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THE GLOBALISATION OF CHINESE BRANDS

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Abstract

China has taken over Japan over the last decade to become the largest manufacturer and exporter of more than one hundred consumer products. However, China, as “the world factory”, has yet to create a single brand that is recognised worldwide. The recent acquisition of IBM’s PC business by China’s Lenovo may signal the beginning of the globalisation of Chinese brands. This paper considers the current brand revolution in China, focusing on the unique challenge faced by major Chinese enterprises: how to sustain their brands in domestic competition and how to expand in the global markets. The paper is divided into two parts: it first gives a brief review of the development of marketing and branding in China since the start of economic reform in 1978, and then discusses current issues in the domestic market: changes from price competition to brand competition, as well as diversification and the role of the government. The second part examines the routes to internationalisation taken by some of China’s biggest brands; differences in their entry modes and branding strategies are analysed.

Introduction

It is now difficult to find a shop in the West that does not sell products with a Made-in-China label. China has taken over Japan within the last decade to become the largest manufacturer and exporter of consumer goods, from toys to clothes and shoes, from telephones to television and DVD players. The growth in foreign trade since 1978 has maintained an average of 15%. It is said that China is now the world’s number one producer in more than one hundred different consumer products. However, as “the world factory”, China has yet to create a single brand that is recognised worldwide. This paper will discuss the current brand revolution in China, focusing on the unique challenge faced by major Chinese enterprises: how to sustain their brands in domestic competition and how to expand in the global market. Key issues that affect brand transformation and internationalisation have been identified using six case examples such as Haier (white goods), Changhong, SVA and TCL (television), Lenovo (PC) and Galanz (microwave oven). The research for this paper

is conducted mainly on the Internet by searching various websites including those of six companies featured. A useful source of information is www.globrand.com (in Chinese) where more than four hundred articles were surveyed.

China has had a long history in commerce and marketing. The world's first print advertisement dates back to the Northern Song Dynasty (960-1127). It was for Liu's Needle Workshop in Jinan City, Shandong Province. The first European advertisement, a British Bible poster, did not appear until three hundred years later in 1473 (China Daily, 03/03/2004). Throughout history, "Made-in-China" was for many centuries a label for high quality and prestige, and imported exclusively for the royals and the rich. When China's economy went into a long decline in the 19th century the reputation of Chinese-made products started to suffer and has yet to make a full recovery. Contemporary advertising in China dates back to the 1920s. Since then it has experienced many ups and downs. Examples dating from the 1920s to 1940s include the calendar posters produced in Shanghai. These ads featuring beautiful women are now sought after as collector's items. After the first advertising boom in the 1930s, the advertising industry suffered restrictions when the communists founded the People's Republic in 1949 and began to implement a Russian-style centrally planned economy. During the Cultural Revolution (1966-1976), being branded as evil and deceptive, advertising virtually disappeared. It returned to business in 1978 when China started the economic reform and "open-door policy". However, even in the dark days of the Cultural Revolution some brands such as Panda radios and Flying Pigeon bicycles survived and remained as sought-after products. The last decade in the 20th century has witnessed dramatic growth in the sector with average annual growth rates of 39.8 %. The total advertising revenue has increased more than 31

times from 2.5 billion RMB to 79.5 billion RMB (US\$ 10 billion) between 1990 and 2001 (*Economic Daily*, 06/11/2002), taking China into the top ten largest markets for advertising services.

Does China have world-class brands?

Does China have any brands as they are understood in western terms? According to Shelly Lazarus, CEO of Ogilvy & Mather in a recent interview, in China there are only brand names no real brands. Even Lenovo and Haier are not brands but brand names that “aspire to be brands”. Chinese companies “think branding is important, and they want to understand what a brand is. But they don’t have any experience” (*Business Week*, 10/11/2004). This comment may sound quite harsh, but is largely true. Miles Young, co-chairman of Ogilvy & Mather Asia Pacific made similar comment “brands don’t exist in Korea” (Sudhaman, 2004). The majority of brands in China today are no more than well-known names. They lack a key attribute in a real brand. There is yet a single Chinese brand that is recognised worldwide. “Giants with feet of clay “- this is the pessimistic assessment by the Economist of the ability of Chinese enterprises to compete on the world stage (*Economist*, 18/03/04). Only 11 Chinese companies rank in the Fortune 500 list of top global firms by revenue, and only two are in the FT 500, ranked by market value. Not a single Chinese brand makes the top 100 list of Interbrand. Although Chinese brands have achieved a lot over the last decade and have made tremendous progress recently in terms of internationalisation, compared with their global rivals, they still have much to catch up on, and in some aspects the gaps are even widening. This is demonstrated by China’s largest consumer appliance company Haier’s revenue, which in 2002 amounted to only about 10 % of Sony’s total electronics sales, or viewed another way,

in 2002, the combined gross electronic systems sales of the top 30 Chinese OEMs represented only 64 % of HP's total sales (*Twice*, 08/12/2003). In terms of profitability the gap is even larger. China's domestic TV market has been dominated by the so-called Big Four (Changhong, TCL, Konka and Skyworth) for some years but the combined profits of all 20 plus Chinese TV manufacturers are less than that of Sony.

However, there is also an optimistic side. Lord Saatchi says that "China is always going to be an important element of the global ad business... but we have been struck with the reverse potential: we don't see any reason why Chinese brands cannot have the same impact in the US, as US brands have had in China". He further points out that the laws of economics come into play in international brand development. "There is an economic inevitability to the process. In Stage One of a nation's economic development, a country manufactures products for others; in Stage Two, it manufactures products to its own specifications; during Stage Three, it manufactures its own specifications for its own brands" (*China Daily*, 22/10/2004). In the same way that the emergence of Japanese electronics and automotive brands in the 1960s and 70s and Korean brands in the 1980s and 90s challenged established and often complacent firms in the west, the world would expect the same of China. It is worth noting that many of top Chinese enterprises were barely in existence twenty years ago. They have all the potential and opportunities to become global players in the not far distant future.

From advertising to branding

The development of marketing and branding in China, since the transformation to a market economy started in 1978, can be roughly divided into three stages. The first in

the 1980s was the production stage as the country was still reeling from the problems of the centrally planned economy where virtually everything was in shortage. The consumer goods markets were all dominated by international brands and those made in foreign joint ventures. The 1990s was the second stage of selling and advertising. There were major changes in the market where supply outstripped demand in many sectors. Competition was intensified and price wars became common. Domestic companies established themselves, notably in TV and home appliance markets, taking market share from international brands. Advertising was widely regarded as the most powerful weapon after price. For a long period of time in the 1990s, Chinese companies confused advertising with branding in a naïve belief that advertising created brands; that big spending would create big brands and sales would automatically follow. Corporate identity was also in fashion during this period. Firms spent millions trying to change their logo and in promoting their new image. Many companies were initially ecstatic with the “successful” effect of such campaigns it almost all ended with tears. In 1997 Qinchi, a small brewery in Shangdong Province, paid RMB 320 million –five times its turnover- in a bidding for the 30 seconds slot the so called “golden time” immediately after the Central Television’s Evening News that had about 700 million viewers nationwide. The brand became instantly a household name and sales tripled. But the small brewery could neither meet the demand nor guarantee the quality. Two years later the company was close to bankruptcy.

Some companies have tried innovative ways to communicate their brands to the market. Kejian, a mobile phone company, is a purely domestic brand. But it has found a unique way of developing brands through its sponsorship of Everton Football Club in a deal worth two million pounds sterling. Kejian does not have any business in the

UK and its main purpose is to use this sponsorship to influence audiences back in China where 93 million people watch the Premiership match every week.

The last five years saw the start of third stage of branding and globalisation. In November 2001 China became a full member of the World Trade Organisation. The domestic market was characterised by intensified competition, mass over capacity and decreasing margins. Most brands in China seem to have short life cycles. The average life cycle of a brand is seven and half years. In 1995, more than 200 brands competed in the household electrical/electronics industry. In 2000 only around 20 of them remained in business, a mere 10% survival rate. An important sign of market maturity was the changes in consumers, who became better informed and more sophisticated. A recent survey of 600 consumers in four cities by a US consulting company confirmed that Chinese consumers were no longer concerned only about price. Quality, service and choice were the top three criteria in their purchasing decisions, whilst price was ranked in fifth position. They also developed loyalty to their preferred brands (China Quality News, 19/08/2004). Facing the changing environment, Chinese companies have begun to take branding more seriously but their understanding of the concept remains vague and superficial. There is no real product branding yet in China. In every campaign and every ad, it is the company that is promoted. The typical message would tell the firm's history, its production capability and technological competence, its position as a leader and how many prizes it has won. What is promoted is a corporate name, rather than brand value. Without product branding, it is very difficult to differentiate competing offerings and there is no emotional desire for the consumer to buy. As a result in China, there is no brand competition but only sales competition, which often leads to vicious price wars.

The importance of branding is best captured by the words of Rita Clifton, Chairman of Interbrand, “He who owns the brands owns the wealth” (quoted in *Marketing Week*, 02/10/2003). The world top 100 consumer goods and retail companies relying on overseas production posted sales of US\$3,578 bn and profits of US\$228 bn. In contrast, the top 100 OEM manufacturers in the Asia Pacific region supplying those companies with products under their brands, recorded sales of only US\$85 bn and profits of US\$4bn. (*Business Week* 2003 Global 1000). There is an astronomical ratio of one to 50 between the brand owners and OEMs.

Diversification: blessing or woe?

Many Chinese companies embarked on diversification in the early 1990s when the fierce competition in their original business sectors drove down the margin. Take Haier as a typical example. The company started as small factory making refrigerators, later expanding into washing machines and other household appliances. Haier now boasts to manufacture more than 15,100 different products in 96 categories covering a wide range of white goods, brown goods and consumer electronics. From 1995 it began a wholesale diversification into totally unrelated businesses, from pharmaceuticals to logistics as well as catering and financial services. The company declared diversification and internationalisation as the two wheels of its long-term growth strategy. However, most of these unrelated diversification ventures ended in failure after modest initial success.

Haier is not alone in this seemingly careless pursuit for diversification. Lenovo, a PC maker, announced in 2003 an investment of RMB 3 billion in real estate. It is now hard to find a Chinese company of reasonable size that is not diversified, falling under the title “Jituan Gongsi” (group companies). This blind diversification does not help

to solve the problems in the existing business and may even indirectly serve to aggravate them by distracting management attention and diverting resources from its core business (Kapferer, 2001). In marketing, it causes confusion amongst consumers in brand positioning and dilutes brand values or even damages the core business. Many Chinese companies do not understand multiple branding and use the same corporate name for various diversified products; here are two embarrassing examples. Huoli28, a company making washing power, sells mineral water under the same brand. Yuetu, a cigarette brand, diversified into making sanitary towels for women again using the same brand.

Many Chinese companies see diversification as the only way for new growth in revenue when price wars destroyed the industry margin. This may offer an answer to why China is struggling to build homegrown brands (*Economist*, 18/03/2004). Most Chinese businesses are broad rather than deep, preferring to diversify rather than concentrating on a core business. This reflects a huge range of moneymaking opportunities and a lack of individual patience. The consistency and quality that builds trust with consumers is not part of the Chinese management style. This presents a paradox as the opportunist diversification strategy is in apparent conflict with traditional Chinese cultural values, which emphasise the long-term outlook and stability (Fan, 2000). Should Chinese companies hold the earlier view favouring conglomerates for their stability of revenues and earnings, or should they hold to the contemporary view in developed countries that focused companies build greater shareholder value? Kotler (2002a) believes the answer is the latter. He argues that all multinational companies today are focused companies. They stick to an industry and invest capital in core technologies to achieve and sustain dominance. However there

are exceptions. Many Japanese companies are diversified. European examples such as Virgin also show that conglomerates can be as successful as a focused firm.

The role of government

Realising that the development of brands is essential for the nation's continuous economic growth, the Chinese government has made great efforts to help companies to promote their brands. By the end of 2000, brand strategy administration departments had been established all over the country. In 2001, the State Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), China's consumer quality watchdog, promulgated regulations on the appraisal and management of China's state-level top brands. Under the AQSIQ, the State Commission for Brand Promotion (SCBP) was set up in 2002, highlighting the role government ought to play in pushing forward the national branding strategy. The commission, composed of government officials, industrial leaders, technological experts and journalists, works each year to appraise new national top brands in strict accordance with related rules and regulations (China Daily, 06/01/04). The Commission organises an annual product quality appraisal. Participation to enter the appraisal is by voluntary application and those firms who have passed the appraisal will receive the title of "China's Famous Brand", and will be entitled to exemption of any further quality inspection for three years. There are now 547 brands with the title. However, not all the famous brands could sustain their economic performance albeit with the government support, and some failed the test of market competition. Nearly one-fifth of the 1600 companies certified as a "Famous and Old Brand" by the PRC government in 1990 are now on the verge of bankruptcy while just 10 % consistently generate profits (12/04/04 *Business China*, EIU).

Some Chinese analysts have questioned about the legality and effectiveness of such state intervention in commercial branding (*Beijing Youth News*, 16/10/2004). They see this as nothing but another covert way of protection leading to abuse by corrupted officials and businessmen. Every Chinese company each year would normally receive large number of invitations to participate in similar competitions or appraisals (not organised by SCBP). In one event, 34 participating firms all received the top prize – a golden cup simply because they all paid a big fee. In some other cases, the grade of one's prize or merit certificate was decided entirely by the amount of contributions received. It is impossible to build the brand in a closed environment after Chinese accession to the WTO. The true powerful brands should only emerge from market competition via the consumer's choice and not that of the bureaucrat. The criteria for the China's Famous Brand have also been challenged. The appraisal process should be made open and transparent.

However, this state intervention has an unexpected supporter in the west. Milton Kotler, president of Kotler Marketing Group, believes that China needs a state marketing policy (Kotler, 2002b). He points out that the task of a state marketing policy is to change the Chinese mindset from production manufacturing to brand and channel ownership and management. A state marketing policy will hold the key to post-WTO Chinese economic growth. Some key elements of a state marketing policy he has identified include guidance and investment support for brand and channel acquisition and investment in product innovation and global brand design, and encouraging the discipline of market research.

Routes to internationalisation

The following six companies were selected primarily due to their position as market leader in their respective sectors, as well as their demonstration of the variety of

strategies and approaches adopted by Chinese enterprises covering a whole spectrum of internationalisation, from OEM exporting to full global production and marketing. Each company is introduced with a brief note of its history and the emphasis is on their branding strategies and target market decisions. The background information about the six companies and their internationalisation strategies were obtained from various sources in Chinese including the firms' websites, and articles from www.globrand.com. A summary is provided in Table 1.

Galanz

Galanz was set up in 1978 as a textile factory and started the manufacture of microwave ovens in 1993. The company has experienced rapid growth over the past 10 years, becoming the largest microwave oven manufacturer in the world. In China, Galanz dominates the market with a 67 % share. In the world market the company is the largest OEM exporter selling more than 10 million units overseas to more than 248 companies in 2004. Out of every 10 microwave ovens sold in the world, at least four were made by Galanz. The company's policy of internationalisation is OEM first, branding second. The marketing director of the company was quoted of saying: "What is a brand? A brand is made of a pot of gold. How much gold do we have? We cannot afford to develop a brand in the world market at the moment so we have to do OEM." Galanz's stated goal is to become the world's largest factory. In fact the company has already achieved this goal. So what is the next step? As for globalisation it is now or never for Galanz. The company may lose the opportunity forever if it is content with being an OEM exporter.

Changhong

Changhong was founded in 1958 as a factory producing radars for military use. The company started to manufacture TV in 1993 and is now one of the largest TV

manufacturers in the world, with products covering 13 sectors including TV, IT, air-conditioning and digital components. Changhong sold more than 12 million TV sets in 2003, sharing 16 % of the domestic market and exporting to more than 90 countries. The majority of the overseas sales are OEM with only a few exceptions. In Australia, Changhong sells all its products under own brand Celestial. In the last four years Changhong has invested heavily in Indonesia as the part of the company's expansion strategy in Southeast Asia. It has built production facilities for 350,000 TV sets, 150,000 air conditioner units and 300,000 DVD players and set up distribution networks with more than 1,000 dealers across the country. The company has claimed that the Changhong brand has achieved a huge success in the country though no data of sales or market share is available. Like Galanz, Changhong has taken a cautious approach in overseas expansion, remaining largely an OEM exporter in the world market. On its website the company is still eagerly seeking new opportunities in OEM.

SVA

SVA (Group) Co. Ltd, established in 1995 after the merger of three major TV companies in Shanghai, has transformed itself from a conventional TV manufacturer into a leading electronics company with four major business units covering broadband value-added services, information products manufacturing, photoelectric display device manufacturing etc.. Apart from its technology lab in the U.S., SVA also has production and sales presence in nine countries around the world, including the U.S., Austria, Argentina and South Africa. Within China, SVA is still a relatively less known brand as its sales in 2003 ranked only ninth among Chinese companies at 1.15 million units (about one tenth of the market leader Changhong). SVA's total sales turnover reached 4.6 billion US\$ in 2003, of which about 43% was made overseas.

Unlike other TV exporters in China, SVA decided to focus on upmarket products such as plasma TVs, TFT-LCD displays and DLP projection TVs in order to avoid the intense competition from other Chinese companies selling on an OEM basis at the low-end colour TV market. The company has proved itself by mass-producing quality products at low cost and made a breakthrough in the tough US market. In terms of marketing strategy, SVA adopted a cautious approach by working first with distributors to learn more about the local market rather than selling directly to big retailers. It also sells through the Internet outlets such as Amazon.com. The company used trade-level promotional activities rather than spend millions of dollars to build brand awareness. And their price was set at level well below the levels of its Japanese and South Korean competitors but above those of low price companies (Gao, et al, 2003).

TCL

TCL was founded in 1981 as a small factory making tape cassettes. The company switched to making telephones in 1985 and became the market leader in China four years later. In 1993 the company entered the TV industry and is now the world largest TV manufacturer with businesses from multimedia to mobile phones, PCs and home appliances, electrical lighting and digital products. The company has achieved a record of 42.65 average annual growth for the last 12 years, becoming one of China's fastest growing companies.

In contrast to Haier's strategy, TCL decided to first test easy neighbouring markets such as India. In 1999 TCL chose Vietnam as the key market for overseas production and expansion. The company invested in three production lines, including 500,000 TV sets and 300,000 DVD players. But it did not take too long for TCL to find that this "easy market" was in fact rather hard to crack. The Vietnamese consumers

originally believed that TCL was a Hong Kong brand. Once its origin was known, the brand suffered from an image problem because most Chinese products exported to Vietnam in previous years were cheap and of low quality. This negative perception proved to be very hard to overcome within a short period of time. Facing strong competition from two long established rivals Sony and Samsung, TCL was struggling with a market share of only 10%.

The last two years have seen a total change of direction in TCL's international strategy: instead of the expensive and time-consuming effort in promoting the TCL brand in overseas market, the company decided to buy in international brands through acquisition and strategic alliances. In 2003, the company purchased the German company Schneider and American company Govedio. In 2004, it set up with Thomson, a French firm, a joint venture TTE Corporation, which will be the world's largest TV manufacturer with capacity of 40 million units. It also signed an agreement with Alcatel to form a joint venture making mobile phones. TCL now boasts a portfolio of six brands. In China it uses TCL and Lehua. It has Schneider and Thompson in Europe, RCA and Govedio in the US. In the short term the company could continue to benefit from using these brands in different geographical markets without big investment. But this strategy is only transitional, because a) it does not make economic sense to maintain multiple brands in the long term; b) it could cause difficulty in brand positioning and confusion among the consumers. A recent example is Matsushita. After using dual brands Panasonic and National for more than 40 years the company decided to discontinue the National brand. Similarly TCL will have to undertake brand reduction in future, and decide if and when to promote the TCL brand in the world market.

Lenovo

Established in 1988, Lenovo is the largest IT enterprise in China. Currently the company engages primarily in the sales and manufacturing of PCs, mobile handsets, servers and printers in China. It has been the market leader for seven consecutive years, commanding a 27 % share of the Chinese PC market in 2003. Lenovo was also ranked number one in the Asia Pacific (excluding Japan) with a market share of 12.6 % in 2003. The company was forced to change its English name from “Legend” to Lenovo in 2003 after the Legend brand had been registered in various sectors in many countries, which made it difficult to promote its brand overseas. The new name, composed of two parts, namely “Le” of Legend and “novo”, which in Latin means novel, is intended to build an innovative image for the group worldwide.

Lenovo made the first attempt in internationalisation in 2001 with the opening of seven overseas offices. But the campaign failed to make any real impact. In three years the overseas sales made up for less than 3% of the total revenue, whilst the share in the domestic market slipped from more than 30 % to 27 %. In February 2004 the company announced its decision to concentrate on the domestic market, disguising a retreat from the international markets. In a surprise comeback move in December 2004, Lenovo concluded the purchase of IBM’ PC division for \$1.75 billion in cash, stock and assumed liabilities. The company was first approached by IBM in 2001 but said no almost right away. IBM will take an 18.9% ownership stake in the new company whose largest shareholder is the Chinese government with a 46% stake. Lenovo will relocate its world headquarters from Beijing to Armonk, N.Y. and it will be managed by veteran IBM executives. It is beyond wild imagination even a few years ago how a potent icon of capitalism has changed its colour from blue to red almost overnight, the new Lenovo would become a symbol of the cooperation

between the East and West. According to the deal in the new company, Lenovo will be responsible mainly for production whilst IBM will be in charge of design, sales and service. Lenovo has the right of the IBM brand for five years. This seems to be a good deal in which both sides get what they want – Lenovo gets a worldwide presence and IBM can concentrate on the high end of IT business. Lenovo's share in the global PC market currently stands at 2.2%. The combined company has an 8.6% PC market share, in third position after Dell (16.8%) and HP (15%). The deal marks a gigantic step in Lenovo's internationalisation, described as “a turtle on the back of a rabbit”, by the company's chairman. Some Chinese commentators believe that this acquisition has accelerated Lenovo at least 10 years along the road of internationalisation. However, the real winner in the deal is IBM who, in partnership with Lenovo, gets direct access to China's lucrative corporate market that is forecast to double from \$24 billion in 2003 to \$47.9 billion in 2008, and eventually to overtake Europe to become the world's second largest IT market after the US (*Business Week*, 20/12/2004).

After the acquisition, Lenovo faces daunting tasks of integration, culture clashes and management changes. The new company will inevitably lose some of IBM's corporate customers. The company now faces a particular dilemma in branding: should it invest to promote IBM or Lenovo? However the real challenge will come in five years time when the company can no longer use the IBM brand. Although Lenovo owns the Think brand but without IBM the value of the sub-brand is very limited. Will Lenovo itself have grown into a credible global brand? It would be unwise to guess the answer at this early stage, but one thing seems to be certain: To win the competition race in the world market place, Lenovo can't rely on “sitting on the back of a rabbit” in the long term but has to transform itself into a rabbit.

Haier

Haier was incorporated in 1984 producing only household refrigerators. Its German sounding name comes from Lieberhaier, a technology transfer partner of the company in its early years. In less than 20 years the company has become the world's largest manufacturer of home appliance products and the fifth largest overall in the electronics industry. Haier currently manufactures a wide range of household electrical appliances, 15,100 varieties of items in 96 product lines, and exports to more than 160 countries. In 2004 the company has a global sales turnover of RMB100 billion. Haier has been the market leader in the Chinese household electrical appliance industry, with a market share of 21 % for overall appliances, 34 % for white goods and 14 % for small electrical appliances. In the world market, Haier is ranked fourth in whitegoods (Euromonitor). Haier is the market leader in the USA for compact refrigerators and wine coolers, in Iran for washing machines and in Cyprus for air conditioners.

Haier first began its overseas production in 1997, and now boasts an international network for design, procurement, production, distribution and after-sales services. The company has established 10 manufacture complexes in China, 30 factories overseas including the USA and Italy, 8 design centres (one in Tokyo) and 58,800 sales agents worldwide. Haier's international expansion can be summarised as walking with two legs –OEM and own branding. In the words of its CEO, we have to become a wolf in order to dance with wolves. Whilst still being China's largest electronics OEM, Haier has been simultaneously promoting its own brand in the overseas markets. The Haier brand can be seen on billboards in Tokyo and New York, and the company has also signed a sponsorship deal with Italian Premiership football.

Geographically Haier's speedy growth is attributed to its strategy of "entering a difficult developed market first before entering easy developing markets". When other Chinese companies were trying to make inroads into neighbouring Southeast Asian countries in 1999, Haier invested \$300 million in South Carolina to build a refrigerator factory. In marketing strategy the company started with small and niche products before expanding its product portfolio. In 2003 Haier had a 20 % share in the total refrigerator market in the USA (www.ukwhitegoods.co.uk, 07/03/2004). In an interview in 2002, the president of Haier America talked about how the company develops the brand in the US: "we promote Haier as a global brand – not Chinese or American, but global. In fact, most people think it is a German brand. Our slogan is 'What the World comes home to'. We are promoting the brand mostly through outdoor advertising, airports and magazines, like Goodhousekeeping and People. We also do heavy advertising in trade publications. Our goal is to build the Haier brand into the top five appliance manufacturers in the US. It will be GE, Whirlpool, Maytag, Frigidaire and Haier" (Kotler, 2002c)

Discussion

China does need to own a sizeable number of global brands for her continuous economic growth and prosperity. Facing problems in the domestic market of intense competition and overcapacity, more and more Chinese companies share the same understanding that they have to go global for future growth and profitability and they must succeed globally in order to win the domestic market. Only 10 % of China's top 50 firms by sales have yet to formulate an overseas expansion plan, according to a recent study by Roland Berger Strategy Consultants (Prystay, 2003). However, they differ greatly in terms of their goals and strategies. Globalisation strategy involves a

wide spectrum of commitment and control and requires the firm to find a fine balance between benefits and risk as well as long term and short-term objectives. It is clear from the above case examples that Chinese companies are at the different stages in internationalisation via different routes (Luostarinen, 1979; Cavusgil and Godiwalla, 1982; Kim and Hwang, 1992) and this is illustrated in Figure 1. While export is the low cost and low risk mode overseas production offers many advantages such as circumventing tariff barriers and anti-dumping charges. Both Changhong and TCL have invested in local production with mixed results. Haier is the only Chinese firm that has been engaged in an all-out internationalisation that involves investment in activities across the whole value chain: design, production, sales and marketing, Galanz, at the other end of the spectrum, decided to remain (at least for the time being) as the OEM manufacturer. In developing a global brand Chinese companies could choose from a traditional or a modern approach (Ewing, et al, 2001). The traditional one is a conservative step-by-step approach that starts from local, to regional and finally global - a slow learning process. This is typified by Changhong. In contrast, TCL and Lenovo adopted the modern approach that accelerates internationalisation via joint ventures and acquisition of foreign brands, which is also strongly recommended by Kotler, (2002d). In target market selection, most Chinese companies started with the neighbouring countries in the Southeast Asia that are perceived to be relatively easy due to smaller geographic and psychic distance; but Haier took the opposite approach of tackling a more difficult market of USA first and has so far made some good progress. There are also significant differences in marketing mix strategies. Most Chinese exporters still concentrated on low end of the market with low price but this low pricing strategy is not always working in developed markets. Konka, the third-largest TV maker in China and a main rival to

Changhong and TCL, tried a costly push into the US market in 1999 but failed to make any big impact. Taking lesson from this, SVA decided to focus on high-end TVs with a medium pricing strategy which seemed to be working well bypassing direct competition from both brand competition at the top end and price competition at the lower end. In branding/advertising, most Chinese companies adopted a low-key trade promotion strategy rather than expensive above line advertising. Haier is the only Chinese company that spent millions of dollars in billboard advertising to build brand awareness in Japan and USA, but Haier promoted itself as a global brand, deliberately downplaying its Chinese origin. What is the best way for the Chinese companies to build global brands? There is no clear or simple defining method, and it is still too early to assess the effectiveness of different globalisation strategies as the impact of some recent developments remain to be seen for the years to come.

Chinese companies have a long way to go in this internationalisation process, given the complexity, cost, uncertainty and fierce competition in creating and sustaining their brand names in developed markets. Compared with their Western counterparts, Chinese companies have competitive advantages in low cost production, sourcing, distribution and service. China has a vast domestic market that brings economies of scale and domestic rivalry. Many markets in small towns and rural areas remain untapped or under-developed. Chinese companies are disadvantaged in terms of their lack of core technology, design and innovation, branding and knowledge of managing large complex businesses. A lot of Chinese companies still have not truly grasped the art of marketing and brand building in the Western sense of the word. They are aware of the necessity, but not of how to do it (*Marketing Week*, 02/10/2003). There is a serious shortage of branding experts in China. Those who have experience in

international marketing are even harder to find. The biggest challenge faced by the Chinese companies is once they are in international markets; they will be cut off from the sources of most their competitive advantages that are largely derived from the low cost base at home. There is an urgent need for them to develop or acquire new competence. In an earlier study of internationalisation of five state-owned enterprises in China, (Young, et al, 1996) emphasise that Chinese companies have a huge process of education, training and cultural learning to undergo (quite apart from the initial capital investment requirement) if the R&D, manufacturing and marketing know-how acquired is to be assimilated throughout the corporation. There is no doubt that Chinese managers are very keen on developing new skills in marketing and branding but they disagree on the sources of such learning. One view advocates the wholesale transplant of American theory. For every problem in marketing they prefer to look for answers from the texts of Phillip Kotler or Jack Trout, or simply imitate Procter & Gamble, IBM and Siemens, regardless of the special characteristics of the Chinese situation. The other view rejects the need to learn Western ideas. They argue that new ideas from the West find their origin in ancient Chinese culture. Both views are biased and harmful. Chinese companies should learn from all sources and in the meantime, strive to develop indigenous marketing theory that combines the best of East and West.

In global marketing, they could probably learn more from Japanese or Korean companies (Taylor, et al 2000; Cho, et al, 1994). The recent miraculous rise of Samsung has set a good example for Haier and others Chinese companies. It has taken Samsung more than 20 years to change its image from a cheap me-too brand to the global premium brands (Gao, et al, 2003). It would be interesting to study how Samsung has succeed in transforming itself into a premium global brand and why

other exporters in Taiwan and Hong Kong, whose economy took off at the same time as Japan and Korea, failed to produce a single global brand. More research is needed in this vital area to identify the key factors that influence the success of brand globalisation.

Conclusion

In a recent article entitled “This is the Chinese century”, William Rees-Mogg (2005), the former editor of the Times newspaper, writes that world economic growth and many economic indicators now depend on China, including the prospect of the dollar, the Euro, the oil price, industrial commodities, global equity markets and bond prices. Many Chinese companies no longer content with the role of manufacturer of cheap low technology goods or OEM supplier for international brands, they inspire to become globally recognised branded producer. The assumption has long been that the US and other industrialised countries will keep leading in knowledge-intensive industries whilst developing nations focus on lower-skill sectors. This is now open to debate. “What is stunning about China is that for the first time we have a huge, poor country that can compete both with very low wages and in high tech,” says Harvard economist Richard Freeman (Business Week, 30/11/2004). The recent acquisitions of international brands by Chinese companies, including a possible takeover of MG Rover by Shanghai Automotive Industry Corp. in 2005, herald not only the arrival of Chinese companies into the world market place but also the beginning of a long march to become truly global branding. Just like South Korean firms did in Seoul Olympics in 1988, Chinese companies have great opportunities in the next five years to build and promote their brands on the world stage using major events such as Beijing Olympics 2008 and Shanghai World Expo 2010. The rise of Chinese owned

global brands will help change the outside perception of Chinese products and return the former glory to the Made-in-China label.

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Table 1 China's Power Brands

| | Galanz | Changhong | SVA | TCL | Lenovo | Haier |
|---------------------------------|----------------------------|------------------------------------|----------------------|-------------------------------|---------------------------|--------------------------------|
| Year of Establishment | 1978 | 1958 | 1995 | 1981 | 1988 | 1984 |
| Main products | Microwave oven | TVs | TVs | TVs, Mobile phone | Computers | Refrigerators, Appliances |
| Brand equity 2004 (RMB billion) | 10.1 | 27.0 | n.a. | 30.6 | 30.7 | 61.6 |
| Slogan | Easier cooking better life | Future is digital | Your needs we create | Digital, delights | Innovation and excellence | Honest and trustworthy forever |
| Revenue 2003 (US\$ billion) | 1.2 (estimate) | 6 (estimate) | 4.6 | 3.4 | 3 | 9.75 |
| Profits 2003 (US\$ million) | n.a. | n.a. | n.a. | 163 | 128 | 193 |
| Target markets | n.a. | South East Asia | USA | Asia and Europe | Currently Asia | USA and 160 countries |
| Market entry Strategy | Indirect export | Direct export and local production | Direct export | Acquisition and JVs | Acquisition | FDI, full scale operations |
| Branding | OEM for 80 foreign brands | OEM and Changhong | SVA | Thompson, Schneider, RCA, TCL | Lenovo, IBM PC | Haier |

Figure 1 The Globalisation of Chinese Brands

Source: adapted from Root (1987)

