



MADE IN CHINA:
2007 BRAND STUDY

TABLE OF CONTENTS

Introduction	1
Challenges in Going Overseas	2
The Latest Hurdle: Made in China	3
The Survey	4
Emerging Global Contenders	8
Lessons Learned from Best Global Brands	12
Conclusions	13

INTRODUCTION

As China takes its place on the global stage, a handful of Chinese companies are beginning to establish their own brands overseas, and even more have stated their intent to do so in the next few years. While few Chinese companies today are selling direct to overseas consumers under their own brands, many are already reaching foreign markets as OEMs. And others, like TCL and China Mobile, have acquired foreign companies and retained or licensed the use of local brands.

The establishment of Chinese global brands is inevitable, carrying the torch passed from other Asian brands like Toyota, Sony and Samsung who are now household names.

In an update from our 2005 "Made in China" Study, Interbrand conducted an analysis to determine which Chinese brands are already serious and recognizable players in overseas markets, which seem poised for success in the next 3-5 years, and which have a longer road ahead to achieve global brand status.

CHALLENGES IN GOING OVERSEAS

Many Chinese companies are still building the capabilities to take their brands global. Today, the primary competitive advantage for most Chinese companies is low cost manufacturing, leading to low prices in the marketplace. As other geographies like India, Vietnam and Africa copy the Chinese economic miracle, this advantage is likely to narrow.

A related factor is the ability for Chinese companies to generate sufficient margins to support long-term brand-building efforts. Many Chinese companies are first looking to consolidate strengths at home, and build sufficient scale to achieve higher margins before attacking markets overseas.

Another barrier for Chinese brands in going global is their lack of marketing experience. Some companies do not have a marketing department, much less chief marketing officer, and branding is often treated as a "special project" led by the CEO. Top-down initiatives must start the branding process, but bottom-up support is crucial for long-term success.

Once organizationally ready, Chinese companies still face

some formidable hurdles. Many Chinese companies focus their efforts on "prestige" markets like the United States and Western Europe. While these markets are lucrative, competitors are substantially stronger and more entrenched, and marketing costs are significantly more expensive.

Chinese brands must also find ways to make themselves relevant and compelling to consumers outside China. This will require appealing to different tastes, purchase drivers and cultural cues overseas. Many Chinese brand names are difficult to pronounce in Latin-based languages, and communications touchpoints (i.e. websites) must be re-formulated for local markets.

Perhaps the biggest challenge is brand awareness; for some, the 2008 Olympics will be a watershed moment. A few companies are sponsoring the Beijing Olympics at various levels, including Lenovo who is a global sponsor. Sustained overseas investment will be necessary for Chinese brands to pierce the global consciousness.

THE LATEST HURDLE: MADE IN CHINA

A recent series of highly publicized quality issues for Chinese exports raises questions about the potential for Chinese brands in overseas markets. Over 40% of recalls in the United States in 2007 have been for products from China.

(Source: US Consumer Product Safety Commission)

The "Made in China" brand has suffered a serious setback; those consumers who know or check the country of origin of a product will think twice for the next several years. This is probably more significant in categories where safety and hygiene are primary purchase drivers such as food, beverage, cosmetics, automobiles and toys.

But three factors may mitigate the challenge with a "Made in China" label:

- Most consumers do not consistently check for the country of origin label (our survey data seems to support this).
- With so many Western companies outsourcing manufacturing to China, and the high costs of shifting production to another country, consumers are left with

very little choice in the short-term. Forty percent of consumer products imported to the United States in 2006 came from China.

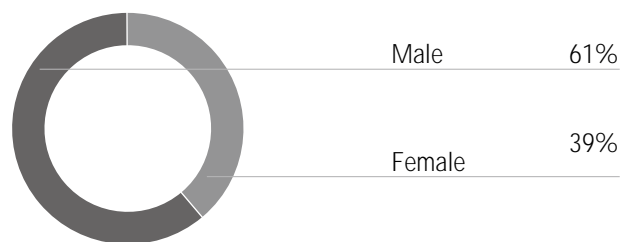
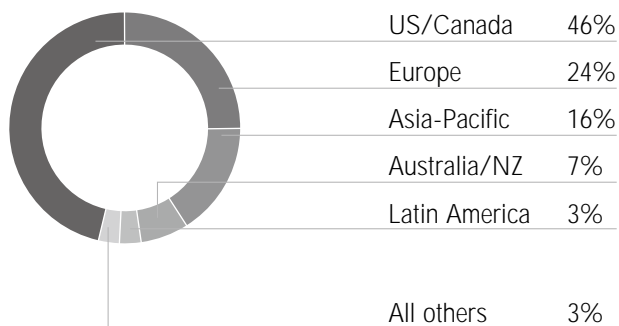
(Source: US Consumer Product Safety Commission)

- Over time, consumer trust in a product brand may counter-balance concerns about the country of origin. For example, the Crest brand may give consumers confidence in the quality of the toothpaste, even if it is made in China.

Some brands from China may not have to wait for the hype to subside. B2B brands and safety-neutral products like consumer electronics, home appliances, furniture, sporting goods, fashion, footwear and entertainment/media are less likely to undergo the same scrutiny (and media-hype). Modern brands can also be nationality-neutral. Most consumers do not know that Häagen-Dazs is manufactured in New Jersey. Effective brand development and management can help emerging Chinese brands navigate lingering negative consumer sentiment about the "Made in China" label.

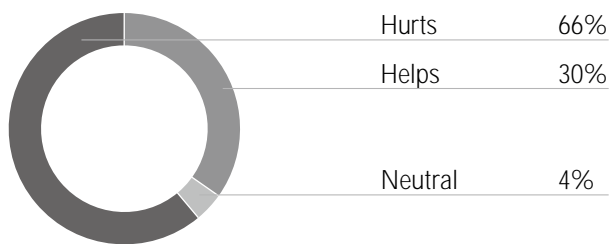
THE SURVEY

Over the period of six weeks in Summer 2007, an online survey was made available via www.businessweek.com, www.interbrand.com and www.brandchannel.com. Over 700 business and marketing professionals around the world completed the survey.

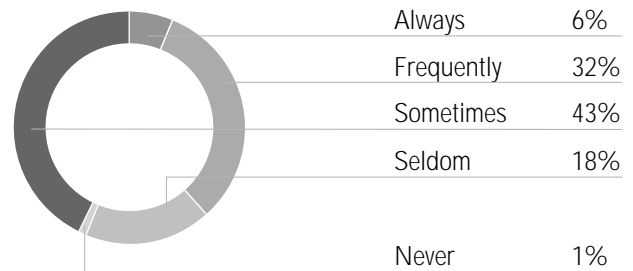


Note: Participants living in Mainland China were excluded from the survey as Chinese domestic brand status is not a target of this study.

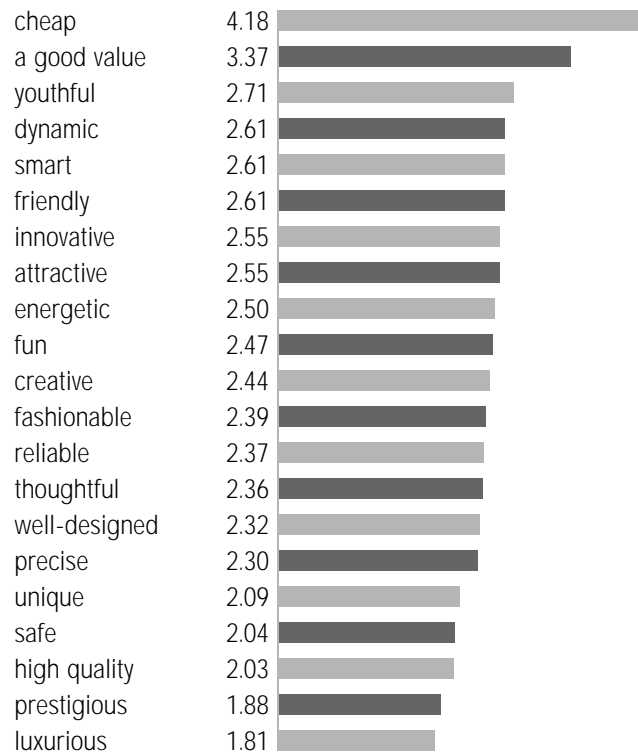
Do you believe "Made in China" helps or hurts Chinese brands today?



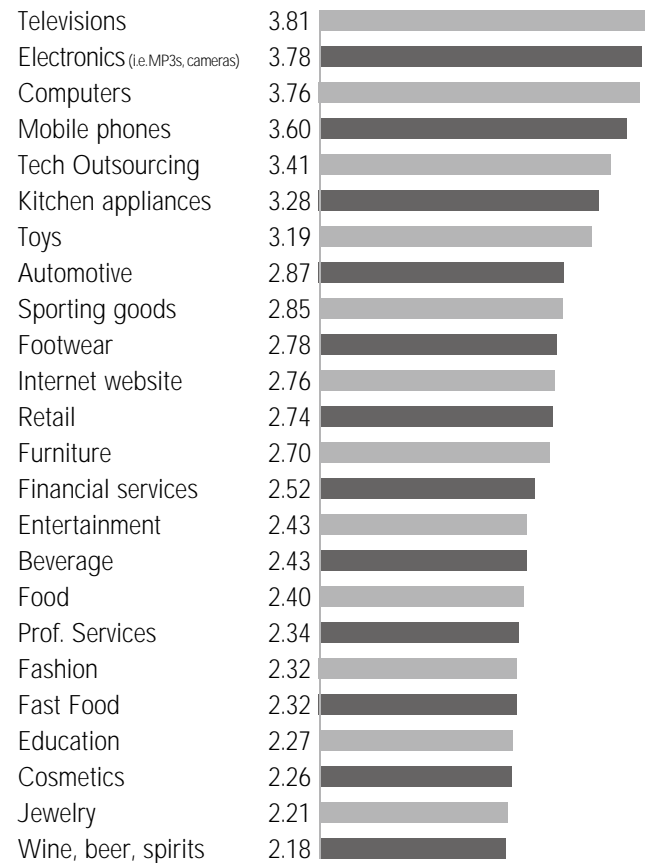
How often do you believe consumers look for the country of origin on the label of products they buy?



Please indicate how much you agree or disagree with the following statement: "Chinese brands are..."

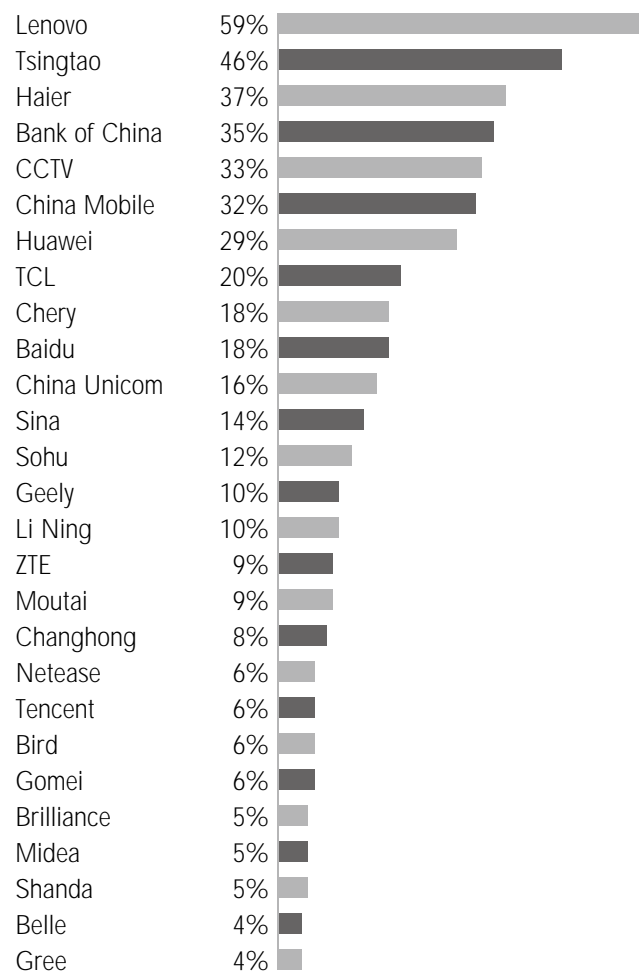


Please indicate how much you agree or disagree with the following statement: "In the next five years, a Chinese brand will be a leader outside of China in ..."



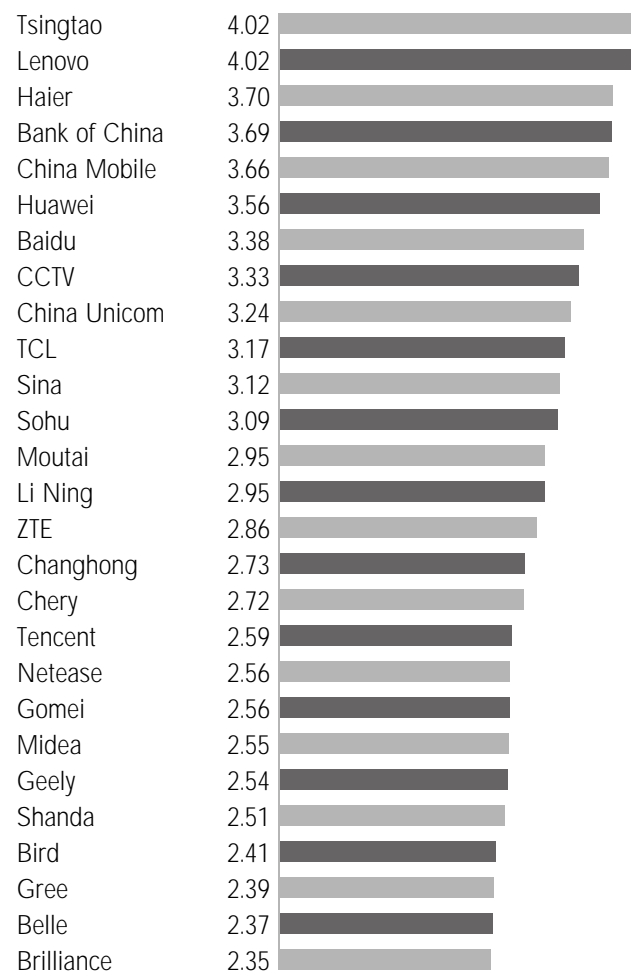
(Score is average on a 1-5 scale, 3 = neutral)

Please indicate your familiarity with the following brands.



(% is those indicated 4 or 5 on a 1-5 scale)

Please indicate how effective the following brands are as an ambassador for China.



(Score is average on a 1-5 scale, 3 = neutral)

EMERGING GLOBAL CONTENDERS

Part of the goal of our study was to identify those emerging Chinese companies whose brands are most likely to succeed on a global stage in the future. We considered the following criteria:

- The proportion of sales under their own brand name from outside mainland China;
- The potential to become a recognizable and serious competitor in overseas markets;
- The use or likelihood to use its own brand in those markets;
- The existence of some meaningful competitive advantage given consumer purchase drivers and emerging trends;
- The financial stability and capability to sustain brand-building efforts; and
- The strength of those brands in overseas markets today or in the near future.

In our analysis, we used a loose 3-5 year time horizon. The strength of the brand in the Chinese home market is only a small factor, more indicative of the stability of the company rather than its overseas potential. We also classify Chinese nationals living overseas as a niche market, and therefore not large enough to support Chinese brands by themselves.

We then analyzed the 28 companies on three dimensions:

- Financial review – we studied each company's financial size, profitability and overseas sales performance to assess their ability to sustain long-term brand building efforts
- Brand survey – we analyzed the results of our survey to assess the awareness, attitudes and prognosis for Chinese brands
- Company audit – we studied the strategies, activities and media statements these companies have made, and the competitors and trends in their industries, to understand their market potential

Based on these criteria and our analysis, we identified 12 companies that are already achieving strong recognition for their brands overseas, or are likely to achieve success in the next 3-5 years.

lenovo

Globally, Lenovo is optimizing its strategy and operations step-by-step to achieve synergy between its ex-IBM division and its own departments. It is investing in its brand - it is the only global Olympic partner from China - and raising its brand awareness. Our survey shows Lenovo is the most famous Chinese brand overseas. Fifty-nine percent of respondents are very or somewhat familiar with Lenovo and ranked it first place as an ambassador for China. There is also positive anticipation that in the PC industry, a Chinese brand can be a leader in next 5 years.

Haier

Haier is entering foreign markets with a clear-minded strategy, targeting "winnable" customers with appropriate products. For example, Haier targeted college students who require basic, cheap, reliable small refrigerators when it entered the US market. Thirty-seven percent of respondents said they were familiar with the Haier brand, ranking it in

third place in overall awareness. The Haier brand is also among the brands that are best ambassadors for China (third place). What's more, Haier covers the first 3 industries in which Chinese brands can be seen as leaders outside China in the next 5 years.



Huawei has an amazing R&D capacity that keeps the giant at pace with most cutting-edge technology companies. It sticks to its core businesses, offering a tight range of products, while controlling costs so it can price lower than its competitors. Furthermore, Huawei's strong culture pushes every employee to the extreme, making the company highly competitive in the marketplace. It is extremely impressive that Huawei ranked seventh in overall awareness despite being primarily a B2B brand.



Chery exports products to over 50 countries around the world, and its export volume ranks first among Chinese auto manufacturers since 2003. It recently clinched a landmark deal with Chrysler to make small cars for the North American and European markets in 2007, and the collaboration will help it to pave the way for its own brand forays into the US and European markets. Eighteen percent of respondents recognized the brand "Chery" well, the highest of the three automobile brands in the list. It was also rated the highest of the three as an ambassador of China.



Globally, Tsingtao has been exporting since the 1940's and first targeted overseas Chinese as its primary customers. In China, Tsingtao is highly competitive in its market share and brand awareness. Tsingtao has done a very good job in marketing itself in foreign markets. Forty-six percent of people taking the survey are familiar with the brand and Tsingtao ranked in first place as the most effective ambassador for China.



Like its bigger rival Huawei, ZTE is an extremely aggressive competitor. Its wide product coverage helps it reach many

business opportunities. It invests heavily in R&D, and it has been selective in focusing on both developing and undeveloped areas with low entry barriers. After improving its global market operation, ZTE has started to expand its business into developed areas, but is still competing with global competitors through low prices.

Brilliance Auto

In 2006, Brilliance signed a five-year contract with a German company to sell 158,000 Zhonghua cars in Germany and some other European countries. This year, it again won a contract of \$1.3 billion to export 80,000 minibuses to Russia over the next five years. It has also been producing its own brand Zhonghua sedans in the Middle East since 2005.



By the end of 2006, Geely exported 30,000 cars and established over 200 service offices overseas. With the CEO's objective to "bring Geely to the world", the company plans to double its exports in 2007, and expand its sales scale to two million in 2015, two-thirds of which would be sold in overseas markets, giving it 2.5% of the global market.



Gree specializes in air conditioner manufacturing with the largest sales volume in the world (13 million units). It has established a sales and service network in more than 100 countries and the Gree brand is marketed in more than 70 countries, such as the United Kingdom, France, Brazil, Russia, Australia, Philippines, Saudi Arabia, India and others.



Midea has a vast marketing network selling its products in China and 13 foreign countries, including the United States, Germany, Japan, Hong Kong, South Korea, Canada and Russia. It has already built a factory in Vietnam. However, 80% of Midea's exported air conditioners are OEMs.

While selling TV-sets under the brand "Thomson" in Europe, and "RCA" in North America, TCL is promoting its brand in emerging markets like India and Southeast Asia. TCL adopted a flexible approach to extend its business scope to international brands, and thus achieved strong growth in ASEAN and Latin America. In mobile phones, TCL uses the "Alcatel" brand in overseas markets, and "TCL" in China. TCL

plans to continue to address the operator-driven markets, and focus on multimedia handsets to build a trendy brand. In Latin America, it will continue to increase its market share of entry level clamshell handsets and camera phones.



Primarily focused on the domestic Chinese market, Baidu is just recently looking overseas. It has already invested about US \$ 3.5 million in the first half of 2007, and has budgeted US \$15 million to develop search engine products and services for the Japanese market.

Other Noteworthy Emerging Brands

We considered a number of other companies in our analysis: China Mobile, China Unicom, Bank of China, Li-Ning, Bird, Changhong, Gome, Belle, Moutai, CCTV, Sina, Sohu, Tencent, Netease, and Shanda. While these brands are quite strong domestically, they have yet to achieve substantial revenue and recognition overseas, and it is unclear if building a strong brand overseas is a core dimension of their business strategy in the near term.

LESSONS LEARNED FROM BEST GLOBAL BRANDS

For six consecutive years Interbrand has produced an annual study of the Best Global Brands based on a proprietary methodology used to calculate brand value. Our work with global brands and this study has identified a consistent set of practices shared by successful global brands. Many Chinese brands are quickly embracing these practices:

Understanding

Insights helps companies make informed choices about their brands and enables leaders to make bold moves with full knowledge of the implications – essential to thriving in a competitive environment.

Relevance

In a hyper-active world, cutting through the clutter is paramount. Great brands make sure their messages are relevant and receive a warm welcome from audiences so they are acted upon.

Shared Responsibility

Delivering the brand requires the whole company, not just the marketing department. Global leaders use their brand as an action driver, and ensure every activity reinforces the idea of the brand itself.

Consistency

The best brands follow their customers' journeys so that they provide effective, consistent and appropriate messaging throughout the experience.

Efficiency

Leading companies carefully deploy resources for the best return on their brand value. When brands get things working together, a little spending can go a long way.

CONCLUSIONS

Current perceptions of Chinese brands are limiting the potential for Chinese enterprises to connect with consumers overseas. As in 2005, our survey revealed that Chinese brands suffer negative perceptions regarding quality. In certain categories, however, entrenched western brands are quickly facing aggressive competition from bold Chinese companies.

Broadening this success will require that Chinese brands migrate beyond low cost OEMs toward creating and managing dominant global brands. This represents a fantastic opportunity to redefine what "Brand China" stands for now and going forward. The key will be determining the relevance of China and Chinese companies to the world.

Associations related to "cheap" and "poor quality" can not be changed overnight and will take long-term, concerted communications campaigns to dispel negative associations and convince consumers. This will require that Chinese brands find competitive advantages beyond price. Several global brands have migrated from low price to "a good value for the money". Once equivilant with low price, Toyota now stands for reliability, Dell stands for personalization, Virgin stands for rebelliousness and Wal-Mart stands for choice.

Once Chinese products and services can inject emotion into their brands, sustain investment, and implement brand management best practices, they will take their place among the world's leading brands.

ABOUT INTERBRAND

Founded in 1974, Interbrand serves the world with 42 offices in over 22 countries. Working in partnership with our clients, we combine rigorous strategy and analysis with world-class design and creativity. We enable our clients to achieve greater success by helping them to create and manage brand value.

We recognize the importance of brand in an increasingly competitive business environment and tailor our services to client needs. Our services include brand analytics, brand valuation, strategy, naming and verbal identity, corporate identity, packaging design, retail design, integrated brand communications and digital branding tools.

Visit www.interbrand.com and www.brandchannel.com for the latest brand thought.

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