Made in China

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With only two brands in the FTSE 500, China needs to move from becoming a producer to a brand owner. Dr Ying Fan details its progress so far

It is difficult to find a shop in the West that does not sell products with a 'Made in China' label. China has overtaken Japan in the last decade to become the largest manufacturer and exporter of consumer goods. It is now the world's number one producer for more than 100 different consumer products. However, as the world's factory, China has yet to create a single brand that is recognised globally.

China has a long history in commerce and marketing. For many centuries, 'Made in China' was a high quality, prestige label imported exclusively for the royals and the rich. When China's economy spiralled 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.

The world's first print ad dates back to the Northern Song Dynasty (960-1127). It was for Liu's Needle Workshop in Jinan City, Shandong Province. The first European ad, a British Bible poster, did not appear until 300 years later in 1473.

Contemporary advertising in China dates back to the 1920s. After the first advertising boom in the 1930s, the ad 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), advertising was branded as evil and deceptive, and virtually disappeared. However, even in these dark days, some brands such as Panda radios and Flying Pigeon bicycles survived and retained their status as sought after products.

The last decade in the 20th century witnessed dramatic growth in the advertising sector with average annual growth rates of 40%. Total advertising revenue has increased more than 28 times from RMB2.5bn to RMB72.2bn (£157m to £567m) between 1990 and 2000, taking China into the top 10 largest markets for advertising services.

World-class brands in China?

However, there is not yet a single Chinese brand that is recognised worldwide. Only 11 Chinese companies rank in the Fortune 500 list of top global firms by revenue, and only two are in the FTSE 500, ranked by market value. Not a single Chinese brand makes the top 100 list of most valuable global brands by Interbrand.

Although Chinese brands have made tremendous progress recently on the global stage, they still have to catch up. This is demonstrated by China's largest consumer appliance company Haier - the brand's 2002 revenue amounted to only 10% of Sony's total electronics sales. 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 Chinese TV manufacturers are less than that of Sony.

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 expects the same of China. It is worth noting that many of China's top enterprises were barely in existence 20 years ago.

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. The first in the 1980s was the production stage as the country was reeling from the problems of the centrally-planned economy where virtually everything was in shortage. The consumer goods markets were dominated by international brands and foreign joint ventures. The second stage in the 1990s was about selling and advertising. There were major changes in the market where supply outstripped demand in many sectors.

Competition intensified and price wars became common. Domestic companies launched, notably in TV and home appliance markets, taking market share from international brands. Advertising was widely regarded as the most powerful weapon after price.

In the 1990s, Chinese companies confused advertising with branding in the naïve belief that big spending would create big brands and sales would automatically follow. Corporate identity was also in fashion. Firms spent millions trying to change their logo and promote their new image. Many companies were initially ecstatic but it nearly ended in tears.

In 1997, Qinchi, a small brewery in Shangdong Province, paid RMB320m (£20m), five times its turnover - in a bid for a 30-second slot, called 'golden time'. It was aired straight after the Central Television's Evening News and had about 700 million viewers nationwide. The brand instantly became 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 domestic mobile phone company, has found a unique way of developing its brand internationally through its £2m sponsorship of Everton Football Club. 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 every week.

The last five years saw the 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 overcapacity and decreasing margins.

Most brands in China seem to have short lifecycles. The average lifecycle of a brand is seven-and-half years. In 1995, more than 200 brands competed in the household electrical/electronics industry. Five years later only around 20 of them remained in business - a mere 10% survival rate.

Growing consumer sophistication

An important sign of market maturity is the changes in consumers, who have become better informed and more sophisticated. A recent survey of 600 consumers in four of China's 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, while price was ranked in fifth position. They also developed loyalty to their preferred brands. Facing this changing environment, Chinese companies have begun to take branding more seriously but their understanding of the concept remains vague and superficial. In every campaign and every ad, it is the company that is promoted. A 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 the brand values. As a result, in China there is no brand competition but sales competition, which often leads to vicious price wars.

In 2003, the world's top 100 consumer goods and retail companies, relying on overseas production, posted sales of $3,578bn (£1,869bn) and profits of $228bn (£119bn). In the same year, the top 100 OEM manufacturers in the Asia Pacific region supplying those companies with products under their brands, recorded sales of only $85bn (£44bn) and profits of $4bn (£2.1bn). The development of brands is essential for China's continuous economic growth.
Next month Dr Ying Fan details some Chinese brands' attempts to go global.