

Marque in the making

Source: [Brand Strategy](#) | Published: 06 June 2007 00:00

Dr Ying Fan looks at the challenges facing Chinese companies keen to expand into the global market. How can quality marques shake off the negative country-of-origin effect and emerge as serious brands?

Chinese companies used to be the manufacturers for other brands around the globe; these days, Chinese companies are the brands. An ever-increasing number of businesses from the country are seeing their chance to expand into the international market.

Fifty-six per cent of firms expanding overseas seek new markets, 20% aim to secure resources and 18% want to obtain new technology, including global brands, according to a survey by Roland Berger Strategy Consultants in 2003.

The Chinese piano industry is a useful example showing the opportunities and challenges facing Chinese brands. China is now overtaking Japan and South Korea to become the world's largest piano-producing nation. One brand, Pearl River, has become the world's largest piano manufacturer with annual production capacity of more than 100,000 units.

Although piano sales in China have achieved double-digit growth in the last five years, the market has great potential (less than two per cent ownership domestically compared to 25% in Japan). Competition has intensified as the total number of piano makers jumped from 16 in 1998 to more than 120 in 2004.

As piano making is still a labour-intensive industry, Chinese manufacturers enjoy a big cost advantage. For example, a small grand piano Yamaha GB1 can be bought on the UK market for £5,174 (RRP £7,499). A Chinese-made grand piano of a similar size and specification is priced at £3,500 but the price quoted from Dongbei Piano is only £820. This gives international dealers a huge incentive to stock Chinese pianos.

The quality of Chinese pianos has also improved in leaps and bounds. American company Steinway & Sons has recently made the decision to shift the production of its Essex brand pianos from South Korea's Young Chang to Pearl River in China. Another US company, Baldwin, has also started production in China with the acquisition of a local firm.

But to make a strong impression on the international stage, branding is vital. Chinese piano companies lag behind global competitors in defining strong, clear brands that consumers understand. The majority of 200-plus piano brands now operating in the Chinese market are no more than just a registered name. The main strengths and weaknesses of Chinese piano manufacturers are summarised in the table below.

Two points from this list deserve special attention. Low-cost production is often cited as one of the most important competitive advantages for Chinese companies. However, with international rivals such as Yamaha, Kawai and Young Chang establishing production facilities within China, low cost is no longer a Chinese monopoly. Chinese piano companies must establish brands to combat this.

Government support has also played a crucial role in the internationalisation of Chinese firms. But it could easily be overlooked that the government has played a double role of facilitator and obstructor in the development of Chinese multinationals. Some analysts believe that the lack of a proper institutional environment is the main reason why China has still not produced convincing multinational firms.

Country-of-origin (COO) effect

COO is roughly defined as the impact which perceptions or prejudices about a country have on consumers' evaluations of its products and brands. COO was once relatively simple as a concept when products were made in the manufacturer's home country. But as goods are now sourced from all over the world, it is often difficult to ascertain the COO of any brand.

To a well-established global brand, the impact of COO is increasingly becoming insignificant or irrelevant. It is a trend for multinational companies to rebrand in order to play down or conceal their country of origin so as to emphasise their global image. Kentucky Fried Chicken has become KFC and The Hong Kong and Shanghai Banking Corporation has emerged as HSBC.

A recent study by Y. Kim looking at South Korean brand Samsung found that country image does not significantly impact on brand image and purchase intention if the marque itself is an established one. But if the brand is new to the market, COO is likely to have a major impact on consumers' views of the brand, rather than be a secondary consideration, according to Professor Kevin Keller at Dartmouth College.

As such, the biggest branding dilemma facing Chinese piano manufacturers is negative perceptions of 'made in China' as a label. It is difficult for individual firms to change this perception and requires the country to change its image in general, which may take a generation.

Chinese piano manufacturers face three choices when exporting in the international markets, according to S. Onkvisit and J. Shaw in *International Marketing Review*. These are:

1. Branding or no branding;
2. Creating versus acquiring;
3. Single versus multiple brands.

First, companies have to decide whether to use their own brands or to sell under a third-party's name. Like many other Chinese-made consumer goods in the international market, the majority of Chinese pianos sold abroad are under the distributor's brands; Chinese firms are simply 'original equipment manufacturers' (OEMs).

OEM is the easiest mode for entering the international market; it is probably the only practical way when the firm lacks marketing experience and brand recognition. But it has serious drawbacks in the long term. Strictly speaking, OEM is not a real export activity but a form of contract manufacturing or production under license. The product and brand are owned by the foreign firm who has control over marketing and takes a larger profit margin.

Is now the right time for Chinese companies to create their own brands in the world market? Opinions are divided among Chinese chief executives. Galanz, the world's largest manufacturer and exporter of microwave ovens, has adopted a policy of OEM first, branding second. The marketing director of the company was quoted as 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, which the firm already achieved a few years ago. However, this OEM option may prove to be a costly mistake as it might be harder for the company to develop its own brands at a later stage. Without its own branded goods, foreign firms will reap the benefit of the company's experience.

Once the firm decides to use its own brand in the international market, it has a further choice of developing it or buying an international brand. While there is little doubt that an internationally recognised name will help the sales of an unknown producer, the benefit of using acquired brands in the long term is questionable. Yamaha, like many Japanese companies in other sectors, has concentrated on building its own brand equity in the international market. Even in their early stage of internationalisation, Japanese firms did not use acquired brands, instead creating their own new Western-sounding brand names to replace their corporate names (eg. Panasonic for Matsushita).

Branding strategies

There are also other considerations. Should Chinese firms create a single brand - like Yamaha - in all different country markets and different segments; or use multiple brands in a single market; or different brands targeting different markets and segments?

A single-brand policy will have the advantages of economies of scale in marketing, helping brand recognition and ensuring consistency in brand image across different markets, while the multiple-branding approach is based on the assumption that the market consists of several segments that need to be served differently.

Pearl River, the world's largest piano maker, has adopted a hybrid route in overseas expansion: both OEM and own-brand export. The company has also adopted a dual brand policy selling under both the Pearl River and Ritmuller names in the American market. It is now facing the dilemma of whether to invest in Pearl River or Ritmuller, as the latter is not a strong brand itself. A brand needs to be contemporary to relate to the consumer. Ritmuller, as a mature brand, would need huge investment to bring it up to date.

With regard to country of origin and setting a branding strategy, the consumer's perception will differ depending on the product and the country. In the North American market, Chinese brands such as Haier, Lenovo and SVA have helped create positive COO effect. In the international market, Chinese piano manufacturers could have a number of branding options:

Where COO is positive, use own brand;

Where COO is neutral, use own brand or Western-sounding name;

Where COO is slightly negative, use acquired brand;

Where COO is very negative, use a third-party brand.

To make the right branding work, Chinese piano firms should invest more in marketing communications targeting opinion leaders such as music teachers and music media. Many dealers are motivated to stock Chinese products because of a larger margin. But to new piano buyers in developed countries, a more important influence comes from music teachers, and many of them advise their students not to buy Chinese-made instruments.

To overcome this difficulty, the communication should try to use a Western-sounding brand name to obscure the 'made in China' image, and benefit from positive COO by emphasising the quality in design and production. For example, Longfeng Piano should emphasise that its Kingsburg model is designed by the world-renowned German designer Klaus Fenner.

Internationalisation process

According to the classic stage model, the internationalisation process of a firm will go through several distinct phases from reactive or reluctant involvement to long-term proactive and committed involvement. International branding development may also follow a similar pattern:

1. Domestic branding;
2. OEM exporting;
3. Self-branding and OEM;
4. International branding;

5. Global branding.

Most Chinese piano companies are still at stage one or two of this process. They are working on their domestic image or manufacturing goods for other brands. Pearl River is the only Chinese piano brand that is convincingly at stage three.

International branding, like internationalisation itself, is a learning process for Chinese brands in which companies acquire new knowledge and core competencies. As the firm becomes a more committed exporter, it also develops branding competence and confidence as it changes from OEM exporter to direct exporter using its own brand name.

With the increase in the firm's international brand equity, the impact from negative COO effect will decrease. At a late stage, the positive brand image could even help create good COO for China.

It is true that not every firm can succeed in moving up the stages of this process. It has taken Yamaha more than 30 years to change its image from a cheap me-too marque to a leading global brand. It would be interesting to study how Yamaha did it while many exporters in Taiwan and Hong Kong, whose economies took off at the same time as Japan, failed to produce a single global brand.

Looking ahead

China does need to own a sizeable number of global brands to maintain its economic growth and prosperity. An increasing number of Chinese companies share the same understanding that they have to 'go global' as the domestic market becomes more competitive. Only 10% of China's top 50 firms by sales have yet to formulate an overseas expansion plan, according to a recent consultancy report in *TheWall Street Journal*.

Companies also differ greatly in terms of their goals and strategies. Globalisation involves a wide spectrum of commitment and control, and requires the firm to strike a fine balance between benefits and risk - as well as long-term and short-term objectives.

It is clear that Chinese piano companies have arrived at the different stages in internationalisation by varying routes. While export is the low-cost and low-risk mode, overseas production offers many advantages, such as circumventing tariff barriers and anti-dumping charges.

In choosing target markets, most Chinese companies have started with the neighbouring countries in Southeast Asia, perceived to be relatively easy, due to smaller geographic differences and similar attitudes. Pearl River, however, has taken the opposite approach of tackling the more difficult market of the US first and has so far made good progress.

There are also significant differences in marketing mix strategies. Most Chinese piano exporters still concentrate on the low end of the market with low prices, but this strategy has not always worked in developed markets. It can further reinforce the negative stereotype of COO and may be difficult to overcome when the firm wants to move upmarket.

An alternative to low-price strategy is noted by L. Brouthers and K. Xu in the *Journal of International Business Studies*. They suggest that piano companies could learn from Chinese television exporters. One company, SVA, decided to focus on high-end products with a medium pricing strategy, which seems to have worked well by bypassing brand competition at the top end and price competition at the lower end.

In branding and advertising, Chinese piano companies have adopted a low-key trade promotion strategy, rather than use expensive above-the-line advertising. This is a problem they have to address in order to create brand awareness in the target segments.

There is no clear or simple best way to succeed for piano brands or Chinese companies in general. Compared with their Western counterparts, Chinese businesses have competitive advantages in low-cost production, sourcing, distribution and service. China's vast domestic market brings economies of scale and multiple opportunities; many markets in small cities, towns and rural areas remain untapped or under-developed.

But Chinese companies are disadvantaged in terms of their lack of core technology, design, innovation, branding and knowledge in managing large complex businesses. Many 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.

The biggest challenge faced by the emerging Chinese multinationals is that, once they are in international markets, they will be cut off from the sources of their competitive advantage, derived largely from the low cost base at home. Contrary to the assumption that firms internationalise to exploit competitive advantages, for many Chinese firms, internationalising means seeking competitive disadvantages.

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 look for answers in the writings of Professor Philip Kotler or Jack Trout, co-author of the definitive text on 'positioning'. Or they 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, arguing 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 available sources, and in the meantime, strive to develop indigenous marketing theories

that combine the best of East and West. For Chinese piano companies, the success of Yamaha provides a useful model, as do other Japanese brands in general.

Given the complexity and cost, the Chinese multinationals have a long journey while building their brands in developed markets. But one thing remains almost certain: international consumers will find more Chinese brands coming their way in future years.

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