

Schumpeter | The emerging-brand battle

Western brands are coming under siege from developing-country ones



THE past 20 years have seen a massive redistribution of economic power to the emerging world. But so far there has been no comparable redistribution of brand power. *Fortune* magazine's 2012 list of the largest 500 companies by sales revenue included 73 Chinese firms, more than from any other country except the United States, with 132. Yet Interbrand's 2012 list of the 100 "best global brands" included not one Chinese firm.

However, in "Brand Breakout", a new book, two academics, Nirmalya Kumar and Jan-Benedict Steenkamp, argue that developing-country firms are swiftly learning the art of branding. A few emerging-market brands have already gone global: it is hard to watch a football match in Europe without having "Emirates" burned onto your retina. More are on the way: Haier of China (white goods), Concha y Toro of Chile (wine), and Natura of Brazil (beauty products). Westerners feeling besieged by the rise of the developing world comfort themselves with the thought that they still hold the high ground of premium-priced branded goods. But they should be in no doubt that emerging-market contenders are mounting their warhorses and readying their battering-rams.

The authors argue that emerging-market companies are advancing along eight paths to brand success. All are strewn with obstacles but each offers a possible route to the global heights. The most obvious is the path previously trodden by Japanese firms such as Toyota and Sony, and then South Koreans such as Samsung and Hyundai: first, establish a beachhead in the West by selling a good-enough product cheaply; then relentlessly raise your price and quality. Pearl River of China has become the world's biggest piano-maker and now rivals Yamaha (itself once an emerging-market challenger) on quality. Haier, having become the world's biggest white-goods maker, is now out-innovating Western rivals with ideas like a TV powered wirelessly, with no trailing cables. (Its European slogan is "Haier and higher".)

A second path is to focus on business customers first and then woo consumers. Mahindra & Mahindra of India went from making tractors to producing cars. Huawei, a giant maker of telecoms equipment, is now a rising producer of mobile phones. Another Chinese firm, Galanz, began as a contract manufacturer for Western firms but now sells microwave ovens under its own name.

A third path is to follow diasporas. Reliance MediaWorks of

India has launched the BIG Cinemas chain in America, to show Bollywood blockbusters. Jollibee, a fast-food chain from the Philippines, has opened outlets in places, from Qatar to California, with Filipino communities. But breaking into the mainstream can prove hard, as Jollibee's limited success shows. Perhaps more fruitful is a sort of "reverse diaspora" strategy used by Mandarin Oriental hotels (China) and Corona beer (Mexico): Western businesspeople returning from trips to Asia, and American students returning from spring break in Cancún, have sought out Mandarins and Coronas back home.

A fourth path is to buy Western brands off the shelf, as Tata Motors of India did with Jaguar Land Rover (JLR), and more recently Bright Food of China did with Weetabix. Bright can now use its huge distribution system back home to get Weetabix cereals on China's breakfast tables while using Weetabix's distribution system in the West to sell Bright products such as Maling canned meat. However, five years on from Tata's takeover, JLR's glamour, and its success in selling to the emerging world's new rich, have done nothing to lift sales of Tata's own cars.

The next three paths set out by Messrs Kumar and Steenkamp are ways for emerging-market firms to escape their home country's reputation for poor quality, or lack of a positive reputation. One is to latch on to some aspect of the national culture that sounds nice: Havaianas, a Brazilian flip-flops maker, taps into the local beach life. Another is to tie the brand's image to the country's natural beauty, as Concha y Toro does with Chile's wine country. A third, more passive strategy is to rely on government efforts to change the country's image, as with the "Incredible India" campaign and Taiwan's "innovalue" slogan.

The final path to global brand greatness is to be a pampered national champion. So far this has produced some notable failures—Chinese and Malaysian carmakers come to mind—and just one spectacular success: Emirates. In 2000-12 the Dubai airline enjoyed a compound annual growth in sales of 23.1%. The airline's growth has in turn helped Dubai become a logistics centre for business and, against all odds, a popular tourist destination.

Never give up, no matter what

Many of the obstacles in emerging-market companies' paths to global prominence are of their own making. An obsession with market share at all costs can fatally undermine their finances. A habit of pilfering foreigners' ideas can discourage them from developing distinctive products and brand identities. A reluctance to employ foreigners as managers may make it hard to understand other cultures, and thus to crack new markets.

However, the fat margins enjoyed by globally recognised brands are a powerful incentive for emerging-market firms to shift from quantity to quality, and to venture outside their comfort zones in search of universal appeal. Acer, a Taiwanese electronics firm still on its way to worldwide prominence, last year had a margin of just 0.4% (on sales of \$16 billion) whereas well-established Samsung of South Korea made about 10% (on sales of over \$150 billion). The new breed of emerging-market firms is packed with smart people who are determined to conquer the globe. Messrs Kumar and Steenkamp asked managers at Midea, a Chinese domestic-appliance maker, to describe their corporate culture. They replied: "Never give up, no matter what." The West's great brands should listen to those words and tremble. ■