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COUNTRY OF ORIGIN, BRANDING STRATEGY AND INTERNATIONALISATION: THE CASE OF CHINESE PIANO COMPANIES

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ABSTRACT

This paper studies the internationalisation of Chinese piano firms from a branding perspective. The purpose of the paper is two folds. Firstly it examines the interplay between the country of origin (COO) effect and international branding, and how COO affects the choice of branding strategies in international markets. Secondly, it explores the possible link between international branding decisions and international expansion of the firm. A model is introduced that illustrates the relationships between COO, branding options and internationalisation. Corresponding with its progress in the internationalisation, a firm's branding development in international markets may follow certain stages. As the firm moves to advanced stages, it increases its international brand equity; the impact from negative COO will decrease and eventually become irrelevant. Literature of internationalisation is largely based on the experience of MNEs from Western developed countries. Multinational firms from developing countries such as China possess some unique characteristics that make it very difficult to apply Western theories to them. The emergence of MNEs from developing countries calls for the development of new theories.

Keywords: Country of Origin (COO), International branding, OEM, Internationalisation, Piano Industry, China

Country of Origin, Branding Strategy and Internationalisation: The Case of Chinese Piano Companies

Introduction

The emergence of China-based multinational companies in the world marketplace has drawn an increasing attention from both popular business media and academic researchers alike (for example: Cai, 1999; Paul, et al, 2003; Zeng and Williamson, 2003; Deng, 2004; Business Week, 2004; Wu, 2005; Child and Rodrigues, 2005; Fan, 2006; Rugman and Li, 2006; Bonaglia and Goldstein, 2007). This paper examines the internationalisation of Chinese piano firms from a branding perspective, focusing on two related issues: a) the interplay between country of origin effect (COO) and branding with an evaluation of the branding options available to Chinese firms; b) the potential link between international brand development and internationalisation process. COO has been an important consideration in a firm's choice of branding strategies in the international market. The branding issue in turn has a major impact on the selection of the target market and entry mode when the company plans international expansion. After an extensive search of literature it is surprising that branding issues are largely absent in the published studies of internationalisation. This paper attempts to fill in the gap by presenting preliminary findings from a research project that investigates the internationalisation of Chinese piano manufacturers.

The Internationalisation of Chinese Enterprises

The internationalisation of Chinese enterprises has accelerated in the recent years, as reflected by three set of figures. Firstly, outbound foreign direct investment (FDI) by Chinese firms has increased from one billion US dollars in 2000 to 12.3 billion in 2005 (MOC, 2006). Secondly, the number of China based multinational enterprises in the list of the world's largest 500 companies (ranked by sales): there were 16 Chinese

MNEs in 2004, compared with only 11 in 2001 (Rugman, 2005). Thirdly, a report published by the Boston Consulting Group (BCG, 2006) identifies 100 top companies which it terms as "the new global challengers" from rapidly developing economies, 44 are from China. Pearl River Piano is the only music instrument manufacturer on the list.

With the accession to the WTO in 2003, China's economy and Chinese enterprises have become increasingly integrated into the world economy. As the result of this, a number of internal and external factors propel many Chinese companies into the internationalisation process. A survey of China's 50 largest industrial firms finds that the internal corporate motives provide the greatest impetus for overseas expansion while the threat of foreign competition is a big push factor (von Keller and Zhou, 2003). The report further identifies the following major motivations for internationalisation: 56 percent seeking new markets, 20 percent securing resources, and 18 percent obtaining new technology including global brands. These findings are also echoed in a number of academic studies. For example, Buckley, et al, (2006) identify three broad categories of investment strategy adopted by the Chinese MNEs, namely market seeking, resources or asset seeking and efficiency seeking strategies.

The internationalisation of Chinese enterprises consists of two stages: inward and outward internationalisation (Fan, 2006). Starting between the late 1970s and early 1980s, the inward internationalisation has been the dominant form via licensing and technology transfer agreement, as well as establishing joint ventures. Original equipment manufacturer (OEM) exporting can be regarded as a kind of inward internationalisation; the great majority of Chinese companies are still at this stage. Outward internationalisation in the form of international acquisition and FDI is a

relatively new and is certainly in the minority, though such type of events often generated more significant international headlines. The recent notable examples include successful acquisition of IBM PC business by Lenovo in 2004, acquisition of Rover by Nanjing Automobile in 2005, and Haier's unsuccessful bid for Maytag in 2006 (Fan, 2006). In their pursuit of global markets, Chinese companies have adopted a variety of strategies and approaches covering a whole spectrum of internationalisation, from indirect exporting to full global production and marketing. From the branding perspective, there are five preferred methods of overseas expansion for Chinese companies seeking to internationalise their business operations, they are: OEM exporting, own brand exporting, strategic partnership, acquisition and organic growth. Table 1 provides with examples of typical companies that follow each strategy.

(Insert Table 1 here)

The Chinese Piano Industry

China is now overtaking Japan and South Korea to become the largest piano producer in the world (*the People's Daily*, 24/08/2006). According to a survey of 49 firms by China Music Instrument Association (www.cmii.com.cn), the total production of pianos in 2004 reached to more than 370,000 units (of which 91 percent are upright pianos, 9 percent grand). 106,000 (28.6 percent) were exported. Compared with 2003, the total production increased by 7.95 percent, the production of grand pianos by 29.58 percent, and exports grew by 33.32 percent. Table 2 presents the latest statistics of piano production and export from China in 2006.

(Insert Table 2 here)

It can be seen from Table 2, the four state owned firms are much larger in terms of average production capacity, together accounting for 38.4 percent of total production in China. While in export it is the foreign owned enterprises taking the lead with 40 percent share in total export. It is also interesting to note while the export from the state owned firm reduced by almost 20 percent during the period of 2005-06, both private and foreign owned firms reported strong growth, 19 percent and 9 percent respectively. The Pearl River Group dominates the Chinese market with 60 percent share in domestic sales and 50 percent share in export sales. In fact Pearl River has become the world largest piano manufacturer with annual production capacity of more than 100,000 units, reported by The Music Trades magazine in the U.S.A., and confirmed in a report by the Boston Consulting Group (BCG, 2006). 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 compared to 25 per cent in Japan). Competition has intensified as the total number of piano makers jumped from 16 in 1998 to more than 120 in 2004 (Anonymous, 2004). The data from top Chinese piano manufacturers is summarised in Table 3.

(Insert Table 3 here)

They share the following characteristics:

- Being state owned enterprises
- Having foreign partners or technical assistance
- Having modern production facilities
- Key components/parts imported from abroad
- Having obtained ISO9001 certificate [1]
- Most exporting under OEM contracts

Collaboration with foreign firms in the form of international joint ventures and other alliances, plus the employment of foreign technical experts, has played a significant role in the transformation of China's piano industry. Chinese firms have benefited greatly from the technology transfer which helped to modernise their production

capability and narrow the gap between Chinese piano makers and international competition (Anonymous, 2004). Although no specific data of piano industry is available, the data published by the State Bureau of Statistics of China (SBSC, 2003) shows that Chinese firms have made significant progress between 1998 and 2002: the productivity gap between foreign and local Chinese firms has dropped from 5.25 to 3.29; and the gap in new product development has dropped from 2.5 to 1.8. As for the quality of Chinese made pianos, remarkable progress has been achieved over the last 10 years and the gap between Chinese and Japanese products has been narrowed (Anonymous, 2004). This is evidenced in the fact that Steinway & Sons has recently made the decision to shift the production of its Essex brands pianos from Korea's Young Chang to Pearl River in China. Similarly, another American company Baldwin also started production in China with the acquisition of a local firm (*the People's Daily*, 24/08/2006).

As piano making is still a labour intensive industry Chinese manufacturers enjoy such a big cost advantage that their price is even lower than the cost of their competitors. For example, a small grand piano Yamaha GB1 can be bought in the UK market for £5,174 (RRP £7,499). The Chinese-made grand piano of a similar size and specification is priced at £3,500 but the F.O.B. price quoted from Dongbei Piano is only £820 (based on the author's inquiry to a local dealer). This would give the dealers a huge incentive to stock Chinese pianos. Two biggest problems facing Chinese piano firms are technical innovation and branding (Anonymous, 2004). Chinese companies "think branding is important, and they want to understand what a brand is. But they don't have any experience" (*Business Week*, 10/11/2004). This may sound quite harsh, but is a fair assessment. The majority of 200 plus piano brands in

the Chinese market are no more than just a registered name. They lack some key attributes in a real brand. This lack of branding competence is even more problematic in the international market. The main strengths and weaknesses of Chinese piano manufacturers are summarised in Table 4. This is in line with other studies that assessed Chinese firms in general. For example, Nolan (2004) finds little evidence that Chinese firms can develop knowledge of the systems integration skills that characterise successful Western MNEs. Chinese firms tend to be protected, resource based, labour intensive, low technology and inefficient.

(Insert Table 4 here)

It can be seen from Table 4 that the majority of strengths enjoyed by Chinese piano makers are cost or location based. Their main weaknesses show that they lack of firm specific advantages such as technology, branding and expertise in international marketing. Two points from the Table deserve special attention. Firstly, low cost production, to which the economies of scale is partly related, is often cited as one of the most important competitive advantages that Chinese companies have. However, with international competitors such as Yamaha, Kawai and Young Chang all having established production facilities within China, low cost is no longer a Chinese monopoly. Facing intensified competition at home, it is imperative for Chinese firms to address their main competitive disadvantage in branding both at home and abroad. Secondly, support from the government has been widely regarded as playing a crucial role in the internationalisation of Chinese firms. But it could be easily overlooked that the government has played a double role of facilitator and obstructer at the same time in the development of Chinese multinationals. Ma (2005) believes that the lack of proper institutional environment is the main reason why China has still not produced real multinational firms.

Country Of Origin (COO) Effect

COO refers to the impact which generalisations and perceptions about a country have on a person's evaluations of the country's products and brands (Nebenzahl, et al, 1997; Lampert and Jaffe, 1998; Dinnie, 2000). COO was once a relatively simple concept when the product was made in the home country of the manufacturer. With the expansion of MNEs and the growth in global production and sourcing over the last two decades, it is now difficult to ascertain the origin of a specific product as the product may now have different multinational origins which gives COO very complicated meaning (Usunier, 2003). A product may be designed in country A, manufactured in country B using parts from countries C, D and E, and sold in the international market with a brand that is originally from country X but now owned by country Y. For example, what is the country-of-origin of Dell computers? Given the complexity in origin, it is useful to distinguish the country of origin of pianos between the following:

- Country of design, e.g. German scale designer;
- Country of production, e.g. Pearl River, made in China;
- Country of assembly, e.g. Yamaha, made in China;
- Country of key components, e.g. Renner actions from Germany;
- Country of brand origin, e.g. Essex piano by Steinway, USA.

Many different makes of pianos bear the label of "Made in China" but have significant differences in their actual origin. It is worth noting that of the six categories of exports from China shown in Table 5, only three (2, 3 and 4) can be termed as Chinese pianos.

There are several factors affecting the interplay between COO and brand but the most important one is the strength of the brand in the target market. To a well-established global brand the impact of COO is increasingly becoming insignificant or irrelevant. It is now a trend for multinational companies to re-brand in order to de-emphasise or

conceal their country of origin so as to emphasise their global image, to name a few: BA, KFC and HSBC. Consumers are either unaware of or not bothered to know the origin of a brand, for example, whether Nokia is Finnish or Japanese.

A recent study on Samsung finds that country image does not showcase any significant impact on brand image and purchase intention if the brand concerned is an established one (Kim, 2006). On the other hand, if the brand is new to the market, COO will have a primary impact on the brand evaluation as it becomes an integral part of a brand's image, exerting enormous influence on the consumer's perception of the brand, rather than being just one of group "secondary associations" (Keller, 1993). COO helps or hampers the development of brand equity in the new market. Brands from developing countries are especially vulnerable to the negative COO effect as numerous studies have shown a consistent consumer bias in favour of products from countries with higher level of economic development (Papadopoulos and Heslop, 1993). The biggest problem facing Chinese piano manufacturers in international markets is the negative perception of the "Made in China" label; and the dilemma is that there is little they can do about it as individual firms or even as an industry together. It requires China to change her country image in general and this may take many years, a generation's time in the case of Japan.

International Branding Strategies

Chinese piano companies have three choices when exporting to international markets (Onkvisit and Shaw, 1989):

1. Branding or No-branding
2. Creating versus Acquiring
3. Single versus Multiple Brands

Firstly they have to decide whether to use their own brands or to sell under a third party's name, i.e. private branding. Like many other Chinese-made consumer goods

in international markets, the majority of Chinese pianos sold abroad are under the distributor's brands; Chinese firms are original equipment manufacturers (OEMs). OEM is the easiest mode to enter a new foreign market, probably the only practical way when the firm lacks marketing experience and brand recognition in the target market. However, the OEM mode 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 pockets much larger profit margin. Opinions are divided as to whether now is the right time for the Chinese companies to create their own brands in the world market (Fan, 2006). For example, Galanz, the world's largest manufacturer and exporter of microwave ovens 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 (www.globrand.com). This OEM option may prove to be a costly mistake as many companies in Hong Kong and Taiwan learned a hard lesson when they found it much more difficult to develop their own brands at a later stage. The problems for most developing country MNEs is that they entered as OEM the global marketplace at the bottom of the value curve and stuck there, because of lack of brand (Bartlett and Ghoshal, 2000). Acer Computer is a notable example. An OEM company having no exposure to the international market may risk losing the opportunity to develop its own brand internationally (Keegan and Green, 2004). Seeking sustainable global positions developing country MNEs need to go beyond being OEM to become primary suppliers, to move beyond cost-based advantages and enhance their

marketing capabilities (BCG, 2006). It is crucial for them to develop new competence in branding in order to move up the more profitable segment (Bartlett and Ghoshal, 2000).

Once the firm decides to use its own brand in the international market, it could have a further choice of creating/developing its own brand or buying an international brand. For example, Samick-Korea's second largest piano maker has recently purchased a premium brand C. Bechstein. In China, Dongbei Piano acquired Swedish brand Nordiska and uses it in both domestic and export markets. 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 called into question. Yamaha, like many Japanese companies in other sectors, has concentrated on building its own brand equity in international markets. 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 (e.g. Matsushita used brands Panasonic and National in international markets). It is not clear how, or if it is even possible, to transfer the brand value from an acquired brand to a weak brand, but there are quite a few cases of failed attempts, Malaysian firm Proton's brief ownership of Lotus and Samsung's purchase of Rollei. What is clear, however, is that acquired brands produce a short-cut to overcome the negative COO; but it is not a substitute or alternative for brand building in the long term.

The third issue is whether to use a single brand (like Yamaha) in all different country markets and across 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 scales in marketing, helping brand recognition

and ensuring consistency in brand image across different markets, whilst the multiple branding approach is based on the assumption that the market consists of several segments that need to be served differently. Pearl River has adopted a dual brand policy selling under both Pearl River and Ritmuller names in the American market. The firm is now facing a branding dilemma, that is whether to invest in Pearl River or Ritmuller as the latter is not a strong brand itself. A brand needs to be contemporary to be related to the consumer. Ritmuller, as a mature brand, would need huge investment to bring it up to date. Chinese computer company Lenovo faced the similar problem after acquiring IBM PC business and the ThinkPad brand. Lenovo is a strong brand in China and has also a number of sub-brands at product line level. The company has decided to concentrate its efforts on building a corporate master brand Lenovo in both domestic and international markets rather than spreading too thin the limited resources on sub-brands (People's Daily, 2006)

COO and Branding Strategies

With regard to COO, the consumer's perception will differ depending on the product/brand and the country. As an external cue to the buyer, country image can play a big part in the overall acceptance or rejection of the product, particularly if the brand is new and unfamiliar to the market (Han, 1989). That is exactly the situation facing most Chinese exporters. However, China's country image has been gradually improved since the biggest setback in 1989. In fact Chinese-made products have gained a lot of ground in recent years in terms of consumer acceptance, as more and more consumer goods are being manufactured by MNEs in China though few of them are sold under Chinese brands. In the North American market, Chinese brands such as Haier, Lenovo and SVA have helped create positive COO effect, from which other

Chinese companies would certainly benefit (Fan, 2006). In international markets, a number of branding options are open to Chinese piano manufacturers:

- Where COO is positive, use own brands
- Where COO is neutral, use own brands or Western sounding names
- Where COO is slight negative, use acquired brands
- Where COO is very negative, sell under the dealer's brands

As most Chinese brands lack awareness in international markets, COO becomes prominent in shaping the consumer's perception. Consumers use COO in effect to compensate for their lack of knowledge or familiarity with the brand. Thus high familiarity reduces the impact which COO information may have on a product evaluation (Han, 1989; Papadopolous and Heslop, 1993). To make the right branding work, Chinese piano firms should invest more in marketing communications targeting at key audiences -opinion leaders such as music teachers and music media etc. The author has talked to a half dozen of piano dealers in England and found that many of them were motivated to stock Chinese made pianos because of a larger margin. But to new piano buyers in developed country markets such as the UK, a stronger 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 focus on: a) using western-sounding brand names to obscure the Made-in-China image, and b) emphasising the quality in design and production to benefit from positive COO. For example, Longfeng Piano could emphasise that its Kingsburg model was designed by the world-renowned German master designer Klaus Fenner.

Branding and Internationalisation

Internationalisation refers to the gradual and incremental pattern of a firm's expansion into foreign markets. The process of internationalisation has been encapsulated in the literature by different schools of thought such as FDI theory, stage models, and more

recently the network perspective. The stage models are based on the assumption that internationalisation is a gradual and incremental process that typically consists of the following stages (Bilkey and Tesar, 1977; Wortzel and Wortzel, 1981; Cavusgil, 1982):

1. No interest /involvement in exporting
2. Reactive involvement/indirect exporting
3. Active involvement/more direct exporting
4. Establishing a marketing subsidiary in the target market
5. At most advanced point, establishing a manufacturing plant

In the mainstream literature of internationalisation, the focus is on explanation of how it happens (process) and why it happens (for example, advantages seeking (Dunning (1995)), branding is not considered. But from managerial perspective, it is clear that brand equity and international branding plays an important part in decision making in the process of internationalisation, particularly in the selection of which market to enter and choice of entry mode. It can be hypothesised that corresponding with its progress in the internationalisation process; a firm's branding development in the international market may also follow certain distinctive stages:

1. Domestic branding
2. OEM exporting
3. Self branding and OEM
4. International branding
5. Global branding

The relationship between international brand development and the internationalisation of the firm is illustrated in Figure 1. Most Chinese piano companies are at Stages 1 or 2. The basic theory is that at Stage 2, although the firm is ready to compete in the international market in terms of production competence and product quality, it is seriously unprepared for the new challenge with lack of critical marketing and branding know-how. To Chinese piano companies, international branding, like the internationalisation itself, is a learning process in which they have to acquire new knowledge and core competence for international markets. Moving further along the process the firm becomes a more committed exporter, it also develops branding

competence and confidence as it changes from an OEM exporter to direct exporter using its own brand name. With the increase in the firm's international brand equity, the impact from negative country of origin effect will decrease; and eventually a turnaround will take place. When the firm has built up sufficient brand equity, the country of origin image becomes less relevant; and at a late stage, the positive brand image could even help create positive COO.

Pearl River is the only Chinese piano maker that has advanced to the third stage. This is the crucial stage that will decide the long term success or failure of internationalisation. Following a hybrid strategy in international expansion, i.e. being both OEM and own brand exporter, companies at this stage face a dilemma at two fronts. Firstly, conflicts may occur with its OEM customers as the firm attempts to over-emphasise its own-branded products in the target marketplaces (Cheng, et al., 2005). Secondly, consumers may be confused by the firm's overall brand image and positioning. While continuing to be an OEM supplier to the lower end of market, the firm struggles to establish itself in its own brands in the middle or higher end of market. To mover up further into the next stage- the international branding stage, Pearl River has to manage a fine balance between its OEM commitment and developing its own brand portfolio, taking a gradual reduction of OEM contracts in order to concentrate more on developing its brand equity internationally (Cheng, et al., 2005)

International brand development is not a rational process, but unclear, complex, continuously changing … where strategies emerge out of interplay between actors in the foreign market and the focal firm (Johanson and Vahlne, 1992). If this is the case,

it means that the firm may not necessarily follow a single predetermined path step by step. It may be possible for some firms to skip certain steps and leapfrog to a higher stage. Not every firm could succeed in moving up the stage in the process. It has taken Yamaha more than 30 years to reach the final stage in becoming a truly global leading brand. It would be interesting to study how Yamaha and other Japanese firms succeeded while many exporters in Taiwan and Hong Kong, whose economy took off at the same time as Japan, failed to produce a single global brand. Many of these firms remain stuck at the OEM stage.

Discussion and Conclusion

China has overtaken Japan within the last decade to become the world's largest manufacturer and exporter of consumer goods. However, China has not yet created a single global brand, i.e. a brand that is recognised worldwide. China does need to own a sizeable number of global brands for her continuous economic growth and prosperity. Facing problems in the domestic market of intense competition and overcapacity, more and more Chinese companies share the same understanding that they have to 'go global' for future growth and profitability, and must succeed globally in order to win the domestic market. Only 10 per cent of China's top 50 firms by sales have yet to formulate an overseas expansion plan, according to a recent consultancy report (Prystay, 2003).

Globalisation strategy 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 (Luostarinen, 1979; Cavusgil and Godiwalla, 1982). It is clear from Figure 1 that Chinese piano companies have arrived at the different

stages in internationalisation by different 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 developing a global brand Chinese companies could choose between a traditional and modern approach (Ewing, et al, 2001). The traditional approach is conservative one that starts from local, to regional and finally global: a slow incremental process. This is typified by majority of Chinese piano companies. In contrast, Chinese electronic companies such as TCL and Lenovo have adopted the modern (though more risky) approach that accelerates internationalisation via joint ventures and acquisition of foreign brands, enabling them to leapfrog to the advanced stage in the process. In target market selection, most Chinese companies have started with the neighbouring countries in Southeast Asia, perceived to be relatively easy due to smaller geographic and psychic distance. Pearl River, however, took the opposite approach of tackling a more difficult market of the USA first, and has so far made good progress. The company has built its own distribution network with more than 300 dealers and become the fast growing company in the North American market with about 20 percent market share (www.pearlriverusa.com/pr_story.html).

There are also differences in their marketing mix strategies. Most Chinese piano exporters still concentrate on low end of the market with low price, but this strategy has not always worked in the developed country markets and further reinforced the negative stereotype of COO, which makes it more difficult to overcome in the later stage when the firm wants to move up the market. To sell a fairly standard product like piano in highly competitive international markets, low price is no longer sufficient. They need to have innovative marketing strategies and strong branding

efforts (Oh, et al, 1998). An alternative to low price strategy is developing brands plus effective targeting (Brouthers and Xu, 2002). Chinese piano companies could learn from Chinese television exporters. For example, SVA decided to focus on high-end products with a medium pricing strategy, which seems to have worked well by bypassing direct competition from both brand competition at the top end and price competition at the lower end (Fan, 2006). In branding and advertising, Chinese piano companies have adopted a low-key trade promotion strategy, rather than expensive above the line advertising. This is a problem they have to address in order to create brand awareness in the target segments.

Chinese piano companies have a long journey in the internationalisation process, given the complexity, cost, uncertainty and fierce competition in creating and sustaining their brand names in international markets. There is no clear or simple best way to succeed. Compared with their Western counterparts, Chinese companies have competitive advantages in low-cost production, sourcing, distribution and service. China's vast domestic market brings economies of scale and domestic rivalry. Many markets in small cities, towns and rural areas remain untapped or under-developed. Chinese companies are disadvantaged in terms of their lack of core technology, design and innovation, branding and knowledge of 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 (Cass Creative Report, 2004). As late comers they may struggle to obtain the advantages of an integrated global strategy and face greater problems than the existing players, particularly in the area of knowledge transfer and dissemination (Zhu, 2007).

There is an urgent need for Chinese piano firms to develop or acquire new competence. In an earlier study of internationalisation of five state-owned enterprises in China, Young et al. (1996) emphasise that Chinese companies have to undergo a formidable process of education, training and cultural learning (quite apart from the initial capital investment requirement) if the R&D, manufacturing and marketing know-how acquired is to be assimilated throughout the corporation. The biggest challenge for late comer firms is how to create new competitive advantages in the market. Organisation learning is crucial for them to fulfil a successful catch up strategy, and this learning process is likely to be long and expensive, especially where the technology continues to advance rapidly and competition from the incumbent firms remains fierce (Zhu, et al., 2007). Late comer firms must be good at learning and accumulating new knowledge and expertise in order to move from cost based competencies and location-based advantages to ownership or firm specific advantages (Pangarker, 1998; Mathews, 2002; Sim and Pandian, 2003; Cross and Voss, 2006). The key to the success of developing country MNEs has been the ability to treat global competition as an opportunity to build capabilities, move into more profitable industry segments and adopt strategies that turn latecomer status into a sources of competitive advantage (Bartlett and Ghoshal, 2000; Khanna and Palepu, 2006; Bonaglia, et al, 2007). Chinese companies should learn from all available sources but this learning should not be regarded as simple mechanical imitations of the market leaders. Instead they should strive to develop new thinking and new approaches that combine the best of East and West (Fan, 1998). In international marketing, they can learn probably more from Japanese or Korean companies (Taylor, et al 2000; Cho, et al, 1994). For Chinese piano companies, the success of Yamaha provides a good model to follow.

There is as yet very limited research on the multinational firms from Asia or those from developing countries (Erramilli, et al, 1999; Sim and Pandian, 2003; Ramamurti, 2004). Developing country MNEs are different from their counterparts in developed countries in their characteristics and behaviour. The main area of difference stems from the nature of competitive advantages possessed by developing country MNEs which have internationalised in ways that do not simply recapitulate the experience of earlier MNEs that are the incumbents today (Pananond and Zeithhaml, 1998; Pangakar, 1998; Mathews, 2002; Bonagolia, et al, 2007). For example, the mainstream theory of FDI claims that the possession of some kind of firm-specific advantages, such as proprietary technology, products and brands, is the key factor in explaining the international expansion patterns of the firm (Dunning, 1995). But in the case of Chinese firms, most of their advantages are location-specific rather than firm-specific. The problem faced by many Chinese MNEs is that, once they are in international markets, they will be cut off from the sources of their existing competitive advantages derived largely from the low cost base at home. Contrary to the assumption that firms internationalise to exploit competitive advantages, for many Chinese firms, to internationalise means seeking competitive disadvantages. In other words, they have to develop or acquire new firm-specific advantages first before embarking on international expansion. This raises a serious question of whether the extant theory of internationalisation and competitive strategy that is based on the experience of developed country MNEs can be applied to developing country MNEs. Child and Ridrigues (2005) suggest that the Chinese scenario offers an opportunity to extend present theories, particularly in the areas of the latecomer perspective and catch-up strategies. This will be a good starting point, but a mere extension to the existing Western-based theories may prove insufficient in the long term. The

emergence of MNEs from developing countries calls for the development of new theories.

This paper examines the country of origin effect and its impact on branding decisions in the international market. Various branding options for Chinese piano manufacturers are analysed and the link between branding and the internationalisation process is discussed. Figure 1 is a useful addition to the literature as the model helps to have a better understanding of the relationship between COO, branding and internationalisation. More research is needed in this vital area to identify the key factors that influence the evolution of the international brand development and to test the model through empirical research. Two questions of particular interests are: 1) when should a company decide to change from OEM exporter to developing its own brand in a foreign market? 2) Should international branding follow the same learning curve as the firm evolves along the process, or is it possible for some firms to leapfrog to the advanced stage?

End Note

1. ISO 9000 refers to a family of standards for quality management systems that is maintained by ISO, the International Organization for Standardization. For more details see http://www.iso.org/iso/about.htm

2. American firm Gibson Guitar Corp has acquired 100 percent ownership of Dongbei at the end of 2006, renaming the company as Balwin Dongbei Piano Instrument Co. Ltd. (People's Daily Online, 2006-12-15)

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Table 1. Different Routes in Internationalisation

Route	*Typical Company*	*Major sector*
1. OEM exporting	Galanz	Microwave oven
2. Own brand exporting	SVA	TV
3. Strategic partnership	TCL	TV
4. Acquisition	Lenovo	PC
5. Organic growth via FDI	Haier	Refrigerator

Source: Fan (2006)

Table 2 Chinese Piano Production and Export in 2006

Type of Ownership		**State**	**Private**	**Foreign**	**Total**
Number of Firms		4	22	11	37
Total Production	2006 (2005) Growth %	143976 (156137) -7.79	101912 (94805) 7.5	129071 (115849) 11.41	374959 (366791) 2.23
Upright Piano	2006 (2005) Growth %	131232 (141882) -7.51	93191 (85760) 8.66	116930 (105173) 11.18	341353 (332815) 2.57
Grand Piano	2006 (2005) Growth %	12744 (14255) -10.60	8721 (7045) 23.79	10141 (10676) -5.01	31606 (31976) -1.15
Export	2006 (2005) Growth %	38799 (48486) -19.98	29581 (24838) 19.10	45575 (41795) 9.04	113955 (115119) -1.0
Share in total production %		38.40	27.28	34.42	100
Share in total export %		34.0	26.0	40.0	100

Source: Compiled based on the original table from China Music Instrument Information at
http://www.cmii.com.cn/News/EnableSite_ReadNews2218220991169176861.html

Table 3 Profile of Top Chinese Piano Manufacturers

Company	Pearl River	Xinghai	Dongbei[2]	Shanghai	Longfeng	Zhongya
Established In	1956	1949	1952	1895	1988	1993
Production Capacity	100,000	55,000	40,000	n.a.	20,000	25,000
Employees	4000	3200	2300	800		
Foreign partner	Yamaha	Kawai	n.a.	n.a.	Designed by Klaus Fenner	n.a.
Brands	Pearl River Ritmuller	Xinghai Otto Meister	Nordiska Ekström" Prince" Princess	Strauss, Kelmann Schewchten Shanghai	Kingsburg Bonaseal Melody Stegerman	Hermann Artfield Kracauer

Source: data complied by the author from the company websites

Table 4 The Strengths and Weaknesses of Chinese Piano Companies

Strengths	Weaknesses
▪ Low cost production ▪ Economies of scale (due to a large domestic market) ▪ Modern production facilities ▪ Improving quality ▪ Price advantage ▪ Good work force ▪ Strong financial position ▪ Government support	▪ No brand awareness abroad ▪ Lack of branding expertise ▪ Negative country of origin effect ▪ Little experience in direct exporting ▪ Lack of understanding of foreign markets ▪ Reliance on foreign technology ▪ Weak ability in innovation ▪ Lack of foreign distribution network ▪ Difficulty in international promotion

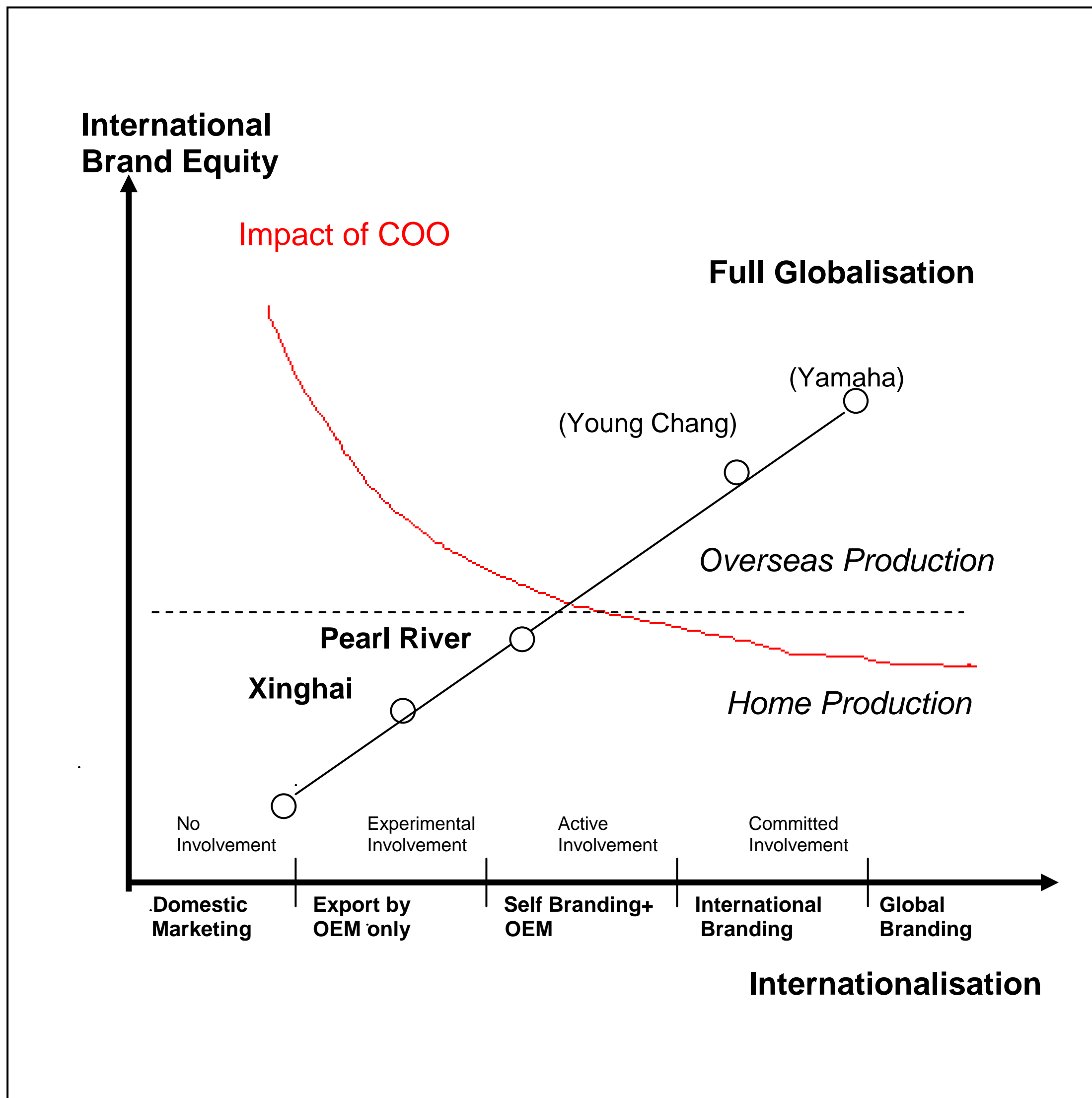
Source: compiled by the author from various sources in Chinese

Table 5 A Classification of Pianos "Made in China"

	Production-exporting	**Branding**	**Example**
1	Made by a Chinese firm but sold under a foreign manufacturer's name	Contract manufacturing/ OEM	Essex made by Pearl River for Steinway
2	Made by a Chinese firm but sold under a foreign distributor's name	Private branding	Otto Meister
3	Made by a Chinese firm and sold under Chinese manufacturer's own brand name	Own Chinese brands	Pearl River, Strauss
4	Made by a Chinese firm and sold under acquired foreign brand names	Acquired "international" brands	Ritmuller, Nordiska
5	Made in a joint venture but sold under the foreign partner's brand name	Controlled by foreign partner	Yamaha
6	Made in a foreign invested company and sold under the foreign brand name	Controlled by foreign partner	Young Chang

Source: by the author

Figure 1 A model of the link between COO, branding and internationaliastion



Source: by the author