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CHAPTER 1

INTRODUCTION

A journey of a thousand miles begins with a single step.

Confucius

The face of business in Asia is changing faster than one can blink one's eyes. Asian companies that used to be back-end workhorses, manufacturing consumer goods cheaply for Western companies, are slowly realizing the benefits of branding. A case in point is Pantech, a South Korean firm which began by selling pagers in the early 1990s. By the end of the 1990s, Pantech was selling mobile phones as an original equipment manufacturer (OEM) to Western companies like Motorola and Audiovox. But Pantech's 42-year-old chairman Park Byong Yeop knew that in the face of cheaper competition, his business model had to change.

In the past few years, Pantech had heavily invested in developing its brand, allowing the company to more than double margins. In 2004, Pantech sponsored the hit TV series *Lovers in Paris* and used the South Korean pop star BoA to advertise its products. Soon after the release of the series, Koreans were buying 1,000 Pantech phones a day in just one electronics market alone.[1] Park aims to sell 80 percent of the mobile phones under Pantech's brand name in 2005, up from just 31 percent in 2004. The company spends 7 percent of sales on research and development (R&D) and has earmarked US$200 million to develop the brand's identity in 2005.[2]

Park is portrayed in local media as a successful entrepreneur rather than someone who inherited a conglomerate.[3] His vision is to become the world's number five mobile phone maker, and targets shipment of 28 million handset units and sales of US$3 billion in 2005.[4] Pantech has come a long way from its modest beginnings as an OEM only 15 years ago.

In a market where competition implies slashing prices on their unbranded products, Asian businesses are slowly becoming more attentive to the power of brand identity in capturing consumers and returning larger profits on their investments. Firms are realizing that whereas they were wearing themselves down on razor-thin margins to compete with the next supplier, they could increase returns by investing in their brands. This then is the shift in thinking that is pushing boardrooms in Asia toward creating strong brands to differentiate themselves and consequently realize greater profits.

Most Asian firms, however, still view branding as advertising or logo design. If firms are to benefit from branding, they must recognize that it impacts the entire business – the structure, goals, attitude and the very outlook of those in the boardroom. Managers will need to see branding not as an appendage to the ongoing business, but rather as an infusion which seeps through the very spirit of the organization, as a healthy return on investment (ROI). In fact, it will require a shift in focus and priority for every functional aspect of the organization aligned around multiple customer touch points.

Before branding can be taken on board, however, it is important to understand its implications, its various shades and hues, its forms and practices, its purpose and its advantage. It is no less than a paradigm shift that executives must undertake across Asian boardrooms. How this change in thinking can be analyzed, captured and managed by Asian boardrooms and corporate management teams is the core of this book.

Lack of value creation

A 2003 report by Goldman Sachs forecast that, by 2041, China will have overtaken the US economy in size and will become the world's largest economy. The Indian economy would be larger than Japan's by 2032.[5] China and India are indeed leading Asia's growth path, with implications for industries and companies all over the world. But as Rajat Gupta, a senior partner with McKinsey & Co (and former worldwide managing director), has said:

> Though Asia has been growing, the growth has not been enough to make it a superpower. For Asia to earn the right to be a superpower, we not only need to make a significant contribution to the world economy, but also and perhaps more importantly we need to see the emergence of several successful global companies out of Asia.[6]

The changes in the Asian competitive environment are driven by several factors: the rapid development of China and India; increasing deregulation and trade liberalization; and the implications of new demographic and social trends throughout the region. These changes involve entire value chains in manufacturing and services, issues related to efficiencies in operations and productivity gains, innovation and design, a reduced focus on broad diversification, which has been the prevalent structure of Asian businesses particularly within Asian family businesses, and distribution and collaboration within industries.

The eroding low-cost advantage

A large part of Asia's economic development until now can be attributed to low-cost advantages which enabled Asian companies to gain market share from other suppliers. In the past two decades, Asian countries have slowly but surely attracted many industries: light manufacturing in Guangdong, electrical equipment in Guangxi and software development in Bangalore. But Western companies, by buying some of these Asian firms or aggressively outsourcing some of their operations, are already streamlining their cost structures. Low cost alone no longer provides a significant advantage. The cut-throat competition in many industries, resulting in tremendous pressure on margins, has forced companies to look for additional measures to survive and grow their businesses. One example is mobile phones, where contract manufacturers are doing well if they reach 15 percent in gross margins while brand owners can reach margins double that.[7]

Asia is still one of the world's biggest providers of commodity products. At the same time, Asian manufacturers mostly produce for other companies and the majority of these products are therefore non-branded. In other words, these are volume products without strong brand identities. Instead, the largest part of the financial value is captured by the manufacturers' customers – the next player in the value chain – primarily driven by strong brand strategies and successfully planned and executed marketing programs.

The difference in the proportion of value captured as represented by the Asian manufacturing price and the Western retail price serves as a good example. A branded sports shoe is produced in Asia at an estimated US$5, sold to the sports shoe brand for US$10 and the consumer buys it in the retail store for US$100 – in other words, a twentyfold increase throughout the "product-to-brand" value chain. This leaves the Asian manufacturer with only a fraction of the substantial value that consumers are willing to pay for the brand in the end.

Figure 1.1 illustrates four scenarios of how a brand is integrated in the value chain. In certain cases, companies are vertically integrated and can own part of the channels, including retail outlets, the distributors and/or the production facilities. For example, Nike operates many of its own retail outlets.

In the last 10 years, the number of distributors in the sports goods industry has decreased more than 50 percent as many sports brands have become distributors themselves. This is particularly the trend among the largest brands. The sports shoe brand captures an estimated 40–95 percent of the entire financial value depending on its level of vertical integration.[8] In other words, brands capture a significant portion of the total value.

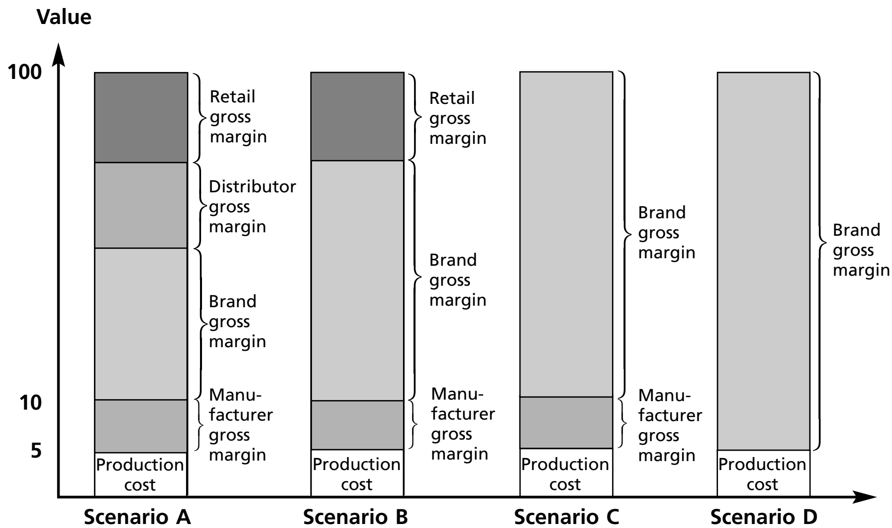

Figure 1.1 Four scenarios for value creation through branding
Source: VentureRepublic

Successful global companies share certain common characteristics, one of which is strong brand equity in the market. Despite Asia's size and economic growth, it has not seen the emergence of many strong and international brands.

Less than 10 global brands originating from Asia

In a study measuring the financial value of worldwide brands conducted by Interbrand and *Business Week* in 2004, one important finding was that only four of the top brands originate in Asia.[9] Three classic brands come from Japan and a fast-growing ambitious brand comes from South Korea: Sony, Honda, Toyota and Samsung.

A simple question then remains: What about the rest of Asia? Looking at the region as a whole, there are less than 10 powerful global brands originating from Asia. Brands like Singapore Airlines, Shangri-La Hotels, Banyan Tree, Acer, HSBC, Shiseido and a couple of others are powerful global brands with a strong Asian heritage.

But given the size and volume of Asian business today, it is evident that Asia could build many more prominent brands and capture more financial value from better price premiums and customer loyalty. Branding can become an important driver of shareholder value for Asian companies in the future, as this book will illustrate.

Reasons for the lack of strong Asian brands

There are many reasons why Asian companies have not fostered many global brands until now. The appreciation of branding as a strategic concept can be influenced by:

- The stage of economic development of societies
- Less focus on innovation
- Broad diversification of businesses
- The Asian business structure
- Implications of intellectual property (IP) protection.

These five factors are now discussed.

The stage of economic development of societies

The Asian countries are at different stages of development. At one end of the spectrum are developed countries like Japan, South Korea, Singapore, Taiwan and Hong Kong. At the other end are developing countries like Vietnam, Cambodia and Indonesia. In between are countries like Malaysia, Thailand, China and India which are moving through rapid transitions. The development stage of these countries can influence business priorities, the degree of business sophistication and where to fit into the value chain on the overall level.

When countries and industries move from low to high tech, they are generally more inclined to supplement their low-cost advantage with a holistic value perspective. Very often they are forced to move up the value chain while losing their low-cost advantage in manufacturing to competitors with lower labor costs. Although the value perspective does not exclude seeking to drive costs down constantly, it aims primarily at creating additional perceived value for products and services. This is where brands often start to play their role as drivers of shareholder value through better price premiums and enhanced customer loyalty.

It would not be entirely correct to assume that the economic stage of development and degree of branding are correlated. In general, any company, regardless of country origin, can decide to build brands. However, the economic development stage of a country and the level of sophistication of an industry can serve as important indicators to estimate whether branding gains wide appreciation and momentum.

Regional technology clusters are already emerging in Asia.[10] An example is India where low and high tech go hand in hand. Bangalore is a well-known cluster of strong technology firms like Wipro and Infosys. A service company, Jet Airways from Mumbai, is catching up quickly, based on excellent standards in all operations, and provides world-class service, as illustrated in Chapter 8. Therefore, Asia is a region where branding as a strategic discipline is work in progress.

Less focus on innovation

Although innovation is difficult to measure, R&D spending as a ratio of gross domestic product (GDP) can be an indication. On a national level, Asian economies lagged behind the rest of the world on R&D spending as a ratio of GDP from 1987 to 1997, with the exception of Japan and South Korea.[11] Japan and South Korea each currently spend 3 percent of GDP on R&D, compared to 2.7 percent in the US.

But indications show that the innovation deficit is likely to change. China is targeting to spend 1.5 percent of GDP on R&D in 2005, compared to 0.6 percent in 1996. Asian countries are also trying to take a lead in three areas likely to generate the next wave of innovation: biotechnology, nanotechnology and information technology (IT). As an example, Asia spends as much as the US and Europe combined on nanotechnology. In addition to this, China, India, South Korea and Taiwan are shifting from top-down, state-directed technology policies to more flexible, market-oriented approaches in order to foster innovation and entrepreneurship.[12]

As low cost is ceasing to provide a competitive edge for Asian companies, differentiation driven by enhanced innovation capabilities will be paramount for future success. Innovation needs to become a top priority for Asian companies aspiring to build strong brands.

Although design is only a tiny part of an entire brand strategy, it can help to create visible differentiation for products and shape customer perceptions. The internationally recognized designer Philip Starck gave his view on how Asia lacks its own design:

> Today the designer in Hong Kong or Taipei opens the magazine and looks at the best-seller and copies that. But to be successful you have to find your own designs and energy.[13]

Broad diversification of businesses

Another impediment to building brands in Asia in the past was the diversification of businesses spanning many industries with limited overlap and synergies. The prevalent mindset in Asia is based on trading, rather than branding, and the generation of revenues, rather than profits. But it is hard to create a relevant, clear and differentiated brand strategy, and build a corporate brand which encompasses all areas, when a business has its hands dipped in every pie.

Thailand's Charoen Pokphand (CP) Group is an example of an Asian company moving against the common diversification trend. Traditionally, it had interests in telecommunications, satellite, cable television, motorcycle manufacturing, petrochemicals and brewing. Despite its diversified businesses, CP has continued to expand its integrated food business by controlling the entire supply chain. By transferring its agribusiness formula to other agricultural products and across countries, CP has also become one of the world's leading agribusiness groups. With higher demand for quality processed foods from US, Europe and Japan, CP has renewed its focus on increasing value-added in its agriculture business to become the "kitchen of the world".[14]

The Asian business structure

Another important reason for the lack of strong brands can be found in the prevalent business structure within Asia, which consists of many small and often family-owned businesses – with diversified business interests as illustrated before. It is much harder to overcome the barriers to brand building when resources are limited. In this case, the management perspective would favor short-term business wins against brand strategies which require more resources and long-term perspectives. Despite a younger generation taking over as leaders, it can still be a major barrier to convince the older generation about the need for investing in intangibles in the form of brands as it runs against the business heritage and prevalent internal wisdom.

But being family-owned and small does not necessarily leave branding out of the equation, as Singapore-based Banyan Tree Hotels and Resorts has proven very successfully in less than 10 years. It made the transition from a disused tin mine on a strip of land in Phuket, Thailand, in 1994 to an internationally recognized and highly awarded hospitality brand, with quality resorts throughout Thailand, Indonesia, China, India, and the Maldives and more destinations being planned.

As Ho Kwon Ping, chairman of Banyan Tree, reflected:

> I felt that Asian business would never get anywhere if it didn't own brands. Partly this reflected the earlier experience in our family business of putting in the energy to build a brand as agent for an overseas principal, only to lose it when they eventually took the brand in-house. I also knew the problems of competing in commodity markets where the business disappears as soon as a cheaper supplier comes onto the scene.[15]

Banyan Tree has achieved this position with limited spending on marketing and advertising and has instead relied on effective public relations and third-party endorsement programs to build the brand. Chapter 10 illustrates further how Banyan Tree is successfully managing the brand.

Implications of IP protection

The implications of IP protection in Asia have been a major barrier against building brands. In their own backyards, many Asian companies have faced rampant counterfeiting and infringement of IP rights. Until and unless legislation and law enforcement get better in the region, it may be a hurdle that prevents a deeper appreciation and respect for intangible asset management in the Asian boardroom.

The World Customs Organization estimates that 5–7 percent of global merchandise trade, amounting to US$450 billion, is due to counterfeits. China alone is estimated to be contributing to almost two-thirds of all the fake and pirated goods worldwide.[16] In 2004, for example, French luxury house LVMH spent more than US$16 million on investigations, busts and legal fees against counterfeiting.[17]

> One of the famous spots in Bejing used to be Xiushui or Silk Street. Ranking in the top three of Beijing's attractions, the narrow and crowded street would attract thousands of foreigners every year to buy cheap counterfeit versions of global luxury brand names like Ralph Lauren, Louis Vuitton, Prada and many others. It was recently closed down by the Chinese authorities for renovation. Instead, stall holders would have an option to take up a stall at the nearby Xiushui shopping center, where a trading corner of less than 5 square meters will auction for as much as US$400,000.

A new paradigm for the Asian boardroom

Many of the ideas and recommendations contained in this book are driven by the Asian brand leadership model, illustrated in Table 1.1. The model illustrates the paradigm shift that Asian brands need to undertake in order to unleash their potential.

First, mindsets and practices need to change in the Asian boardroom. This book invites a complete shift in the way that Asian boardrooms think of branding: from a tactical view to a long-term, strategic perspective; from fragmented marketing activities to totally aligned branding activities; from a vision of branding as the sole responsibility of marketing managers to branding as the DNA and most essential function of the firm led by the boardroom.

Second, this new perspective must be steeped in a more acute perspective on consumer behavior patterns. Asia is not a homogeneous entity. Even more importantly, Asian countries are more and more traversed by cultural flows permeating the region: cinema, music and fashion trends that at present extend beyond national borders to capture the imagination of millions. Moreover, branding and brands do not operate in a vacuum, but are closely linked to developments in society, to people and cultures.

Third, managers wanting to succeed in Asia need to abandon the idea of the oriental Asia of the past. Asian consumers are all vying for an Asian type of modernity that has nothing to do with colonial imagery.

TABLE 1.1 **Asian brand leadership model**

	Old paradigm	**New paradigm**
Success factors for Asian boardrooms	Manufacturing-driven agenda	Branding-driven agenda
	Production	Design, innovation and production
	Tactical advertising	Strategic branding and marketing
	Low cost/low perceived value	Low cost/high perceived value
	Silos of activities	Collaboration
	Price as driver of sales	Value as driver of sales
	OEM	Trademarks and IP
	Short-term financial value	Long-term brand value
	Mid-level and separate marketing functions	Boardroom-driven marketing functions
	Fragmented marketing activities	Totally aligned marketing programs
	Disparate product lines	Synergies between brands (brand architecture)
	Marketing through promotion	Branding through people
	A function drives the brand	An organization drives the brand
	Company-centric value creation	Co-creation of value
Consumer behavior	Collectivist	In-group/out-group
	Regional homogeneous	Scapes/flows/hybrids
Symbols	Oriental	New Asia
	Products and services	People and places
	Western celebrities	Hybrid + Asian celebrities
Culture	Following trends	Creating trends
	Japanese and Korean icons	Fragmented icons, Pan-Asian icons
	Silos of activities	Collaboration
Strategy drivers and measures	Sales perspective	Branding perspective
	Market share	Brand equity
	Awareness	Brand audit
	Tangible financial value on balance sheets	Tangible + intangible value on balance sheets
	Marketing as cost	Branding as strategic investment

Source: VentureRepublic

Fourth, to create iconic brands, Asian managers will have to become trendsetters. The perspective developed in this book is that, in order to be successful, Asian brands need to capture the spirit of the region, but they also need to lead the way by creating that spirit.

Finally, this shift can be achieved only if everybody in the company is convinced of the power of branding. And, in turn, this can only happen through accountability and systematic monitoring of branding investments and performance. It is only then that Asian brands will become truly great.

The scope of the book

This chapter has discussed the implications for a new Asian business landscape, where Asian companies can step up and capture more financial value through brands.

Chapter 2 looks at branding and how the discipline relates closely to business strategy. Branding can drive shareholder value. There are many managerial challenges, processes and tasks needed to succeed with it, which are discussed further.

Chapter 3 is dedicated to Asian consumers and cultures and describes some of the transformations taking place in Asia. It provides a new way of looking at the region and covers issues like group versus individual orientation, roles, symbols and family. The chapter looks at the transformation from a purely collectivist perception toward an in/out-group perspective, which can help us to understand Asian consumers better. It also discusses scapes, flows and hybrids.

The quality perception of a brand can be derived from the perception of a given country. Chapter 4 discusses country branding and the country of origin effect, how it affects brands and which measures companies should take to benefit the most from a given country's image. This also includes examples of how some Asian countries have branded themselves.

Strong brands are often driven and influenced by popular culture and multiple activities and trends in society. Celebrities and other public figures can act as potential endorsers for products and services and be an instrumental part of a brand strategy. Chapter 5 discusses how to involve celebrities and other endorsers, and their ability to support Asian brand building.

Chapter 6 is dedicated to brand strategy. It provides frameworks for aligning the brand and an entire brand management model.

Chapters 7 and 8 illustrate case studies of successful as well as aspiring

Asian brands. The two chapters illustrate different angles of building and managing brands in an Asian context through a selected portfolio of Asian brands. The multiple and diverse brand stories can inspire the Asian boardroom and serve as discussion points when crafting future brand strategies.

Chapter 9 is a step-by-step guide to brand building for Asian boardrooms, and discusses the processes and systems needed to successfully manage brands.

Finally, Chapter 10 provides a discussion of the challenges in the years to come for Asian boardrooms, what the brand change agents will become and how Asian brands can potentially challenge their Western counterparts.

The appendix provides a useful guideline to brand valuation based on the method used by Interbrand.

Notes

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