer.

1. The government’s hands are not entirely clean, nor are they efficient enough. Let’s save our breath and put aside this topic. Many enterprises attain the goal of unfair competition or harm the interests of the country by bribing governmental officials. For example, the Sanlu scandal is the serious aftermath of cover-ups and neglect of duty by officials.

2. The public is agitated. Most of the key persons in office now were born from the 1940s to the 1960s. The Cultural Revolution had material influence on them, and is even engraved on their hearts. The Cultural Revolution infinitely enlarged selfishness in human nature. Teachers and students were indifferent to each other, and the affection of parents was non-existent. Later, some people came into power; some made a fortune, but their sense of social responsibility is poor. They only want to get something from society and harbour the psychology of grab what you can. Some economists became a mouthpiece of the rich and few of them dare to speak the truth. The social security system is poor. People don’t feel safe and are afraid they may have no money to send their children to school, or to see a doctor, and are afraid of losing their jobs. Honesty and mutual help between people is gone, and so has mutual trust. The Che Yating event that happened lately is proof (Che Yating was beaten to death openly on the street but nobody intervened to stop it.). This is why the government calls for eight honours and eight shames and elects moral models every year. Many of the Chinese experienced poverty and hunger in 1960s, opening-up in 1980s and wider income gaps since the 1990s. It is not easy not to be agitated.

3. Problems in enterprises. Given the two social phenomena mentioned above, some scholars did some statistical work and found SMEs in China were short-lived. I don’t remember the specific figure. The uncivilized business environment and shortsighted behaviour of business operators
have done harm to the national brand and have hurt consumers, even employees, the environment and industries.

The above comments may not be well expressed. Sorry for that.

**Topics for discussion:**

**Q1.**

Most of the top 500 Chinese enterprises are special, and are of course related to the domestic economic system. It will be more valuable if more private Chinese enterprises are listed in global top 500. In ancient times, China had brands like china and tea. No powerful brand effect is formed so far. This perhaps has something to do with the changing demands in our life, but the operators are also accountable. As for the late start-up of modern Chinese brands, we started with a planned economy, and moved from a manufacturer-centric under-supply situation to the over-supply of the market economy. It is in these circumstances that the importance of brands is recognized. I think Chinese brands are still at the infant stage and can only provide fairly satisfactory products and need to further increase their added value.

**Q2.**

Lang Xianping is the economist I respect the most for his academic reliability and frankness. In his comment on the manufacturing industry of China, he mentioned over-investment in manufacturing caused extensive surpluses. As a result, internal competition in the manufacturing industries has over-heated and in order to get orders, the manufacturers first have to cut corners in making products and slacken quality control. In fact, brand owners know the cost of a product, but they try to suppress the margin of the manufacturers as much as possible, which is also a cause of inferior quality. As for “devoid of innovation and goodwill”, this is because the manufacturers have to survive first, and can only make innovation after accumulation. Short-sighted manufacturers wishing to take the money and run do exist, particularly those doing brand management of SMEs, private enterprises; most of them still lack the technical capacity to develop high-quality products, so in order to survive they just simply practise imitation
and piracy. Of course, technology and the capacity of enterprises, whether in general or at an average level, is rising, but technology is still a problem for many SMEs, even large companies aiming to produce high-standard products.

Q3.

Some people take a risk (legal, moral) in taking shortcuts, with the intention of following the road others have carved out and harvesting ripe fruit. This problem may still exist in the short run, but in the long run, without unique products, they will lose out in competition. Of course, enterprises are not unwilling to make innovations, but innovation needs many resources and takes time.

Q4.

This is true. Foreign brands seized hold of the market of some industries rapidly through M&As. To domestic enterprises, this is an era of dancing with wolves. When the brand owners cannot see any hope for the future, naturally they transfer the brand to others. They must be prepared for a protracted war and confront the challenge and resist temptation. At present, they must build up their inner strengths in product quality, corporate governance and brand building. Meanwhile, industrial associations should play a leading role in coordinating and uniting the industries to enhance their anti-risk capacity.

Q5.

With respect to sports brands, Nike’s sales in China last year was just above USD 1.1 billion, and those of Adidas were a bit lower. The sales of Li-Ning and Anta registered about RMB 6.6 billion and about RMB 4.6 billion respectively, but the gap narrowed further. In the first half of this year, the sales of Li-Ning and Anta were RMB 4.2 billion and RMB 2.8 billion respectively, while the growth of Nike and Adidas in China was not as quick as that of domestic brands. In terms of competitive edge, brand influence is a perpetual competitive edge related to an enterprise’s strategies. Li-Ning, for example, adopts a multi-brand and multi-category strategy (sportswear, sports devices (DHS), sports outfits (Kason)). This
widens the scope of business of Li-Ning as compared with other domestic producers of sports goods, and will be its competitive edge in the future. As for brand optimization, I cannot answer this question for the moment.

Q6.

Some enterprises are not good at marketing and brand management. Some enterprises have placed many ads, telling the audience what kind of enterprise we are, what products we provide, yet pay no attention to consumers’ needs. Personally, I feel communication between consumers and manufacturers is very important with the arrival of the marketing 2.0 era. In addition, it is not easy to build a brand, but is easy to ruin one. The negative phenomenon of the dairy industry you mentioned previously is an example. Thus, we must hold dear consumers’ impressions of brands.

Q7.

Domestic enterprises need more time to accumulate and can only build their brands on good quality. Recently, a manufacturer that used to conduct foreign trade in Zhejiang Province was thinking about shifting to domestic trade as a result of the financial crisis, and talked with me about some issues. I found that many enterprises at home didn’t have enough knowledge of, or pay enough attention to, brands, and thought all products sold were good products, but never gave a thought to increasing the added value of their products. I think the government and NGOs should give the manufacturers proper advice and guidance. Marketing, brand and consulting professionals are not sufficiently capable; thus, a sound brand building chain is yet to come into being. For at the least the next 50 years there is no possibility of a privately-owned Chinese brand entering the top ten of China’s top 500, still less the global top ten.
Interviewee P

Q1.

Though China doesn’t have a world-class brand, in the domestic market Chinese enterprises have made some achievements in brand building. Wang Lao Ji, Strong, Joyoung, Yili, Gree and Huang Ming have established dominant brand positions in the local market and become representative of certain categories. It is pity that most of the enterprises that have built brands are private enterprises, not state-owned enterprises.

I don’t know exactly the fifteen Chinese brands you mentioned, but possibly most of them are brands of state-owned enterprises. I don’t think they are powerful brands, because the market they operate in is not open enough, and those brands don’t represent special concepts or interests.

I have an optimistic outlook on the future of brand building of China, but at the same time I am also very concerned about the brand building ability of state-owned enterprises.

Q2.

In the short run, this does have a negative impact on the credit standing and reputation of Chinese brands and products, but in the long run it has little impact.

The conclusion of “low quality and low price” based on investigation is questionable; otherwise, you cannot explain why so many people like products made in China.

Q3.

Growing by imitating other brands may be a phase most SMEs in most developing countries have to go through, but it should not last too long. Only following others through imitation is not conducive to one’s brand building. Chinese enterprises need to make innovations, but innovations are not in technology but in commerce in the first place. Brands can be built by doing things in a different way, and finding a field in which you
can become No. 1.

Q4.

Many national brands in China, especially in the food and commodity chemical industries, were frozen and disappeared after being acquired by foreign enterprises. This is the inevitable price of opening up and free market competition.

In order to avoid this situation, we need to do two jobs well. Firstly, local enterprises must revolutionize their brand concept and brand building methodology, get out of the Made in China trap, the diversification trap and the brand extension trap, focus on business operations, build powerful Chinese brands and even world-class brands and overcome the competition. Secondly, the government should enact and enforce laws strictly and prevent foreign brands from making malicious and low-price acquisitions.

Q5.

I very much agree that many companies do not understand that the nature of business is to build a brand, rather than simply low-cost manufacturing. The recognition of brand by Chinese companies still at remains at the imitation stage and they do not realize that marketing has undergone a change following access to the internet and the global economy, which is becoming the core of the business.

Many enterprises are still at the stage of fame and image in their cognition of brands, and don't realize marketing has changed radically and has become the core of enterprises since the era of internet and globalization arrived.

Q6.

It may well be said that the financial crisis provides Chinese enterprises with the opportunity to come into possession of prestigious foreign brands through the shortcut of acquisition.
In order to reduce risks, we must pay attention to the following points. Firstly, we must improve our ability to discern the value of the brands we plan to acquire; secondly, we must be able to manage and improve the foreign mature brands we acquire.

Lenovo acquired THINKPAD for IBM. Actually it is a very good acquisition action. It is a pity that they didn’t recognize the value of THINKPAD and keep launching low-priced products which compromised the positioning of THINKPAD. ‘Hummer’, that Sichuan Tengzhong Heavy Industrial Machinery intended to acquire, is also a valuable brand, but the problem is whether Tengzhong has the ability to manage and improve the Hummer brand.

Q7.

I hold a prudently optimistic view about the future of brand building in China. On the one hand, some enterprises in China, especially private enterprises, have built some brands that can compete in the global market and will have a demonstrable effect on other enterprises; on the other hand, many Chinese companies remain at the very beginning stage of brand building, and the willingness and ability for brand building is still inadequate. Conventional notions of brands, for example, the customer-oriented view and customer satisfaction view with Kotler as the representative, and traditional brand building methodology such as brand image theory of Ogilvy mislead Chinese enterprises in brand building.

Q8.

The positioning theory is different from the traditional marketing theory of Kotler. It has significant practical value for enterprises in brand building, understanding management and strategies. It is a pity that the positioning theory hasn’t really discovered the value of revolutionizing traditional management theory and marketing theory.
Q1.

Those companies who work on brands in a down to earth way are promising, and most of them are doing well.

Current problems of those garment companies:

Lack of manager team; poor management.

Q2.

I totally agree and share the same feeling. The management expertise of Chinese garment company leaders has largely decided the progress of garment brands.

Q3.

Will be better. To improve, Chinese garment manufacturing companies should focus more on three areas: design, branding skills and quality control, which should be done systematically.

The implementation of a multi-brand strategy will widely scatter all aspects of company resources. Inappropriate operations will not just cause problems for new brands, but will also impact on the main brands. China garment manufacturing companies should concentrate their resources on a single brand, and make it stronger and bigger before considering a multi-brand strategy.
Interviewee R

Q1.

I think the current situation of clothing brands in China is not bad. There are some good brands. These garment manufacturing companies have superior market consciousness compared to others, and they have longer business planning and are willing to provide quality products. With brand building, they have more advantages and decision-making power in market competition and channel expansion. The clothing industry is a traditional industry, and China has numerous clothing producers. However, I believe clothing producers with brands will stay in the middle and top of the ladder of the entire industry. The reasons are not complicated. If clothing producers have or have built brands, it indicates they have sharp market awareness and long-term business plans and want to provide quality products. A brand is in fact a promise or commitment to product quality. By building brands, they will have more advantages and autonomy in market competition and channel expansion.

Q2.

The following problems exist:

Firstly, the brand relationship is built mainly through publicity on TV.

In the initial stages, Chinese clothing producers, especially shoes and clothes producers in Fujian, built national brand awareness, rapidly increased sales and grew through advertising on TV. TV ads are still the main method for Chinese garment companies to build their brand relationships, which will not work for brands wishing to establish a deeper relationship with consumers. And homogenization exists in advertising. The content and creativity have to be improved, and innovative advertising and marketing will generate greater benefits. Companies should understand both the material and spiritual needs of consumers. If 2002 is considered the starting year, they are still relying on this method and maintaining the relationship between brands and consumers by this kind of complacent and unchanging approach seven years later. I think this is unfortunate. On the
one hand, they cannot deepen the relationship with consumers; on the other hand, homogenous advertisement placement has lowered return on investment in advertising. Meanwhile, the content and creativity of advertisements could also be better. Innovative advertising and marketing methods will bring higher profits. At the same time, there is a trend of transition from national media promotion to regional penetration among brands. Enterprises must strengthen their regional brand management abilities, intensify regional brand influence and cement the relationship between brands and consumers.

Secondly, Chinese clothing brands tend to overly emphasize quality and neglect to communicate brand spirit. Too much emphasis is placed on the quality of the product, but they ignore the spirit of the brand. A powerful and successful brand is usually recognized by consumers intellectually. However, Chinese clothing brands show many Chinese characteristics. K-BOXING, one of the leading menswear brands in China, has communicated the brand appeal of “Focus on Jacket for XX Years” in recent years; JOEONE, the most influential brand in the trousers market, has “Expert of men’s trousers” as its communication slogan and brand positioning; Youngor, a representative enterprise in the clothing industry, has mainly promoted anti-crease products recently. Do consumers really buy a classy suit because it is anti-crease? They care about a striking LOGO, which may indicate requirements in another field.

Thirdly, Chinese clothing brands have very low loyalty. Many research data have proved consumers have low loyalty towards the clothing industry. “Why do I have to buy Septwolves?” To enhance brand loyalty, we must give definite answers to consumers at the material and spiritual levels.

Some advantages:

Clear positioning: here, positioning refers to midrange positioning in price and product class.

National brand influence: by placing advertisements on CCTV and satellite TV, many clothing brands have built extensive brand awareness in China.
Channel resources: after ten years of accumulation, garment manufacturing companies in the domestic market have access to a wide range of channels, so it is impossible for foreign garment brands to enter the domestic market in the short term

Q3.

I agree with this opinion. One of the key differences between Chinese and western enterprises is man’s governance vs. the law’s governance, especially in the clothing industry. The vast majority of China’s garment manufacturing companies are private, and the companies’ growth and development relies on the wisdom, management and decisions of individual leaders. In Chinese companies the leader plays an important role, while Western companies are more corporate governance-structured, and rely more on the management team to lead them. In the menswear sector, for example, this is true of Zheng Yonggang of Shanshan, Li Rucheng of Youngor, Zhou Shaohong of Septwolves and Hong Zhongxin of K-BOXING. Individuals drive the development of enterprises; Hence, the calibre of Chinese clothing entrepreneurs decides the development of the clothing brands under their leadership, and then decides the development of Chinese clothing brands.

Q4.

I am bullish about the future of Chinese apparel brands and believe they will have a bright future. One of the manifestations of a bright future is to go from China to the world. After more than twenty years’ rapid development, Chinese clothing brands have reached a certain scale (RMB 1-2 billion) and quite a number of menswear brands are seeking bigger advances up the listings. China has an advantage in low-cost manufacturing, and Chinese clothing entrepreneurs are deeply aware of the importance of brands, and even culture, to the future of their enterprises.

I predict Chinese clothing brands will consider advancing into the international market in 5-8 years after securing their foothold in the Chinese market. They may push into the overseas market in three ways: acquiring foreign high-end brands, elevating their proprietary midrange brands to high-end brands or moving into the international market with
their midrange brands. Many clothing brands do not upgrade their brands because they dare not, and are unwilling to forgo the mass midmarket. To enter the international market by acquiring European and American clothing brands is a preferred way, because high-end and mid-/high-end brands are decided by ‘bloodline’.

Q5.

The focus might be on R&D and culture. It is a widely-held view that Chinese apparel brands are weak or at the elementary stage in terms of design. And brands built just a few years ago lack cultural accumulation and support. Are these major factors? To enterprises, survival and development are most important of all. Different enterprises are at different phases. Different experience, different time, different environment; it is unfair to compare current Chinese brands and branding with those well-established global brands which have taken decades or even centuries to develop. Chinese brands need a learning process, and problems encountered in the process of learning are inevitable. To European and American clothing brands that have a history of several decades or even a century, it is indeed time to talk about art, creativity and culture, but this is not the case for Chinese apparel producers. Moreover, culture requires accumulation over time. For the survival of Chinese clothing brands in the future, I think product design, quality and brand promotion are vital. When consumers wander about in department stores and hesitate at several renowned apparel brands, only excellent and trustworthy products will make them stop. The phenomenon of imitation is still rampant among Chinese clothing brands. It is difficult to build and manage a design team with its own style, mainly because of the shortage of outstanding designers.

Of course, it is best if you successfully make consumers set their mind on your brand before they walk into department stores or speciality shops. Successful brand promotion should attain this goal and build up high loyalty for a brand. It seems inappropriate to talk about quality now. It seems to be something enterprises cared about in the last century. In fact, it is not. Most Chinese garment brands have grown up quickly in both size and volume in a short time, but the product quality has declined. The top management have paid increased attention to M&As, multi-brand strategy, strategic planning for going public and brand marketing, but they no longer
focus on production and quality. In addition, the product capacity expansion is completed through OEM, and the overall management and quality control systems have not kept up, which can cause big problems. The overall management and quality control system is not updated accordingly. If there is a problem, it is a major problem.

The countermeasure is to tighten design, brand promotion and quality control, and to do well in these three aspects systematically.

Q6.

I will discuss this issue in two aspects. One is how to improve ourselves and enhance competitiveness. The other is differentiated competition policy. The quality of Chinese clothing brands is approximate or equal to that of international brands, but why is there a price difference of several times or even a dozen times between them? International brands take the lead in brand influence, cultural accumulation and product design. Intensive advertisement placement doesn't mean Chinese apparel brands have done well enough in publicity and communication. Chinese companies should first understand the psychological and spiritual needs of consumers, refine the spirit of the brands which can move consumers’ feelings in order to get acceptance by consumers at the spiritual level and improve brand loyalty and influence. With the development of society and the rising of incomes, consumers need more than just products, they need psychological satisfaction. The meeting of their psychological needs brings brand loyalty. Improve the design, establish R&D centres, improve overall management and supply chain management. They should create a brand that has moral impact and captures the spirit of the moment, and win over consumers at a spiritual level with the help of first-class international brand management agencies. Only in this way can they improve brand loyalty and influence. In terms of design, Chinese clothing brands might as well set up overseas R&D (design centres) to quickly improve their product design ability by taking advantage of the rich design talents, design and creative environment locally. This is actually returning to the era of “processing with supplied materials” in the past, with drawings provided by foreign customers and China taking care of manufacturing. The difference is now China is taking care of all jobs except design, for example, logistics and distribution, sales outlet management, brand building and promotion and
marketing management. Li-Ning, the leading brand of sports goods in China, set up the first global R&D centre in Portland, USA recently. This is worth learning from. Improvement of internal management ability, further improvement and optimization of supply chain management, inter alia, are important things they need to do better. Faced with the advantages of foreign brands, Chinese garment brands should develop their own characteristics.

Another aspect is differentiated competition policy. In the face of foreign, powerful clothing brands, Chinese local brands don't need to compete head-on with them. Instead, they should differentiate themselves in products, brands and price, and gradually develop their own features and gain better development. In fact, many Chinese apparel brands are doing well in this respect, Qipai, for example.

Q7.

Multi-brand policy (strategy)

With the rapid development of the Chinese clothing industry, the market is becoming more and more segmented. Many leading companies wish to better satisfy market demand through multiple brands. I think this is a good idea. Let's take the menswear industry as an example. Quite a few renowned menswear brands in China will launch other brands in the near future. I think we should be prudent and discourage medium-sized enterprises with average capacity from doing this. To run multiple brands will scatter the various resources of enterprises. If it is not done properly, the result may be that new brands cannot find a foothold and major brands are compromised, because your rivals perhaps focus their resources on one brand and gain rapid growth. In fact, in the case of Shanshan, the once-leading brand of the Chinese clothing industry, only the major brand Shanshan retains its influence now, while other brands created years ago are not performing well in the market. New brands should be launched at the right time, when enterprises are competent to do it.

Influence from the internet
China has the largest number of internet users in the world; more and more people, especially young consumers, are immersing themselves in the
internet. More and more consumers are moving to the internet, and so should clothing brands. PPG and VANCL inspired traditional clothing producers in China. E-business will probably be a trend in the future. They should think about promoting apparel brands through this medium and developing E-business into a new sales channel.
Interviewee S

Chinese garment manufacturing companies lack ability in brand operation, and there is a huge gap with international brands from strategic sense to promotion. The main problem is the talent issue, both for design and management. There is a lack of talent in management teams throughout the garment industry and companies.

I totally agree. Because the clothing industry has a low threshold, the bosses are of low caliber, and most apparel producers are family businesses. The Chinese garment industry has low barriers to entry and the management skill of company owners is very low. The biggest problem is the family business management style. The success of business depends largely on the business owners who cannot be called entrepreneurs, because they do not know how to operate a business. Family businesses in China are not a matter of family ownership, but a matter of family-centric management. Whether an enterprise will succeed or fail depends on the boss (most of them are not entrepreneurs, because they are totally ignorant of business management) “Boss culture” is the corporate culture. Brands are rooted in enterprises. If the corporate culture is like this, what will happen to the brands?

Brand imitation is a very serious phenomenon in China. A lack of good designers is one of the important reasons. Chinese garment brands should consider how to establish a team of designers with style. To improve design, Chinese garment brands may wish to set up R&D designer centres overseas. With a wealth of design talent overseas and a creative atmosphere, the design capability of Chinese products can be upgraded quickly. An example is Li Ning, the sports goods brand who established the first global R&D centre in Portland, USA.

It is possible that Chinese brands will follow and join in the international market as the comprehensive national power of China grows rapidly, but this doesn't mean we will be able to do well.

For most Chinese garment manufacturing companies, survival and development are essential. Different companies are at different development stages and foreign brands, especially European brands, have
been through decades or even centuries developing their brands, and of course they have reached the arts, creativity and culture stage. However, Chinese garment manufacturing companies have not. Chinese garment brands have been established in a very short period and therefore lack cultural accumulation and support. Culture needs time to accumulate.