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Why Haier and Lenovo May Soon be Household Names

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The conventional wisdom among Western pundits holds that Chinese firms, although fearfully proficient at exploiting country-specific advantages such as cheap labor, an enormous home market, and generous government support, aren't much good at developing higher-order organizational capabilities—especially brand management. This conclusion is typically accompanied by the observation that few Americans can recall even a single Chinese brand, as well as a palpable sense of relief that Western firms will apparently still have at least one important line of defense against their latest East Asian rivals.

Earlier this summer, *New York Times* columnist David Brooks summarized the typical Western explanations for Chinese firms' inability to develop strong global brands. Chinese executives, he wrote, tend to see business deals in transactional instead of relationship terms. More important, the Chinese are at a "romantic" disadvantage. Their U.S. competitors can draw on a steady supply of "eccentric failed novelists and personally difficult visionary founders" (for example, Steve Jobs), which Brooks believes is essential to creating strong brands. In contrast, Brooks suggests that China is highly unlikely to produce similar entrepreneur-founders, primarily due to incompatible cultural values such as the "[inability to celebrate dissent,...] a natural deference to authority,...[and an elite that doesn't]

instinctively seek a dialogue with the less powerful...." He says that it is likely that "the Chinese will require a few more cultural revolutions before it [*sic*] can brand effectively and compete at the top of the economic food chain." Interestingly, branding guru David Aaker agrees, adding only that Brooks's analysis is incomplete and doesn't address the big questions of how and when the Chinese will overcome their romantic deficit.

Is China really saddled with a set of cultural values that will leave its firms hopelessly uncompetitive in the global marketplace? I'd argue that the answer is no. For starters, using as evidence the fact that few Americans can name a Chinese brand is less than convincing, as this cohort isn't exactly known for its familiarity with all things non-American. In addition, I suspect quite a few actually do know such brands as Haier and Lenovo, but may just not realize that these are Chinese. Furthermore, the Chinese have traditionally been relationship-focused to a fault (think *guanxi*) and continue to be quite capable of questioning authority (Weibo, anyone?). Also, entrepreneur-founders such as Alibaba's Jack Ma are every bit as eccentric and personally difficult as anyone from Silicon Valley. Finally, as for Brooks's assertion that the Chinese will need a few more cultural revolutions to hone their brand management skills, I'd like to respectfully suggest a refresher on contemporary Chinese history.

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In reality, while there is no doubt that China has yet to spawn a major global consumer brand, this has little to do with a so-called romantic deficit. Instead, the reasons are decidedly more prosaic, including the fact that Chinese multinationals have only recently started to expand internationally and simply haven't had the time or experience to develop a strong brand. In addition, Chinese multinationals often compete on non-brand-related attributes (such as low cost) and in B2B markets, where branding is less important than in B2C markets.

Nevertheless, it is true that having a portfolio of strong, differentiated brands will become increasingly important to Chinese firms, not only in overseas markets, but also domestically. It's easy to see why this is true in overseas markets, where brands are often important purchase drivers, and where local competitors have spent decades buying awareness and positioning their own brands. Chinese brands have, of course, only entered recently, and often incur a country-of-origin penalty, especially following public relations disasters—for example, after the scandals involving tainted baby formula and toys coated with lead paint.

Branding will also become increasingly important for companies to compete domestically, but for very different reasons. As China's economy slows and many industries mature, we'll see an increase in head-to-head, price-based competition and much more sophisticated local consumers. In addition, demand will begin to fragment along vertical price bands and horizontal product categories, each of which may require a different brand and value proposition. Finally, it will become more complicated and expensive to support and develop each brand.

It's clear that Chinese companies have to start improving their brand management capabilities, with some urgency. This won't be easy, again, not due to a romantic deficit, but rather because it will require a substantial shift in mind-set. They will need to move from

communicating a single brand image to strategically managing a portfolio of multiple brands; from a product-forward philosophy to one where, over time, the brand starts to drive the enabling product development activities; and, finally, from the traditional world of functional silos to one where branding activities are integrated upstream into product development and downstream into the sales function. This will require Chinese firms to develop a set of operational branding capabilities (brand positioning, value proposition development, and channel integration) as well as dynamic branding capabilities (brand extensions, acquisitions, and revitalization) that govern how the portfolio is configured and transformed over time.

The real magic, of course, is how all these capabilities are coordinated and integrated into a coherent capabilities system that is guided by a clear vision and strategy. This may sound a little abstract, but it is something the best firms do quite well and that ultimately becomes a source of a long-term competitive advantage in the marketplace.

Needless to say, this will take time: It takes about six years for consumers to perceive an objective change in product quality levels. However, there's no question that Chinese firms will eventually develop the strong brands that they need. And despite Aaker's assessment, I doubt that the time to do so will be measured in decades. The basic know-how can be sourced easily from new employees, branding agencies, and management consultants, and the organizational capabilities can be acquired or developed. In fact, leading Chinese firms, such as Haier and Lenovo, are learning quickly and are already quite proficient in these areas today. Who knows, Americans may soon be recalling a few of those Chinese brands after all. +

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