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In the 2007 Interbrand's ranking of the most powerful global brands, the first 3 brands are Coca-Cola, Microsoft and IBM. There is no Chinese brand in the top 100. If you ask consumers to name 2 or 3 Chinese brands, it will be very difficult for them to do so. Brands such as Lenovo, Haier, TCL or Huawei start to appear on Western markets but their consumer awareness is still very low. Should we expect a rapid development of Chinese brands in Europe? If yes, will they constitute a threat for European brands?

The objective of this paper is to understand today's situation of Chinese brands on international and in particular on European markets. First, we will review the status of Chinese brands in China, second we will investigate the strategies of internationalisation they have adopted on international markets and third we will evaluate what is their future prospect.

The move from Original Equipment manufacturer (OEMs) to branded goods manufacturer.

Chinese companies have been more known so far as original equipment manufacturer (OEMs). They have delivered unbranded products to foreign companies in many sectors, from clothes to consumer electronics or appliances. They have sold their products under the names of very known brands belonging to Western companies. Cost has been obviously their key competitive advantage.

Chinese companies have, however, little experience in the development of brands. Even if numerous brands have been developed in China in the 1990's, they were not yet fully seen as a strategic asset by Chinese companies. Most of these brands were just products that were given a name.

Some companies have started to develop their brands in international markets but they are still very few. Haier, Lenovo, Huawei and TCL are the best known examples. **Haier** is the fourth biggest producer of home appliance and third after Samsung and Philips in the electronics industry. It started its international development by being a product provider for the German Liebbher brand. It has expanded then under its own brand name by first expanding in the US where it established production facilities. It enjoys now 30% share of the refrigerator market in the US and is also present in Europe. In Europe, Haier acquired production facilities in 2001 in Italy and has developed actively in the last few years its logistics, distribution networks and communication (Larçon and Dussauge 2005). **Lenovo** purchased in 2004 the IBM PC business and the PC products are now available under the Lenovo name on a worldwide basis. It is now the number 3 in the worldwide PC market after HP and Dell and number 1 in China. **Huawei** is a leader in telecommunication networks. Its products are sold in 100 countries and serve one billion users worldwide. **TCL** is a producer of TV, mobile phones, DVD recorders. It developed a joint venture, TTE, with Thomson enabling them to use the Thomson and RCA brand names on an international basis and benefit from distribution networks in Europe as well as a bundle of western technology.

The relatively slow development on western markets

If we do not find yet many Chinese brands in Western countries, this is because 1) Chinese companies have just started their internationalization process; 2) There is so far little knowledge in the area of marketing and branding and 3) The quality image of Chinese brands and products are not yet satisfactory.

First, Chinese companies have just started to expand internationally. Since their entry in the World Trade Organization in November 2001, an increased number of companies have been willing to develop their business on a global scale. Some of them have been motivated to expand by the need to increase share abroad because of home market saturation. There is indeed overproduction in many markets. Many local and international players are present and the markets have not yet been fully consolidated. In the household electronics industry, for example, there were in 1995 more than 200 brands competing. By 2000, only about 20 remained in business (Fan 2006).

Some other companies have been interested to increase share in order to benefit from economies of scale. Price competition is often intense and there is a need to decrease constantly the cost leading to lower prices. Finally, some companies needed to diversify on international markets in order to escape from intense competition in their home markets.

Some Chinese companies have decided to expand in priority in developed countries such as in Asia, Africa and Latin America while others have selected the US and Europe. Some of them have even selected the US market in priority, such as Haier, because it believes that, if it wins there, it will win anywhere. Haier has succeeded to gain 30 % market share of the US refrigerator market within a couple of years.

Second, Chinese companies have little experience and expertise in the area of marketing. In the 1990's, they focused their attention on the production, the selling and the distribution of products. This was the name of the game to build shares and succeed at that time. Advertising was used next to price promotion but there were no strategic use of commercials. There was not yet a good understanding of what strategic marketing was. Focus was rather given to tactical marketing activities. The key steps of market segmentation and targeting were rare in Chinese companies. For Shelly Lazarus, CEO of Ogilvy and Mather, most Chinese companies don't yet understand what mean by "positioning a brand" (Dexter 2004). And the branding knowledge is even more limited than the marketing knowledge. The concepts of brand management, brand equity and brand value are totally new in China. Many Chinese companies do not understand multiple branding and use the same corporate name for various diversified products. Huoli 28 sells a detergent and mineral water under the same brand name, while Yvetu extended its branding from cigarettes to female sanitary protection (Fan 2006). Chinese managers also still underestimate the huge investment needed to build brand equity. The market is now slowly shifting away from the perception than branding is just a logo or a visual identity.

Third, China is still suffering from a weak quality image. A study from Interbrand ran among 243 branding professional in 2005 showed that the majority of respondents

(79%) believed a "made in China" label hurts Chinese brands. The attributes of "Cheap", "Poor value", "Poor quality" and "unreliable" are associated with Chinese brands. Factors of "trust", "reliability" and "overall value" are missing. An interesting example is the one of Lenovo. When it acquired the IBM Pc business, it conducted an extensive market research among 40 000 customers. Three concerns were identified. Consumers were afraid that product innovation would slow down, quality of PCs would degrade and service risked to be outsourced. This let to a large drop in intent to purchase (Quelch and Knoop 2006). The Chinese situation is similar to what experienced Japanese companies 50 years ago and South-Korean companies 20 years ago. The recent problems of quality experienced by Mattel in China have also had a dramatic negative effect on a worldwide basis on Chinese quality perception. It will now require even more efforts to Chinese companies to overcome this poor image.

Does this mean that Global Chinese brands will not emerge fast?

Chinese companies are learning fast

First, the Chinese government has become well aware of the importance of building strong Chinese brands. They decided in 2001 to accelerate the development of global Chinese brands in order to achieve a rapid economic development. The concept was to "go global". Mr Sun Bo, Director of the State Department of Quality, considered that "China has to accelerate the development of big brands to reach a fast and sustainable economic development" (Cri 2005).

In 2004, the government launched a Brand Promotion Committee to help companies to move toward that goal. It is composed of government officials, industrial leaders, technological experts and journalists. Zin Zongtang, the Director of this Committee claimed that the need to cultivate top brands is not only the task of the companies themselves but is also part of the work of the government (Cri 2005).

In the last 11th five year Plan of 2006, there is also a special report on the strategic development of "famous" Chinese brands. It is mentioned that China will focus its efforts on the development of ten worldwide brands and will develop another 100 strong brands. These brands can receive the label of "famous brands". If they do so, they can receive financial help and technological support. They are protected against copies and intellectual property (Cri 2007).

For example, these 7 brands have received the label of "famous brand": Haier refrigerator and washing machine, Huawei electronic commutator, Zhongxing commutator, ZPMC port machinery, Gree air conditioner, Sunshine fine woll garments. They are now well exported on international markets and are viewed by other Chinese firms as examples to be followed.

The Chinese government also encourages the merger of regional brands to create power brands as it still exists many more regional brands than national brands.

Second, Chinese managers are learning fast. They know that they lack the marketing and branding knowledge but they are eager to learn fast (Zeng and Williamson 2007). To acquire this knowledge, different strategies can be used. People having worked in Western companies can be hired by Chinese companies. The acquisition of companies such as Lenovo/IBM is also another way to benefit from the expertise of existing marketing teams. Chinese companies are also learning how to advertise on a large scale. China is now the third largest ad market in the world (Dexter 2004). Business schools are also being developed. In 2005, 3.4 million new graduates came onto the market, three times the number graduating just 5 years before and in 2006, China surpassed the US in total enrollment in universities. Business administration is the top choice (Zeng and Williamson 2007). A lot of exchanges are also created with American and European business schools. This will be a way to disseminate the marketing knowledge. We can already see Chinese student teams becoming winners of big company contests such as the international "L'Oréal brand marketing award".

Also, the Chinese market has become one of the most competitive markets in the world. Firms such as Procter and Gamble, Unilever, L'Oréal are competing there, using the most sophisticated marketing techniques to win. This is an ideal way for Chinese managers to learn the best practices. Competition is very fierce and Chinese companies are learning from their international competitors. For example, China's Masson Ltd Co., has taken on the global toothpaste brands Colgate and Crest with the nationally marketed CCP Calcium. Locally branded shampoos, such as Shu Lei and La Fang Group, respectively, are quickly gaining on P&G Rejoice and Head and Shoulders (Crocker and Tay 2004). Galanz, also for example, worldwide leader in microwaves has to compete against Samsung, LG, Whirlpool and Electrolux in its market but also against strong local Chinese competition such as Midea or Kelen and even Haier (Larçon and Dussauge 2005).

Third, Chinese companies are investing massively in R&D to generate more innovation in order to improve the quality perception of their products. China is now the third largest investor in R&D after Japan and the US (Interbrand 2005). Mr Sun Bo, Director of the State Department of Quality, declared that in order to have competitive brands on international markets, they need to accelerate the pace of technical innovation (Cri 2007). Hisense, for example, one of the ten first electronic producers has a R&D budget of 4% of total sales and focus its resources on its own technologies (Larçon and Dussauge 2005). We must also highlight that many OEMs have reached a very good level of quality, delivering many famous global brands. Galanz, for example, produces 30% of the world's microwaves under 80 different foreign brand names (Fan 2006). TCL is a big maker of television sets that are sold under the brands of many big multinationals. Product creativity is also present. Haier, for example, has developed niche products such as TV sets for kids with special control features limiting viewing time or special wine refrigerators (Zeng and Williamson 2007).

Strategies of international development

We can identify two major types of strategies being used by Chinese companies to grow their brands on international markets:

The first strategy consists of accelerating international expansion **by acquiring an existing foreign company**. Following the Roland Berger 2007 survey of the performing global Chinese companies, 14 out of the first 50 Chinese companies being selected in the survey have acquired an international company to enter international markets.

The advantages of this strategy are to acquire directly brand names, distribution networks and talented people and proprietary technology and customer relationship. The best example of this strategy is, of course, the case of Lenovo that has acquired the IBM PC business in 2004 or the case of Nanjing Auto bought Britain's MG Rover. Haier has also tried without success to buy the US Maytag firm that owns the Hoover brand.

The risks of this strategy are to succeed to merge different types of companies. The problems are to align strategies and cultures of both companies. It is also essential to keep the talented people after the acquisition. TCL has experienced some problems in its joint venture with Thomson. Integration proved to be more difficult than expected. Increasing productivity and cutting costs in Thomson's European operation turned to be more difficult than TCL expected. Lenovo also had to make important changes to make the merger work. For example, it has moved its headquarters to the US, designated English as the main language. They have even appointed the head of IBM PC as CEO of Lenovo, replaced later by a former Dell manager. In net, Chinese companies will learn how to acquire, integrate and leverage acquisition but it is just a question of time.

The second strategy consists of **growing organically**. Following the Roland Berger survey, this is the privileged option of Chinese companies. They have often adopted the following model: direct export, OEMs (Original Equipment Manufacturer), creation of plants in foreign markets and then development of their own brands. Galanz, for example, is a good example of this strategy. It is the first producer of microwaves in the world. It provides products for well known western brands as OEM. It has now started selling microwaves under the Galanz brand name on international markets but this is still marginal to date. This organic growth is also often associated with partnerships with other companies. This is the case of Haier that has done some partnerships with Fujitsu, Hitachi and Samsung or TCL that created a Joint venture with Thomson.

Interestingly, the choices of international markets vary widely by companies. Some of them have decided to focus first on developed countries. This is the case of Bird, the Chinese leader in mobile phone, that is now exporting in Russia, India and Eastern Europe. Some others have decided to enter the most difficult market first as Haier but this is not the most frequent option. Others have also decided to enter the easiest market first as Huawei. The latter has started its international expansion by a strategy of " Easy first and difficult later". It decided to first enter regional markets targeted to secondary clients with the objective of building an image of quality, service and high technology to facilitate then later an entry in mature markets (Roland Berger 2007).

Different waves of internationalization

It is interesting to understand the evolution of the types of brands that go international.

The first wave of internationalization covers brands in high tech/consumer electronics (TVs, DVD recorder), appliances (washing machines, refrigerators, micro-waves, air-conditioners), telecoms (mobile phones) and PCs. This is why we find brands such as Haier, Galanz, Bird (mobile phones) or Lenovo.

Lately, we have even found premium Chinese textile brands willing to export on international markets. They were present in the last Texworld textile salon in Paris in 2007. Their objective is to enter the premium textile market in Europe. Premium textile means, for example, pullover or accessories in cachemire. The Chinese brand

St Edenweiss, so far mostly known in China, is an example of such brand (AFP 2007). They are also developing high end piano as Pearl River Piano that reached 15% of the US market in the past 5 years and 40% of upright pianos 5 (Zeng and Williamson 2007).

The second wave of internationalization is expected to cover pharmacy (generics) and car manufacturing. The product categories of machine tool, electronics and equipment are also expected to be covered in this second wave (Eurasia Institute HEC 2005).

In this second wave, it is interesting to think about the car industry. Today, the image of Chinese cars is very poor. The feedbacks from different European car salons in Francfort, Leipzig or Paris were not good. Results of crash tests were also poor. Brilliance, for example, expect to be the first Chinese brand to be sold in Europe. They plan to sell annually 75 000 cars by 2010. However, even if the situation of Chinese car is bad today, we should expect to see drastic changes in the coming years. Indeed, the Chinese government has clearly planned what the development of Chinese cars should be. We are still in the second phase of their national plan but the objectives are quite aggressive in the coming years as indicated by the steps described below:

The car development strategy has been designed and planned by the State Commission for development and reform (HEC Asia Institute). It covers 4 steps:
- 1985-2000: Acquisition of the knowledge and the technology (design, engineering and production).
- 2000-2010: Development of cars for the Chinese market in priority and start exporting in countries where the technical legal rules are flexible in order to learn and identify the potential foreign partners.
- 2010-2014: Reduce the dependence from companies with mixed capital and increase the number of low priced cars.
- 2015 – onwards: Insure the domination of Chinese car brands on the big volume segment while foreign brands will be more on niche markets, increase significantly the exportation of Chinese cars.

Key challenges for Chinese brands in Europe

So far, all Chinese brands in European markets suffer from the same main problem: a significant lack of consumer brand awareness. It is a key priority for them to make a major turnaround in this area in the coming years if they want to improve their market shares. The 2008 Bejing Olympic games represent for these brands an unique opportunity to get known on a worldwide basis. Haier and Lenovo have understood this clearly and are major sponsors of the 2008 Olympics. This represents the same opportunity as what experienced Korean brands like Samsung during the 1988 Seoul Olympics.

We see that sponsorship techniques are also being used by certain brands such as Lenovo. Ronaldinho has become its brand ambassador and it also sponsors the F1 championship with the Williams/BWM team and the NBA basket team in the US.

The second challenge is to get a deep understanding of European consumers, markets and competitors. The European market is more diverse than the US market in terms of consumer needs. It is essential to master regional differences before succeeding on European markets. The type of competitors might be also very different from one country to another. There is also a need to invest in understanding the different laws and legislation in Europe that still co-exist despite the existence of the EEC.

Third, another challenge is to develop a good distribution network in Europe. It is a more difficult task than in the US as, despite the concentration of the retailing industry, there are still important regional differences. The distribution network is still very different between the Northern part and Southern part of Europe. Moreover, building a distribution network represents also a heavy investment for a company in terms of contacts to be taken and sales force to be created or trained.

Fourth, a serious challenge is also to find talented people that can manage these brands on international markets. They do not only need people with marketing knowledge by also with international expertise that is a scare resource at the moment.

Conclusions

In conclusion, Chinese companies have today little experience in the development of brands. The Chinese government is now, however, well aware of the strategic importance for Chinese brands to build them globallly. They have therefore decided to put programs in place to help companies to do so. Some brands start to appear in international markets but they are still not numerous. This is explained by the fact that Chinese companies have just started their international process with the entry of China in the WTO in 2001. Two types of international development have been identified so far: acquisition of international companies or organic growth with international partnership, the latter being more frequent.

The lack of marketing knowledge is still an issue but Chinese managers are learning fast. They get the best practices via the presence of key multinational companies that are using the most sophisticated tools to win on the Chinese market. They also get new expertise in marketing via new graduates that are now so numerous in Chinese business schools. Another way to acquire the knowledge is via the strategy of merger and acquisition that permit to acquire experienced people.

The quality perception of Chinese brands is, however, still a key issue. It is not that they can not produce quality products. Since years as OEMS, they have delivered excellent product quality for global known names on international markets. However, the recent crisis from Mattel and other brands on quality of products made in China has had a terribly negative impact on a worldwide basis. It will take many more efforts for Chinese companies than expected to improve this situation.

It is clear that the key advantages of Chinese brands are their low cost production, their help from the national government and their eagerness to succeed. Their key disadvantages are still a shortage in latest technology, the lack of brand awareness, the poor product quality perception and the limited marketing knowledge. These elements do not, however, constitute real barriers to entry. These issues can be overcome. The companies that will have track records in low price, quality manufacturing and marketing knowledge will be the first to succeed at international level.

In this context, what can European brands do to compete versus these new entries. It is first essential to continue to invest in building strong global brands. This permits to benefit from a worldwide brand image and economies of scales in manufacturing, R&D and marketing. It is important to note that only 4 European brands are ranked in the Interbrand top 20 brands ranking (Nokia, Mercedes-Benz, BMW and Louis Vuitton). Philips is only ranked n°42, even if its ranking has improved significantly over these last few years. This shows that European brands have still room for improvement.

European companies have also no choice than continuing to invest massively in R&D to accelerate the pace of innovation in order to continue to offer superior product quality and design. They need of course, at the same time, to control cost at the maximum in order not to be too much at a cost disadvantage versus Chinese brands. Finally, they need to apply the finest brand management techniques that European managers master today versus their Chinese counterparts. In net, building strong European brands that people trust are the best way to defend against new entries.

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