STRATEGY

Realizing Superior Value From Brand Investments In China

By Jim Hemerling

China is already the largest consumer market in the world for a wide array of products including mobile phones, household appliances, and consumer electronics and is amongst the fastest growing markets in many categories. With the explosion in disposable income, China represents an enormous opportunity for companies with powerful consumer brands.

While China is an enormous opportunity, it also represents some of the greatest branding challenges. Realizing superior value from brand related investments requires companies to reach across increasingly large geographies, while competing against increasingly strong competitors—both international and domestic—to win the hearts and minds of increasingly sophisticated consumers. Companies that have built strong brands in China have a deep understanding of what it takes to realize superior brand value and how to execute to overcome China's unique challenges.

While the topic of branding has recently gained considerable attention, branding in China actually started more than a century ago. Brands like "Tong Reng Tang" (pharmacy), "Cai Zhi Zhai" (pastry), and "Zhang Xiao Quan" (scissors) are among the so-called "old, renowned brands" (Lao Zi Hao), recognized by most Chinese people even to this day. However, at that time, "brand" was still a vague term, which meant not much more than superior product quality. It has not been until the adoption of market economy, when multi-national companies came in and launched their brands, that the market became increasingly aware of "brand" itself and the huge impact branding could make on sales. Branding in China has been evolving at a rapid pace ever since.

During the 80's and early 90's, "brand" in China was largely a popular buzzword. Many Chinese companies started their brand building efforts by mimicking advertising campaigns of more established brands. Building brand awareness—the number of consumers that were aware of a brand—was the primary focus. Many Chinese companies believed that they could rest assured knowing that increasing numbers of customers were familiar with their brand name. However, they soon came to realize that realizing value from brand investment requires much more than just increasing awareness. The changes in the market situation, the competitive landscape, and consumer behavior have brought new challenges for branding in China.

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CHALLENGES FOR BRANDING IN CHINA

Larger geographical coverage and new sales channels: With the living standard of Chinese people on the rise, more customers in less developed regions can afford to buy products that were once only available in large cities. That means, to win in China, companies need to further extend their branding efforts to cover a larger market. Given the diversity of the China market, companies have to carefully study the diverse customer groups and tailor the branding effort to each region/ customer group. If necessary, companies may need to focus on a smaller, specific segment, rather than a broader customer pool. Meanwhile, new sales channels (e.g. hyper-markets, convenience chains, online shopping portals, tele-marketing etc.) and customer interfaces (SMS service, direct mail etc.) have emerged. Each of these creates new and different purchase experiences. Companies need to think more carefully about how to utilize them in branding to provide customers with best possible purchase experience.

Intense competition: Based on a report issued by China State Administration for Industry & Commerce, the number of trademark and service mark applications in 2003 reached 405,000, an increase of 26.4% over the previous year. This reflects the proliferation of brands in China since the mid 90's. Given that there are more players to compete against, differentiation becomes increasingly difficult. The same proliferation can be found in individual company's spending on advertising. China has now surpassed Japan to become the second largest media television advertising market in the world behind the United States. The annual carnival of CCTV prime time TV commercial airtime bidding is a typical example. In the 2004 public bidding, 1000 representatives from more than 150 top companies in China squeezed into an auditorium that only accommodates 500 people to bid for their TV commercial time on CCTV. The same amount of airtime earned CCTV 4.4 billion RMB, a 33% year over year increase. To stand out in such a crowed market, companies need to spend more while ensuring that their media investments are being effectiveness.

More sophisticated customers: Chinese customers, particularly those in larger cities where they have had the most exposure to a wide range of brands, are becoming increasingly sophisticated in making their purchase decision. These consumers have much higher expectations. They do their homework before making purchases, particularly for items that cost more. To appeal to these consumers, companies need to provide compelling emotional and functional benefits. They need to deliver a superior "brand experience" which includes the advertising, but places even more emphasis on the performance of the products, the value of the sales advice, the quality of the after sales service. The emphasis on service is especially true to industries like home appliances and automotive. Customers now explicitly inquire about what service the manufacturers and their dealers can offer before they make the purchase. Sophisticated consumers are increasingly placing their trust in brands that don't just promise great things, but actually deliver. Focusing only on advertising and making promises will not effectively convert consumers from awareness to trial and ultimately, to loyal customer who are willing to be "brand advocates"—telling their friends and colleagues about the benefits of the brands they love.

Given these challenges, companies must start with a deep understanding of what it takes to realize superior value from their brand investments.

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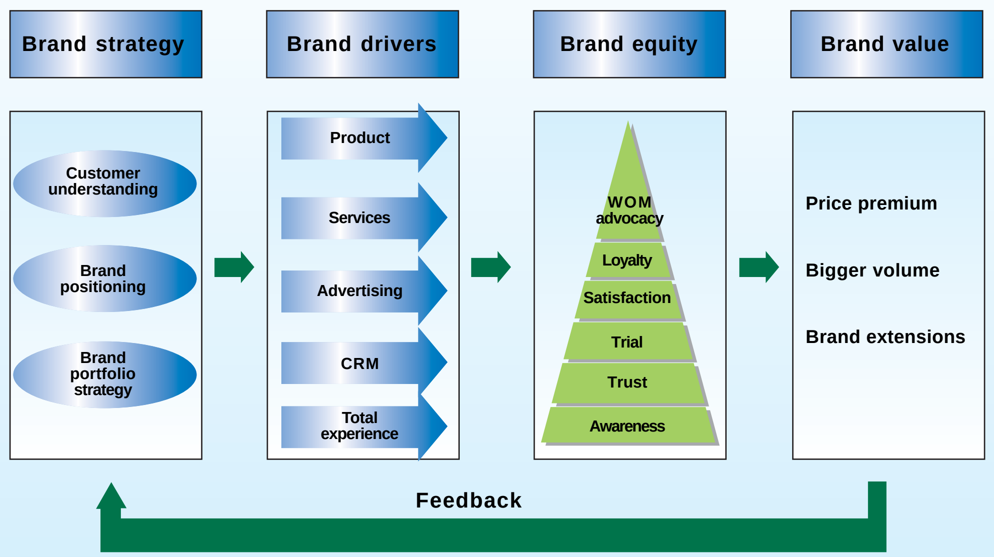
REALIZING VALUE FROM BRAND INVESTMENTS

Branding can be an extraordinarily complex topic. Many experienced branding professionals and company executives struggle with trying to understand what branding is really about and how to realize value from the brand investments they are making. Different people have different perspectives. However, to The Boston Consulting Group, realizing value from brand investments requires a systematic approach, an approach we call the BCG Brand Value Creation Framework.

BCG Brand Value Creation Framework



Brand strategy: At the very first step, a company needs to craft a clear brand strategy for each brand and for the overall portfolio of brands. It is very critical for the company to start with a deep understanding of the targeted customers including their hopes, dreams, aspirations, needs and dissatisfactions. Because customers are very different, it is important to segment the customers into groups that have common characteristics. With this deep customer understanding, companies can then develop the brand positioning which is defining the promise the company is making to its target customers.

Positioning is the art of defining how the company intends for the brand to be perceived, both rationally and emotionally. A brand is much more than just a logo or a product. A brand is really a promise that is made to consumers about all of the technical, functional and emotional benefits the consumer will enjoy. Positioning is the process of defining the promise. Too many companies in China today are focused only on product features and functional benefits. Companies that are building powerful brands in China have made (and kept) promises that tap into a deep understanding of consumer aspirations and motivations and have translated this understanding into promises that really connect emotionally. This emotional connection is what enables stronger brands to develop loyal customers who are willing to buy more and often to pay more. Some of the most loyal customers are also willing to be brand advocates—saying good things about the brand to their families and friends and colleagues.

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If a company has several brands, then the company must also define the overall brand portfolio strategy—how each brand will be positioned individually and how they will related to each other and possibly to an overall 'umbrella brand' that unites all the brands under a shared umbrella brand.

Brand drivers: Having a right strategy is only the beginning for brand value creation. As Sergio Zyman, the former Marketing Officer of Coca-Cola wrote in his famous book—*The End of Marketing As We Know It*, branding is to define, deliver, sometimes even over-deliver and then claim. Great brands deliver their promises through a set of "brand drivers".

While there are many ways to deliver a brand promise, there are typically five core brand drivers: Firstly the product —product is an essential part of a brand, which consists of the innovation, design, features, quality and reliability. Secondly service—when a customer buys a product, they are also buying service during the purchase and after the purchase. Thirdly advertising—a brand needs to convey its message through advertising in various channels to convey the technical, functional and emotional benefits of the brand. Fourthly, customer relation management (CRM). Attracting new customers is very expensive but if that customer can be turned into a loyal customer that has a long-term relationship with the company, the value realized from the brand investments increases dramatically. Customer relationship management is therefore a critical driver of brand value. The fifth brand driver is the "total experience" that the customer has of the brand. The total experience includes every contact point the customer has with the brand including but not limited to the product functionality and reliability; the retail outlet layout and amenity; the interaction with salespeople; the company hotline and any association the customer can have in their daily life.

Each brand driver requires investment. Choosing how much to invest in total, how much to invest in each brand driver, and how to spend the investment effectively within each brand driver is a core brand building discipline. The best companies have deep experience, tools, methodologies and data to enable these decisions. The ability to make wise, fact-based investment decisions is at the core of realizing superior value from brand building investments.

Brand equity: Brand equity is a term used to define the strength of a brand. It is the result of the investment made in each of the brand drivers. Brand equity starts with consumers being aware of the brand. An initial level of trust will lead a consumer to try the brand and if satisfied to then build loyalty and ultimately, become an advocate willing to tell others good things about the brand. Brands that have stronger brand equity will attract and retain more customers thereby realizing a higher return on the brand building investments.

Brand value: The final outcome of the brand value chain is brand value—the financial value that comes from brand equity, which results from brand investments in each brand driver, which in turn is guided by a clear brand strategy. Brand value comes from increased brand equity—customer satisfaction, loyalty and advocacy—which result in increased volume from more customers buying more products and services plus the ability to realize a higher price premiums plus the ability to extend the brand into new products, services and customer segments.

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LEARNING FROM COMPANIES THAT ARE REALIZING SUPERIOR BRAND VALUE

Many companies in China are making huge investments to build their brands but not all are realizing superior value from those investments. Some simply have stumbled at the first step—they don't have the right brand strategy. Some have made the right overall strategy—they understand their customers and have effectively positioned their brands—but they have failed to make the right investments in the right brand drivers. Much can be learned from these companies but even more from those that are already succeeding in China. What is it that sets these companies apart from the others?

Adapting the Brand Positioning: Adapting the brand positioning according to the China market and the specific target segment is sometimes what it takes for a brand—especially a foreign brand—to survive and thrive in China. Motorola is an excellent example of adapting a global brand positioning for China.

The global brand image of Motorola mobile phones has been "Intelligence Everywhere". This positioning reflects Motorola's brand promise: application of its advanced technology in the products for customers' needs everywhere in their lives. In China, Motorola initially defined four target customer segments: technology oriented, time management oriented, personal image oriented and social life oriented. This definition seemed fine at that time, as it properly covered the main customer group of mobile users: business executives and rich small enterprise owners.

However, Motorola soon discovered that it was losing market share of the fastest growing segment: the new generation (office workers, college and high school students etc). This generation wanted more features and an image that captured their lifestyles, fashion taste, and personality. For this generation, Motorola was less attractive than brands like Nokia, because they associated the brand more with "tradition", "technology-based" and "engineering-oriented".

Recognizing the aspirations of this important consumer segment, Motorola launched a series of marketing activities to re-interpret "Intelligence Everywhere" in China. Motorola began to promote the nickname "Moto" instead of "Motorola" on the media. It labeled "Moto" as "making lives of customers easier, smarter and fun." Motorola invested heavily in Television and billboard media with a wave of "Moto" ads, all centered on "cool" and "new". Simultaneously, a new series of Moto products were launched. V70 was the first one. It has a rotatable cover, a round display and a transparent keypad—cool designs that are especially appealing to young people.

Motorola did not stop there. Besides churning out new models, they also aligned other activities to create an entire brand experience that was consistent with the new positioning. For example, Motorola organized interactive activities on its website: mobile try-outs, sports activities to customers. It also provides personalized service to customers: synchronization of address book in mobiles with PCs, customized bells and screensavers etc. According to a report issued by CCID Consulting on the domestic mobile phone market, Motorola has maintained it's market leadership position in China, ahead of all other foreign and domestic brands.

Deliver superior products and service. The best companies put quality first. It seems blatantly

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obvious: product quality counts. In China, however, manufacturing products with reliable quality is not only a good practice, but also a major differentiator. Take the car industry as an example: Many vehicles now coming onto the market with some quality problems. In many case rapid growth is taxing the capabilities of both carmakers and their suppliers. The race to launch new products is prompting many companies to take shortcuts. Many have not invested enough to establish adequate quality-control processes—or to find the trained people to oversee these processes. In some cases, these product quality problems are compounded by weak after-sales support.

Buyers—and particularly first-time buyers—are paying a lot of attention to this issue. Still highly skeptical, they rely heavily on word of mouth. A single anecdote about bad quality and disappointing service can do enormous damage to a brand's image. A top priority, therefore, is to build cars with reliable quality—and also to ensure that service is in place to address any quality problems quickly and effectively.

BMW is a very good example in quality management. When it established its JV in Northern China with Brilliance Automotive, it sent a large team of engineers to work together to make sure every technical detail is right for the production facilities and throughout the supply base. BMW implements the same rigorous quality control mechanism in China as it is doing in Europe and around the world.

Product quality is critical, but it's only the basis for successful branding. Engineering product features toward customer needs will take the product to the next level. KFC set us a very good example. After careful market study, KFC realized that leveraging the global "chicken-cooking expert" image was not enough in China. It could benefit from catering to Chinese people's diet preferences. KFC launched a series of adapted "Chinese food" such as vegetable egg soup, Peking chicken egg rolls, all of which were very well received by Chinese customers. KFC has also made a significant investment—a brand building investment—to recruit, train and retain its people so that they can deliver a service level that clearly differentiates KFC from many other local and foreign restaurant chains in China. KFC has expanded the number of restaurant number has exceeded 1,000 in China and in a recent TV commercial, KFC claimed that it will "take root deeply in China and be part of Chinese people's life".

Build a differentiated emotional connection. For many products, consumer goods in particular, technology is no longer an entry barrier. As a result, companies are facing numerous competitors producing products with similar quality and features. While these companies should continue to push for ways to provide superior products and services, the in these categories the key often lies in increased emotional differentiation. Pepsi did exactly that to compete against Coca Cola in China.

Pepsi entered China in early 80's. In late 90's, Pepsi adopted "Ask for More" as its positioning in China to appeal to the young generation. Pepsi believes that "Ask for More" echoes with the young generation's aspiration for the future—more independence, more freedom, more opportunities. Pepsi used two levers to build up the brand around the positioning. Firstly it aired a series of Television commercials featuring the most popular stars in the entertainment circle, mostly in the form of music videos. Secondly, it used a series of marketing activities in key markets, such as sponsorship of the

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China soccer league, street basketball games, campus concert etc. All of the efforts focused on young people, Pepsi's core target consumer. Pepsi's brand building efforts have been rewarded as it has successfully gained market share among young people, the prime consumer of Cola products in China.

CREATE A SUPERIOR BRAND EXPERIENCE

Not long ago few would have thought that Chinese consumers would be willing to spend 30 RMB for a cup of coffee. In the span of just a few years, Starbuck's has proven again, as it has in so many countries around the world, that a large and growing number of Chinese would be willing to do just that. What is the magic behind the Starbuck's brand?

As Howard Schultz, the Chairman and CEO of Starbucks explains it, "At Starbucks, our product is not just great coffee but also what we call the 'Starbucks experience': an inviting, enriching environment in our stores that is comfortable and accessible yet also stylish and elegant" ...Starbucks...is more than great coffee. It's the romance of the coffee experience, the feeling of warmth and community ... that tone is set by our baristas...they're the ones who create the magic.'

Starbucks' strong brand position comes from the experience Starbuck's creates by romancing the five senses: Firstly, smell—Starbucks uses 100% Arabica beans and there is no second aroma you can identify in any coffee Starbucks shop. Secondly, sight—every Starbucks coffee outlet gives you the uniform scene: all of them use consistent logo, colors, furniture and artwork, all tastefully designed to create a warm, elegant and inviting atmosphere. You can tell no difference between a Starbucks coffee shop in Shanghai and the one in Paris. Thirdly, sound—the deliberate sound of making espresso and metal scoop shoveling beans make you feel all is specially made for you. Fourthly, touch—the uniformed texture of materials for cup, cup sleeve, napkins and furniture makes Starbucks a comfortable and sociable gathering place away from work and home. Finally, the taste—100% Arabica beans gives you an authentic Italian styled taste and its 18~24 second rule to ensure you will have a fresh and hot coffee at any time you want it. Starbucks has proven in China, as it has throughout the world, the value of investing to create a unique brand experience.

ORGANIZING FOR BRAND MANAGEMENT

While the companies cited above have each developed unique brands in unique ways, they all share one thing in common: they all organize around the brand. Many companies in China are still much more comfortable organizing around products or geographies or channels with the result that not enough emphasis is placed on brand management across all the activities of the company. Companies like Motorola, BMW, KFC, Pepsi, and Starbucks that have built powerful brands in China, place brand management at the center of the company. They do not delegate branding down only to the marketing department or to outside advertising agencies because they understand that brand strategy development and decisions about how to invest in the various brand drivers must include all parts of the company including R&D, product development, manufacturing, marketing, sales and distribution. The best companies organize around the brand to ensure that there is consistency in strategy and execution across all geographies and points of customer contact and to ensure that there is a constant

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stream of innovations that are consistent with the core brand positioning. Organizing for brand management is therefore one of the most important lessons from companies that are realizing superior brand value.

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Realizing superior value from brand investments in China's complex and increasingly competitive market will be decisive in separating the winners from the losers. Here is where the brand battle will be won or lost. Adding capacity, reducing cost, launching new products, and extending distribution are necessary but not sufficient. Demanding though these activities are, they cannot be allowed to distract companies from winning the hearts and minds of China's consumers by investing wisely to build powerful brands.

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