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Branding – China’s Achilles Heel

Superbrands China 2013 Tribute Event

Branding will become increasingly important to Chinese firms, both domestically and overseas

Domestic Importance

- Market & Competitive Dynamics
 - Head-to-head competition for share
 - Replacement vs. first-time demand
 - More sophisticated customers
- Market Fragmentation
 - Numerous segments across all price bands, each requiring a unique value proposition
- Media
 - Traditional ATL very expensive
 - Growing importance of BTL, incl. social media

Overseas Importance

- Brand often more important as a competitive differentiator
 - Entrenched competitors
 - Higher quality / service levels
- Chinese brands typically at a significant disadvantage
 - Low brand awareness
 - Country-of-origin penalty
- Chinese firms tend to expand overseas through acquisitions
 - Brand portfolio & architecture
 - Governance and decision rights

Unfortunately, although Chinese firms recognize the importance of having strong brands, their “Readiness” often remains low



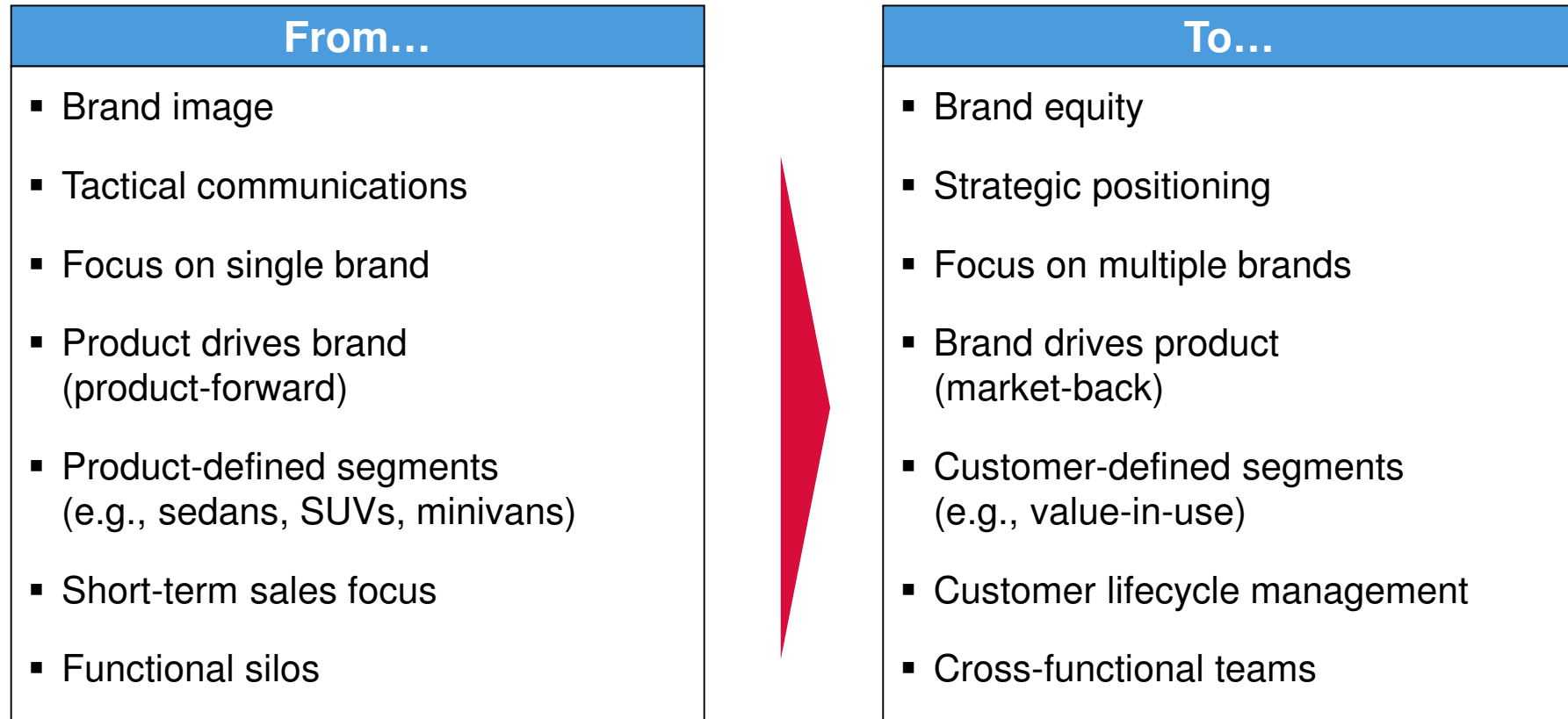
Root Causes

- Currently competing primarily on low-cost and other non-brand-related attributes
- Customers still relatively unsophisticated, except in premium segment
- Few senior managers with extensive marketing and branding experience
- Etc.

Weak brand management capabilities represent one of the main barriers preventing Chinese firms from moving up-market and overseas

Source: Booz & Company

Developing a “Strategic Brand Management” capability will require a fundamental shift in thinking for many Chinese firms



Source: Booz & Company

For starters, many Chinese firms must develop a much more sophisticated understanding of what a brand is and isn't

What A Brand Is ...

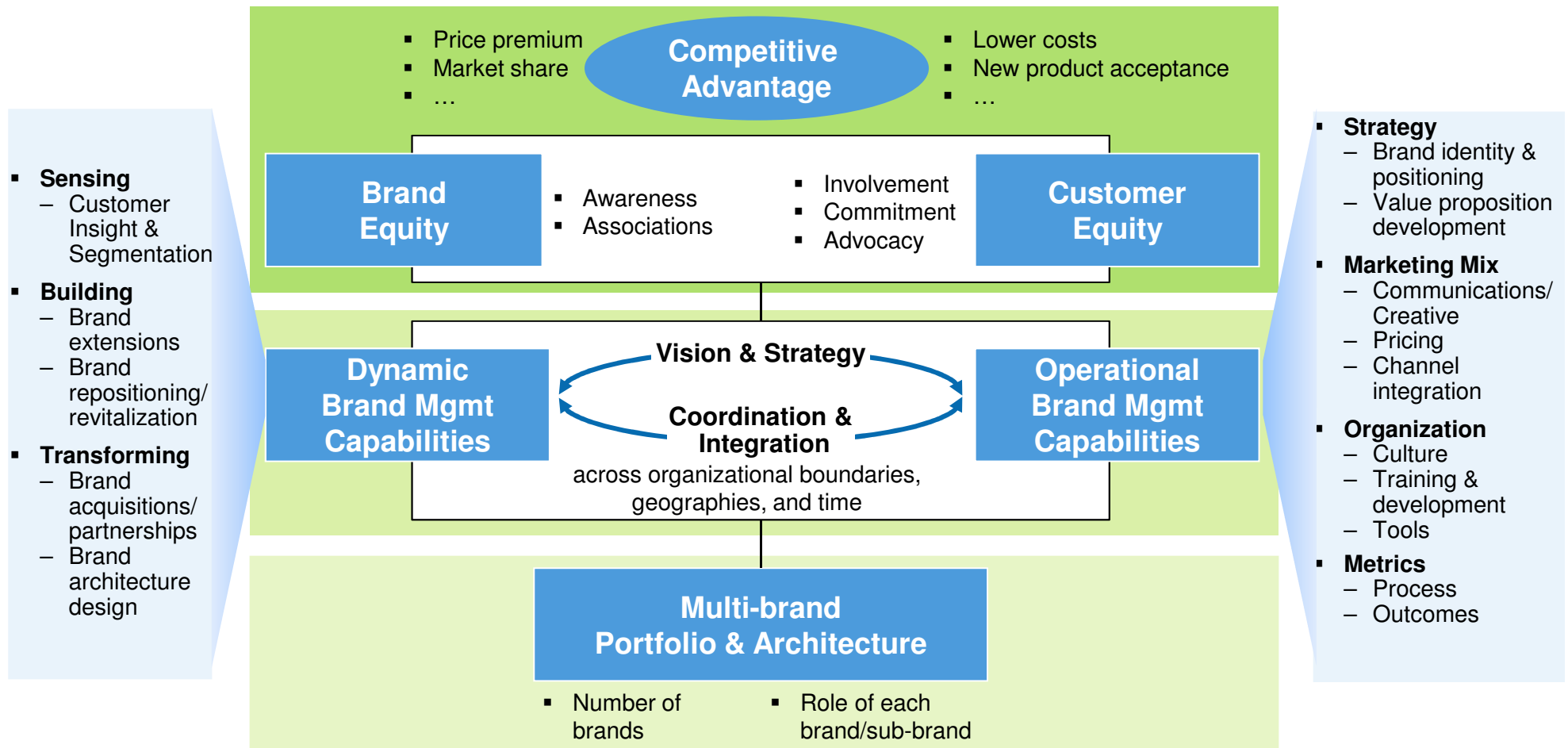
- A brand is a set of associations linked to a product or service
 - Attributes (e.g., color, size, flavor)
 - Image (e.g., sophisticated, traditional, hip)
 - Benefits (e.g., functional, emotional)
- Brands function like prisms; how consumers perceive a branded product is shaped both by the actual product and the associations the brand has developed
- To be effective, a brand identity must
 - Resonate with consumers
 - Differentiate the brand from competitors
 - Represent what the firm can and will do over time

... And What it Isn't

- Just A Name
 - A name doesn't have associations; it is simply a name. It becomes a brand only when people start linking it to other things
- An Advertising Slogan
 - A brand's identity represents what the firm wants the brand to stand for
 - By contrast, a tagline merely communicates the brand's positioning to consumers
- A Management Fad
 - Brand awareness, perceived quality, customer loyalty and strong brand associations are increasingly required in an age of hyper-competition, commoditization, globalization, and rapid technological obsolescence

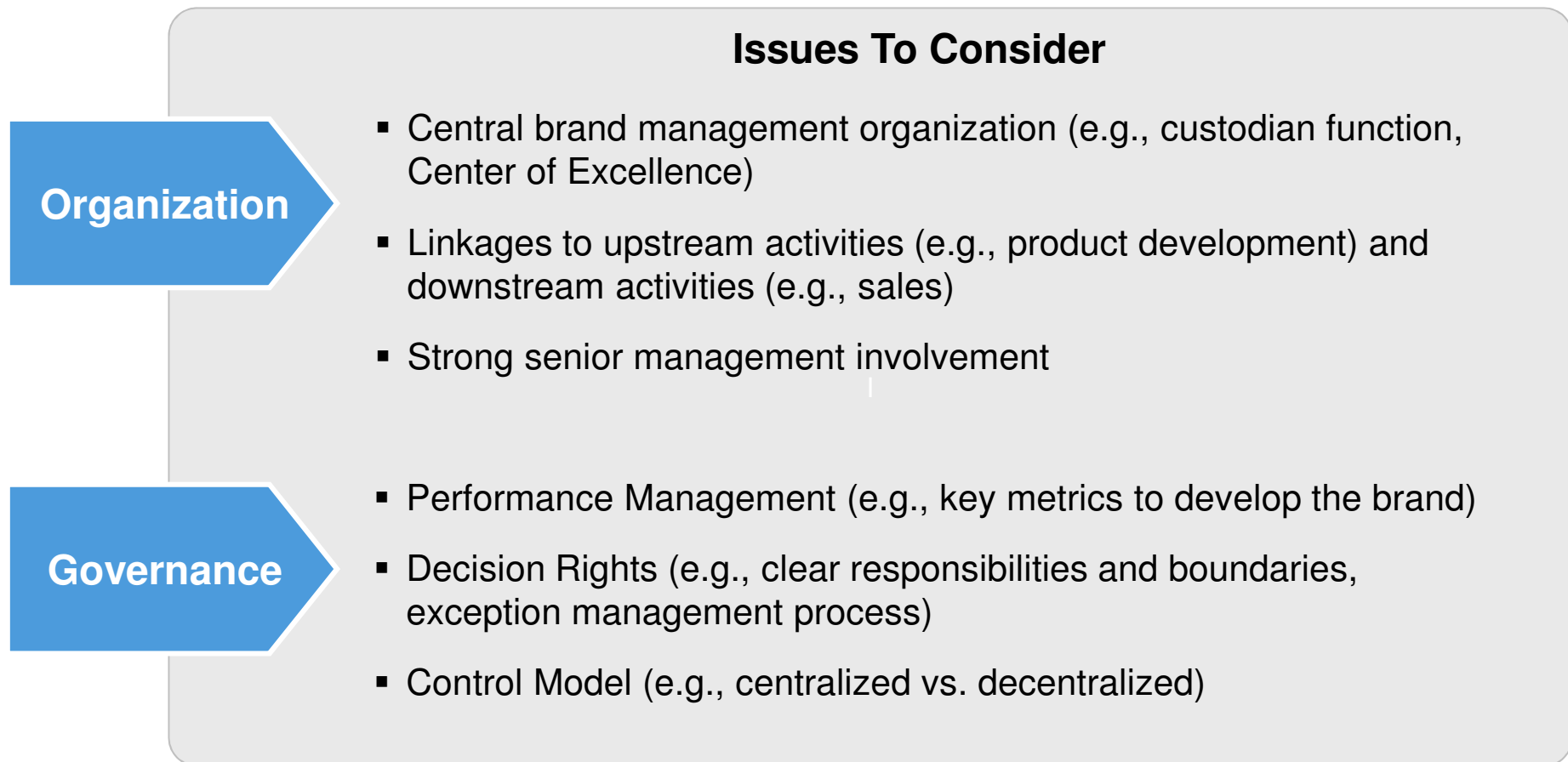
Source: adapted from various branding sources, incl. Aaker, Calkins, Joachimsthaler, Keller, Tybout, and Sternthal

Next, they must develop the advanced brand management capabilities to manage a portfolio of strong, differentiated, brands



Source: Booz & Company

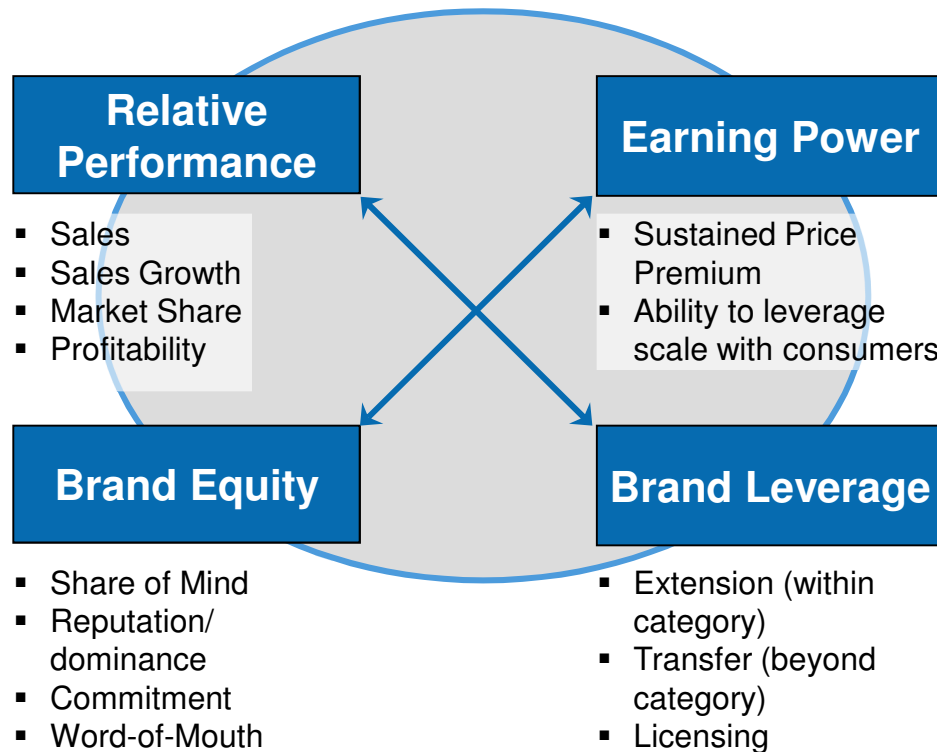
To do so, many Chinese firms must significantly strengthen their brand management organizations and governance processes



Source: Booz & Company

In addition, they'll have to become much more scientific in measuring brand performance and taking corrective actions

Brand Value Assessment Framework



Example CPG

- Relative Performance = f (Sales, Growth, Market share, Profitability)
- Earning Power = f (Price index over generic competitive substitute, A&P spend / # newly acquired customers)
- Brand Equity = f (Share of Mind, Reputation/dominance, Commitment, Word-of-Mouth); => quantitative if available, qualitative if not
- Brand Leverage = f (# segments covered within category, # categories covered, value of licensing fees)

Example Celebrity

- Relative Performance = f (Net worth, Last year earnings, Annual earnings growth)
- Earning Power = Value of major marketing/endorsement contract
- Brand Equity = f (Brand recognition, reputation) => quantitative if available, otherwise qualitative
- Brand Leverage = f (# Categories covered by marketing/endorsement contracts, # regions covered)

Source: Booz & Company

Summary

- Brand building will become increasingly important to Chinese firms, both domestically and overseas
- Although Chinese firms generally recognize the importance of having strong brands, their organizational capabilities are typically quite limited
- Developing a “Strategic Brand Management” capability will require a fundamental shift in thinking for most Chinese firms
 - Use brand management to guide the firm’s overall strategic focus and alignment instead of merely as a communications tactic
 - Develop strong dynamic and operational brand management capabilities
 - Strengthen brand management organization and governance processes
 - Develop more sophisticated brand performance metrics and tracking system
 - Learn from best practice companies, such as this year’s Superbrands award winners

Contact Information

booz&co.

John Jullens
Partner

Booz & Company
Suite 2511, One Corporate Avenue
No. 222 Hu Bin Road
Shanghai 200021, P.R. China

Telephone: +86 21 2327 9800
Fax: +86 21 2327 9833
Email: john.jullens@booz.com
Blog: www.johnjullens.com
www.booz.com/cn
