

Brands in China: Devalued or Déjà vu?

Nigel Hollis, June 2006

The last few years have seen intense competition among brands in many product and service categories in China. Foreign brands, faced with the twin challenges of extending their footprint beyond the major cities and fending off local competition, have resorted to lowering prices to drive sales. Lower prices have been good for consumers, but tough on margins. What does the future hold for brands in China—profit, or commoditization?

Fierce price competition is the rule in China, making it tough for the brands of Multi-National Corporations (MNCs) to hold their own against goods produced by local companies. The average price of a compact car in China has fallen by 28 percent since 2000, with local manufacturers gaining share at the expense of MNCs. In some household goods categories, low-priced copies of foreign brands sell at 40 to 60 percent discounts, attracting Chinese consumers who prefer to save their money for more visible purchases such as mobile phones and watches. In this complex and rapidly evolving environment, how can MNC marketers ensure a profitable future for brands in China?

Western Brands Go East

Confronted by mature consumer goods markets in the West, and attracted by the possibilities of enormous untapped markets in China, MNCs have invested heavily in this developing region. A few have succeeded, but many have learned that the techniques which worked well elsewhere do not succeed in China.

Faced with disappointing results, many big, well-known Western brands have had to rethink their approach to the challenges of competing in the Chinese market.

Adapting to the local culture

Western brands have always been appealing to Chinese consumers, but even global icons such as Coca-Cola have had to adapt to the local culture in order to succeed. While the can is still red, the familiar Coke logo was long ago replaced with Chinese characters. Other brands have learned the hard way that it pays to respect Chinese culture. The backlash to a print ad portraying a Chinese lion saluting a Toyota Land Cruiser spawned ads showing the same lion crushing the upstart SUV.

Marketing to the masses

Until recently, most MNCs have focused on the 200 million middle-class Chinese who live in major cities, neglecting the massive lower-income market. Eager to fill the void, regional Chinese manufacturers stepped up, marketing their cheaper products with a noisy barrage of junk advertising. While noise alone is not enough to create brands with which people bond, the local brands often enjoy strong grass roots support, along with the advantages of lower distribution and marketing costs. These contribute to a price differential between local and MNC brands that is hard for cash-strapped consumers to overlook.

Thus the makers of premium brands face an uphill battle when they seek to extend their reach beyond the middle class.

Brand differentiation is the critical factor which allows a brand to sustain a price premium.

Varied pricing strategies.

The very largest brands can sometimes compete with the locals by lowering their price and raising their profile. Coca-Cola managed to fend off a threat from Wahaha's Future Cola by increasing marketing spend while rolling out a 6.5 ounce (192 ml) returnable bottle which sold for 1 RMB (12 U.S. cents). Procter & Gamble lowered the price for shampoo brand Rejoice, while increasing category share of voice from 12 percent in 1998 to 21 percent in 2005. By contrast, Nestlé met with considerable success using only point-of-sale material to support an individually packaged wafer which was priced at 1 RMB.

Most MNC brands, however, can't afford to go head-to-head with the locals on price, and have adopted other strategies. Frito-Lay developed a new snack brand, Poca, using Chinese flavouring and packaging, and set its price point between that of flagship brand Lays and the local competition. P&G chose a vertical brand strategy to expand its brand footprint, offering different product formulations at different price points for brands such as Tide detergent and Whisper feminine protection. This approach allows consumers to grow into the premium brands as their standard of living improves.



Chinese Consumers Do Value Brands

If the Chinese remain price-conscious, a strategy like P&G's may prove risky, but our analysis of WPP's BRANDZ™ database suggests that Chinese consumers do value brands. In fact, the data shows them to be more brand loyal than their Western counterparts. Across a matched set of product categories, Chinese consumers in Beijing, Shanghai and Guangzhou were three times more likely than their U.S. counterparts to agree that there is only one brand they would consider in a given product category. But while they believe brands are important and distinct, and they want to choose the right ones, the Chinese still need to make their money go as far as possible, and thus for now, their brand choices remain constrained.

The BRANDZ database also provides evidence that Chinese brands are beginning to build deeper relationships with consumers. Between 1998 and 2005, the proportion of people attitudinally bonded to Chinese brands increased, and reliance on better prices gave way to perceptions of leadership and product quality as reasons to bond with them. This suggests that as local brands have evolved, Chinese consumers are beginning to evaluate them on the same basis as foreign brands. Increasing acceptance of Chinese brands abroad may also be a factor, as goods produced in China continue to improve. Lenovo, the company that bought IBM's Thinkpad brand, produces a line of well-designed, pocket PC phones which are among the best products available, holding their own against products from Samsung, Sony or Nokia. Brands like Lenovo, and appliance giant Haier, which has captured 50 percent of the compact refrigerator segment in the United States, are shaking off the cheap, low-quality image associated with Chinese brands.

Survival of the Fittest

Philosopher George Santayana wrote that "Those who cannot remember the past are condemned to repeat it." It is a saying that marketers in China would do well to remember.

Our observations of markets which have evolved in the recent past have provided us with three important lessons which have relevance for China.

Consumer relationships with brands evolve over time

In an undeveloped market, where basic needs have yet to be satisfied, a brand from a reputable manufacturer can succeed by simply making its presence known. (After all, to people accustomed to washing their hair with soap, any shampoo represents an improvement.)

But as consumers are exposed to a number of different brands, all of which satisfy functional needs, they begin to distinguish among them based on the status they confer and, subsequently, by the rational and emotional benefits they offer. One of the dilemmas facing marketers in China is that consumers in different regions and income brackets are at different stages in their brand relationships. Middle-class urbanites are beginning to move beyond buying brands solely on the basis of badge status to valuing brands based on how well they meet their specific needs. In the skin care category, for instance, urban consumers are beginning to take cleansing and moisturizing for granted, and now seek additional benefits like toning and nourishing. Rural consumers, by contrast, are happy to buy foreign brands (if they can afford them) simply for their basic benefits and implied status.



Chinese brands are beginning to build deeper relationships with Consumers

We expect Chinese consumers to continue to develop their relationships with brands, seeking out the best brands for their unique needs, and ultimately, bonding with the brands that connect with them emotionally. Marketers need to keep tabs on this progression, to ensure that they continue to deliver relevant messages as consumers become increasingly sophisticated. At the same time, they need to maintain a clear brand positioning and resist the temptation to apply brand development strategies commonly used in mature markets, such as launching horizontal line extensions to block off competitors, or vertical extensions to cover price points. In China, even more than elsewhere, these approaches run a strong risk of confusing consumers and therefore diluting brand equity.

Solve the value equation

To build brands in a land as vast and complex as China, marketers must recognize the broad range of physical, emotional and cultural needs presented across its regions. China is not one enormous market, but rather, a loose confederation of several very large markets, more akin to Europe than the United States. Thus marketers face a complex problem: they must understand and solve the "value equation" in each individual market in which they hope to compete.

Marketers must ensure that there is a clear value story attached to each brand's price point

Local R&D, efficient production and low-cost distribution are essential, though not sufficient, to build strong brands. While lowering costs does allow more flexibility to compete on price, the ultimate challenge is to differentiate your brand from others which can quickly copy any new innovation and still undercut your price. Data from other markets confirms that brand differentiation is the critical factor which allows a brand to sustain a price premium. Therefore, marketers must ensure that there is a clear value story attached to each brand's price point. Initially the differentiation will be based on product features, but as consumers become more brand-literate, emotional connections will become more important, leaving brands less vulnerable to imitation.

Straightforward communication is called for in a country not accustomed to abstractions in advertising

Strong brands stand out

In a frenetic marketplace like China, it is all too easy to drop off the radar. If MNC brands hope to grow, they must remain visible amidst the barrage of local brand advertising. Brands that have been successful in China have typically increased spending dramatically. Colgate increased its share of voice in the toothpaste category from 15 percent in 1998 to 26 percent in 2005 in order to hold its position as an Olympic brand.

Over the same time period, Budweiser increased its share of spend and became the import beer with the strongest attitudinal loyalty among Chinese consumers.

While heavy media presence does convey a sense of leadership and ubiquity, simply shouting louder is not the panacea to price competition. MNC brands must still communicate their brand positioning clearly, conveying what they stand for and what differentiates them from other options. This communication will need to be varied for markets with differing levels of brand sophistication, but the brand essence expressed must be consistent. Straightforward communication is called for in a country not accustomed to abstractions in advertising, but marketers should still strive to deliver an emotional payoff. Today, the emotional response should be firmly anchored in the product's end-benefit, but over time more intangible benefits can be introduced.

For more about China, go to <https://mb.brandz.com> or see www.mb-blog.com

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BrandZ is the WPP funded global brand equity study available to clients and potential clients via WPP owned companies. It is validated against sales and quantifies and diagnoses the strengths and weaknesses of brands.