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The branding challenges of Asian manufacturing firms

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Abstract During the past quarter of a century, Asia has risen to become the world's factory. This trend has, however, coincided with the relative decline in value of manufacturing compared to other value adding activities, including R&D, design, and branding. This significant "value shift" has eroded the margins of manufacturing firms and sparked considerable interest among executives in Asia to design, brand, and market their own products. To date, though, this transition from being manufacturing oriented to becoming brand owners has largely only been accomplished by Japanese and Korean firms. In the rest of Asia—including in the rising giants of China and India—there are very few valuable brands. In fact, there is not a single Asian brand from a country other than Japan and Korea in Interbrand's 2008 valuation of the world's top 100 brands. Our article discusses, in depth, the challenges that Asian manufacturing firms encounter as they try to become "branders" and how these challenges can be overcome. Based on our collaboration spanning academia and consulting, we have been able to tap a wealth of information made available through research, case studies, and Interbrand's database of completed brand related assignments across Asia.
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1. The branding dilemma

During the past few decades, we have seen a significant shift in value away from manufacturing toward design, marketing, and customer service. This is in sharp contrast to the Industrial Age, when manufacturing contributed the most to value creation of all activities undertaken by firms. The Industrial Revolution was largely a revolution in manufacturing that led to a mobilization of resources and an increase in productivity beyond anything previously achieved throughout millennia of human civilization. The industrialization recipe also proved highly replicable, spreading across countries in Europe and North America before arriving in Asia. In just a few decades, industrialization catapulted Japan from an isolated feudal state to a modern industrial nation capable of defeating

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Russia, a major European power, in war. Industrialization subsequently spread across Asia in what was often labeled the "flying geese" pattern during the 1980s. This initially transformed the "tiger economies" of Hong Kong, Singapore, South Korea, and Taiwan. Industrialization subsequently spread to other Asian countries including China, India, Malaysia, Thailand, and Vietnam.

However, during the past 25 years the rules of the game have changed significantly. In the post-industrial world, manufacturing is no longer the same engine of value creation that it was during the Industrial Age. As high quality products can now be produced anywhere, manufacturing has increasingly been re-located to emerging markets with low labor costs. As a result of these changes, manufacturing has largely become a commoditized capability characterized by substantial competition and declining margins. Those capturing the most value in the post-industrial economy now are firms which control critical capabilities relating to design, marketing, distribution, and service. The actual manufacturing of products is increasingly outsourced to manufacturing specialists. In this new world of outsourcing, companies no longer necessarily compete based on the manufacturing assets they own (Gottfredson, Puryear, & Phillips, 2005).

The question naturally arises whether this is a unique phenomenon for firms from developing countries in Asia, or if these firms are now simply undergoing the same transition process already undertaken by American, European, Japanese, and Korean companies at various stages during the 20th century. While there are obvious similarities in terms of the challenges these firms now encounter, we believe there are both market-level and firm-level factors making it worthwhile to study the current transition process.

1.1. Market-level challenges

We argue that there are three market-level factors posing specific challenges to Asian manufacturing firms which currently aspire to become "branders." First, firms from developing countries in Asia immediately compete on a sophisticated playing field, where they meet competitors that—in many cases—have honed their branding skills for several decades. This makes the market place less forgiving compared to those firms which were branding pioneers during the 20th century. Given this, new Asian branders need to avoid a lengthy process of trial and error.

Second, customer expectations are now higher because we live in a globalized society where customers can select a plethora of products from all corners of the world; they are no longer confined to largely domestically manufactured products. This means it simply takes more to get customers excited about a new product entering the market, because there are often a large number of substitutes at hand.

Third, the overall customer experience is increasingly becoming a critical component of the way not just "service companies" but also "product companies" compete. Just think about how critical customer experience is for the following product companies: Apple, BMW, IKEA, Louis Vuitton, Sony, and Zara.

1.2. Firm-level challenges

Following the outline above, we believe there are three firm-level challenges making the transition especially taxing for new Asian branders. First, many of these firms have their roots in trading; this is especially so in the case of family owned firms. A trading mentality tends to focus on high turn-over and low margins. Hence, it leads to a strong belief in the merits of a "push" strategy (i.e., sales and channels) rather than a "pull" strategy (i.e., branding and positioning). Many of the new Asian branders simply jumped from trading directly to manufacturing, without any focus on R&D or on generating their own discoveries and innovations. This is in sharp contrast to many firms from Europe, the U.S.A., Korea, and Japan, which to a greater extent focused on R&D and were built around significant innovations in sectors such as power generation, telecommunications, consumer electronics, aviation, and automotive manufacturing. Protected by patents, innovations facilitate the adoption of a long-term view based on a pull strategy, as opposed to the push strategy that typically accompanies a short-term trader mentality.

Second, consistent with the higher power distance in Asian cultures, we find a greater reliance on management by fiat in the region. This is especially the case in family owned firms, where family owners dictate and hire managers who execute with less open dissent. In contrast, we see a greater form of collaboration across levels in Western—as well as in Japanese and Korean—firms. We have often come across cases where the top-town, sometimes even dictatorial, management style discourages or blocks relevant information and ideas from lower management echelons.

Third, there is less willingness among new Asian branders to invest in market research, as well as brand- and strategy-consulting services. This makes it harder for these firms to acquire the skills necessary to become successful at branding. This may be related to the higher power distance whereby owners and top managers are perhaps more inclined to

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think they already know what needs to be done. It may also be related to the trader mentality with its associated low margin business model, leaving little room to spend on projects with a long-term return. As we have illustrated, there are significant challenges for new Asian branders at both the market level and the firm level.

2. Asia as the world's factory

Asia—and in particular, China—has become the world's factory. China is currently the leading manufacturer of over 170 different categories of consumer and industrial goods, including televisions, washing machines, refrigerators, air conditioners, microwave ovens, and motorcycles (Fan, 2006). As a result, Chinese firms produce more than 70% of the world's toys, 60% of the bicycles, 50% of the shoes and microwave ovens, and one-third of televisions and air conditioners (Tucker, 2006). Around 60% of Chinese exports are controlled by foreign firms primarily located in Japan, Korea, Taiwan, the U.S.A., Europe, or in Southeast Asia (Barboza, 2006). Since the end of the 1990s, China has become the largest recipient of foreign direct investment (FDI) among emerging markets, with an inflow of between U.S. $40-$70 billion per year. A key driver of this trend has been the relocation of manufacturing facilities to China (Chen, 2005). However, 40% of Chinese exports are produced by domestic giants such as Galanz and Haier. Galanz is the world's largest contract manufacturer and makes four out of ten microwave ovens sold in the world. Haier is the world's largest manufacturer of domestic appliances, with a 34% global market share in white goods (Fan, 2006).

3. Commoditization and low margins

As manufacturing has become a commodity, margins in manufacturing industries have come under substantial pressure. One example is the gross margins in the Electronics Manufacturing Services industry, which fell from 10.1% in 1997 to 6.7% in 2002. Profit margins in this industry were around 1.3% - 2.3% between 1997 and 2000, and even became negative during the 2001-2002 recession (Huckman, 2005). The impact of the current global recession is as yet unknown, but judging from shrinking trade statistics and layoffs, a similar pattern is likely to be repeated. For contract manufacturers, the cost of materials often makes up 80% - 85% of the selling price (Lehtivaara, Cordon, Seifert, & Vollmann, 2001). A typical Barbie doll sold in the U.S. for around U.S. $10 will have an import price of U.S. $2. However, Chinese manufacturers only capture U.S. $0.35, as U.S. $1.65 is made up of materials cost and packaging (Barboza, 2006; Chen, 2005). Similarly, of a U.S. $120 Hugo Boss shirt sold in the United States, Chinese manufacturers capture only 10% of the value, while the brand owner captures 60% and the distribution channel garners 30% (Chen, 2005). As a result, the revenues and profits of the top 100 manufacturing firms in the Asia Pacific region were only around 2% of the revenues and profits of the world's 100 largest consumer goods and retail companies which largely outsource their manufacturing to Asia (Fan, 2006).

4. Interest in branding

Against this background, it is not surprising that executives in many Asian manufacturing firms are worried. Through our research and consulting activities we have learnt that many Asian executives view branding as the panacea to get out of the commodity trap. Moving up the value chain appears attractive because it potentially allows manufacturing oriented firms to own the customer relationship and dictate price points. Rather than being merely a manufacturer, firms might then improve on their slim margins and capture a greater share of the total value generated. There are several additional reasons why branding has become the focus of executive attention.

As mentioned, already slim manufacturing margins are under constant pressure of further reductions. The opportunities for differentiation in pure manufacturing are very limited, which leads to price based competition between players whom large multi-national corporations (MNCs) can play off against each other. This includes both domestic players and new international players located in countries with even lower labor costs.

The substantial flows of FDI to countries in Asia also mean that many MNCs operate production facilities in the region. It follows from this that foreign MNCs benefit from the same low cost production as Asian based manufacturers; for example, Dell in China (Enright, 2005). This neutralizes some of the export advantages of Asian manufacturing firms and adds further pressure on margins.

In addition, domestic manufacturing firms in emerging markets like China and India are increasingly realizing that competition on the basis of rudimentary products is no longer sufficient. Customers belonging to increasingly sizeable segments of sophisticated buyers are not satisfied anymore with the basics, and demand differentiated product and services (Williamson, 2005).

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To break out of the commodity trap, many contract manufacturing firms have forward integrated by adding design capabilities to become what is known as Contract Design and Manufacturing (CDM) firms and Original Design and Manufacturing (ODM) firms. These firms have the capabilities to design, manufacture, and often service complete products. While having better margins than pure contract manufacturers, the margins are still slim. For such firms it appears attractive to attempt forward integration also to branding with the objective of capturing a larger share of the overall value (Arruñada & Vázuez, 2006; Maldar & Chaudhuri, 2006).

In addition to purely economic considerations, we believe that the personal pride of business owners and managers also plays a role in understanding the increased interest in branding. We have worked with many founders and executives who, after becoming successful export contract manufacturers or domestic manufacturers, would like to take the game to the next level by developing their own international brands. This is sometimes fuelled by a certain pride in the "Asian century" and a feeling that the turn has now come to them. The Indian consumer electronics and home appliance company, Videocon, used the following telling tagline during its branding campaign in 2005: "Taking India to its rightful place in the world."

It is important to point out that branding in no way guarantees success. As more and more firms seek to compete based on branding, it can be argued that the margins will start to decline for branded firms also. We have seen how Japanese automotive and consumer electronics firms turned into brand champions and eroded the margins previously enjoyed by their American and European branded competitors. The Japanese firms, in turn, were challenged by their Korean counterparts. Hence, it is clear that competitive advantage is constantly evolving, and that firms need to upgrade their competitive capabilities over time.

5. Asian brands

It is clear that very few Asian firms have managed to create valuable brands on a global scale. In Interbrand's 2008 valuation of the Best Global Brands (Table 1), Asian brands are absent apart from Japanese and Korean automotive and consumer electronics firms (Interbrand, 2008). There is not a single brand from China, India, or Southeast Asia in the ranking. In fact, Samsung was the first non-Japanese Asian brand to enter the top 100 ranking in 2002. Samsung is a particularly interesting example, given that the firm was largely a contract manufacturer in the 1980s but has since successfully moved into branded products. In 2005, Samsung even overtook Sony on Interbrand's Best Global Brands list.

6. Avenues to branding

There are several different avenues open to Asian manufacturing firms which seek to establish their own brands; these include acquisition, partnerships, and organic brand building. Lenovo's acquisition of IBM's personal computer division in December 2004 for U.S. $1.75 billion ranks among the more high profile acquisitions made by Asian firms. The company that became Legend—and, later, Lenovo—was originally founded in 1984. Lenovo initially benefited

Table 1. Asian brands among Interbrand's 2008 Best Global Brands

2008 rank	Brand	Country of origin	Sector	2008 brand value ($m)
6	Toyota	Japan	Automotive	34,050
20	Honda	Japan	Automotive	19,079
21	Samsung	Republic of Korea	Consumer Electronics	17,689
25	Sony	Japan	Consumer Electronics	13,583
36	Canon	Japan	Computer Hardware	10,876
40	Nintendo	Japan	Consumer Electronics	8,772
72	Hyundai	Republic of Korea	Automotive	4,846
78	Panasonic	Japan	Consumer Electronics	4,281
90	Lexus	Japan	Automotive	3,588

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from Chinese protectionist policies including import quotas and tariffs, and restrictions on foreign ownership of manufacturing facilities and distribution channels. However, this changed with China's liberalization and entry into the World Trade Organization. As a result, the competitive intensity in the Chinese PC market increased significantly. Prior to the acquisition of IBM's PC division, Lenovo was a fairly domestic company, with 90% of revenues originating from China (Quelch & Knoop, 2006). The acquisition of IBM's PC division is part of Lenovo's strategy to establish a global brand with reach beyond China.

Another high profile acquisition of a foreign brand was BenQ's purchase of Siemens' mobile handset division in October 2005. Losses soon spiralled beyond BenQ's projections, though, and this led to the corporate decision to stop funding the business and declare bankruptcy in September 2006 (BenQ, 2006). Clearly, Asian firms are in no way immune to the risk of value destruction from mergers and acquisitions.

For their part, Indian firms have also recently acquired high profile international brands. Examples include the U.S. $2.3 billion acquisition of British automotive icons Jaguar and Land Rover by Tata Motors, the acquisition of British Tetley by Tata Tea for U.S. $432 million, and the acquisition of Hungarian Ganz by Crompton Greaves (Crompton Greaves, 2006; "Tata Motors," 2008; "Tetley," 2000).

Examples of smaller scale acquisitions include Hong Kong based Zindart's acquisition of the UK collectibles company Corgi Classics, and Shriro's acquisition of the Swedish camera company Hasselblad in 2003 (Venkatesh, 2004). There are also instances of failed acquisition attempts by Asian firms, including the intended takeover of U.S. based Unocal in 2005 by Chinese oil company CNOOC, and Haier's aborted attempt to acquire U.S. appliance maker Maytag the same year (Enright, 2005).

Asian manufacturing firms have attempted the joint venture partnering route to gain access to brands, as well. This includes Chinese electronics manufacturer TCL, which in 2004 established joint ventures with Thomson of France for televisions and with Alcatel for mobile phones (Fan, 2006).

Asian manufacturing firms of different sizes are also working on organically building their own brands. These firms include a number of household appliance companies, such as Chinese Haier, Indian Videocon, Singaporean OSIM, and Malaysian Pensonic. Other examples include Taiwanese HTC and MiTAC in mobile phones and PDAs; Taiwanese Giant in bicycles; and two smaller Hong Kong watchmakers, Voila and O.D.M. In fact, Hong Kong is the world's second largest exporter of watches, but few are branded by Hong Kong firms ("Building Own Brands," 2006; Carson, 2006; Temporal, 2005; Wood, 2004).

7. Successful versus non-successful firms

As consultants and researchers, we have engaged with a large number of Asian firms outside of Japan and Korea that are trying to break out of the manufacturing value trap and move up the margin ladder. A key question is this: What distinguishes those firms which are successful from those which are not? Based on our experience, the following factors make the difference: (1) customer orientation, (2) long-term orientation, (3) focus on quality and innovation, and (4) communication and follow-up.

7.1. Customer orientation

Successful firms have a strong customer orientation. Employees view the brand and customer experience from the perspective of current and prospective clients, as opposed to just working with "pushing boxes." In successful firms we find evidence of segmentation models, segmented value propositions, in-depth market research, and regular touch point audits.

The mindset and experience of the firm's employees is critical when it comes to ensuring a strong customer orientation. Successful firms spend a lot of time on selecting the right employees and they invest in training. Much has recently been written about Asia's general skills shortage (e.g., "Asia's Skills Shortage," 2007). In many firms that we have researched and consulted for, we have similarly noted significant gaps in critical competences relating to design, strategic marketing, brand management, pricing, and market research. Top executives in Asian manufacturing firms typically have an engineering or finance background, and many do not have a sufficiently strong customer orientation. If marketing exists, it may be as an isolated function burrowed deep down in the organization, rather than as a central function working on a strategic level with cross-functional coordination and alignment (Gao, Woetzel, & Wu, 2003; Huckman, Pisano, & Strick, 2006; Relsted, 2006; Ruimin, 2007; Venkatesh, 2004).

7.2. Long-term orientation

Successful firms have a long-term orientation. They view branding as business as usual, rather than a quick fix project that is completed within a few months. This requires a proper allocation of

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resources, training of employees, and endurance. Branding necessitates consistency in behavior over time, rather than priorities that change on a weekly or monthly basis.

We have dealt with numerous Asian manufacturing executives who seem to believe that branding is a quick fix panacea, and that all the process entails is a short design project to come up with a new logo. The typical mindset of these executives is: the branding project should be done, more or less, by the time brand consultants are selected and appointed; it should only be a matter of weeks before the new logo is ready, which will ensure domination of the company's products. One client asked us, seriously, if undertaking a branding project would guarantee that the client's company would overtake the leading entrenched American competitor in its U.S. home market. This question was raised by a senior executive of an Asian based company without any record of successful international expansion.

This approach to "quick fix branding" appears fairly convenient, in that there is no need to review the business strategy (which often isn't articulated to start with); to align the product portfolio; to ensure consistent execution across all customer touch points; or, in fact, to make any major changes to the business. The branding project is, instead, rapidly reduced to a quick fix logo job that can be implemented in a matter of weeks. The new advertising that emerges is often cluttered with unsubstantiated jargon claiming that the company's products are innovative, advanced, state-of-the-art, or cutting edge.

Strategy guru Michael Porter once noted of Southeast Asian firms that "these companies do not have strategies. They do deals. They respond to opportunities" (Ignatius & Fairlough, 1996, p. 60). As we have discussed, such an opportunistic trader mentality can clearly be detrimental to branding, as management tends to chase the latest opportunity rather than stay the course.

7.3. Focus on quality and innovation

Successful firms focus on both quality and innovation. The appearance of Korean and Japanese brands on Interbrand's top 100 list did not stem from these firms' branding efforts alone. Rather, the branding was underpinned by substantial efforts to improve quality and to innovate in terms of features, design, and service. Many of the firms on the list were originally ridiculed as poor quality copycats, including Japanese automotive and Korean consumer electronics companies. These firms are no longer laughing stocks; instead, they are the subject of business school case studies. This is a far cry from their reputation prior to the 1990s. In sum, these firms maintained manufacturing excellence while recognizing where the opportunity to capture value had shifted.

7.4. Communication and follow-up

Successful firms communicate and follow up. We note that successful firms spend a lot of time on embedding the brand internally and on follow-up. They ensure that the brand is well understood at all levels of the organization, and that employees associate strongly with the brand. They also allow information to flow bottom-up from lower echelons to top management, rather than foster a culture of management by fiat.

The brand and customer experience is tracked using key performance indicators (KPIs), agreed actions are followed up, and employees' appraisals and incentive schemes support delivery of the brand experience. The opposite is often the case in firms which fail. We remember, in particular, the CEO of one company we worked for, standing up in front of all employees to announce that "We are now a branded company" after the completion of a brand strategy project. Yet, when we came back a year later, we noticed that nothing had happened: no budget had been allocated for branding, no actions or milestones were achieved, no employee training was conducted, and no KPIs were established to measure progress. Not surprisingly, nothing had changed.

8. Overcoming the branding challenges

It is obvious that change is not easy for Asian manufacturing firms trying to break out of the low margin position in today's business environment. Based on our experience and the available research evidence—from firms such as Samsung, LG, and Matsushita—it is clear, nonetheless, that change is possible. Next, we analyze the essential ingredients in successful change programs.

8.1. Start with the mindset

We believe the most important change needs to take place in the mindset of organizational employees. This includes elevating branding to a strategic concern that permeates all areas of the business. A long-term orientation becomes a necessity in order to succeed with a change of this magnitude. Samsung's success did not happen overnight; it took more than a decade to make the transition from a

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contract manufacturer to a successful brand. This entailed substantial investments in R&D and the development of emotive products that connect with customers. The need to start by changing the mindset of employees is consistent with the literature on change management in multinationals. Bartlett and Ghoshal (1998) argued more than 10 years ago that change is likelier to be successful if individuals' attitudes and mentalities evolve before altering business processes or organizational structures.

Our experience also tells us that success is more likely if branding is seen as an ongoing process, without a specific end, rather than as a hurried project to be completed by a set date. It goes without saying that a logo-centric attitude can become highly counterproductive if it is not accompanied by a fundamental review of operations and a subsequent change program. This includes an audit of the consistency of customer experience across all customer touch points. In many industries, face-to-face customer interaction, provided by sales and customer service staff, is a key determinant of the overall brand experience.

8.2. Define the strategy

Following the shift in mindset, we believe firms need to take a serious look at their business strategies. The first step we recommend is to develop a thorough market and customer understanding. This includes answering questions about who the customers are, and their existing and latent needs. It also requires an analysis of the competitive landscape, the offerings of competitors, and the relative resources and capabilities of different firms competing in the same space. This necessitates a champion inside the company with a strategic marketing mindset. We have found that someone with this competence is often missing in firms with a heavy manufacturing focus. In the case of pure contract manufacturing firms, this is understandable; but, it is more worrying that we also frequently encounter firms promoting their own brands without this competence in-house. Primary research will in many cases be carried out by a market research agency, but it is important that someone inside the firm takes overall ownership of trying to understand the market and customers.

Following from a sound understanding of the market and customers, we recommend that the firm formulate its target positioning. This should specify the overall position the firm takes in the market based on generating attractive returns, and entails identifying the preference drivers for the target segments and establishing a positioning. We believe that any company positioning should be relevant to the target segments, differentiated versus competitors, credible in light of internal capabilities and available resources, and stretchable so that it lasts for at least 5 to 10 years. At this stage, it is often helpful to develop a short positioning statement covering what the brand is about, what the brand delivers, and how it is differentiated. It is also useful to articulate tangible and measurable proof points for the brand to ensure that promises made are not just empty words. A key challenge at this stage is that any strategy requires a firm to make tradeoffs. We believe the positioning should make clear not only what the company seeks to be, but also what it does *not* seek to be. The litmus test of a clear positioning is that it can be used as a yardstick to guide the activities of the firm. If it is too fluffy or vague, the strategy will not provide any guidance. We often find this to be a challenge for the firms we have worked with; on many occasions, differences in opinion are not debated openly, but are instead swept under the rug, only to resurface at some point in the future.

The company's brand portfolio also needs to be appropriately organized based on the degree of difference between the target segments of the company. Options include: (1) a master brand with all propositions under one brand, (2) a portfolio brand with a vague corporate brand and strong brands for each product, and (3) a hybrid brand with different product ranges under one brand umbrella. These decisions facilitate subsequent design and realignment of the product portfolio to ensure that the company has a set of compelling products and services from which to build segmented propositions. This includes re-configuring the product portfolio to develop product ranges from entry-level products to sophisticated products.

Defining the offering becomes the next key priority. This includes specifying the products and services that the company seeks to offer its target segments based on the key hooks identified in the market research. For many firms, this seems to be the end of the process to define the offering. We argue that it is equally important to look at the customer journey across all touch points; this includes marketing communications, sales, payment, installation, ongoing usage, and customer service. In short, it takes the perspective of the prospective customer, and follows how the customer will interact with the company at all stages. Only by aligning all touch points will the customer undergo a consistent brand experience. This means tilting the company away from traditional functional silos toward an end-to-end process thinking, with the customer at the center. Many firms we have worked with lack strong cross-functional teams that are empowered to operate transversally across the organization.

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Such teams are critical to conduct comprehensive feasibility studies and specifications of what it takes to deliver the offering. As previously discussed, it is important that the underlying quality and performance of a company's products and services are sufficiently high in order for the emerging brand to become successful. Achieving this usually requires a high degree of cross-functional collaboration.

8.3. Implement the strategy

Implementing the offering comes next. It is rarely as simple as just putting a new logo on an existing package. The offering definition phase will most likely have identified changes that need to happen to technical systems, business processes, and the selection and training of people. Driving such change requires strong project and program management capabilities to ensure that all work streams are aligned, that actions are tracked, and that issues are promptly resolved. We believe the best way is to install a program office, reporting directly to the CEO, on top of the conventional silo-based line organization. Some companies have also implemented matrix organizations where the conventional functional organization is overlaid with transversal responsibilities representing either specific customer segments or selected brands.

HR is often a critical function at the implementation stage, as it becomes essential to ensure that the right people are on board, and that they are adequately trained and rewarded. Given that you often "get what you measure," it is important to re-align appraisal and incentive systems to support delivery of the strategy and the brand experience. We have often seen companies make no changes of this nature, yet still wonder why change is slow. Implementation also means aligning all marketing communications activities across the customer touch points to be consistent with the target positioning.

Following from implementation, it is essential to monitor and manage the customer experience. This includes brand tracking, customer satisfaction, employee climate surveys, and touch point audits. This is the only way that management can measure progress toward the goal, and know when to take mitigating action.

8.4. Embed the brand internally

To ensure a consistent end-to-end customer experience, it is critical to embed the brand internally. Moving from a pure manufacturing mindset toward brand ownership requires widespread changes throughout the organization. An internal brand launch together with ongoing activities to embed the brand can become powerful determinants of success. We believe that firms should develop internal value propositions in addition to the external propositions. The message may likewise need to be segmented, depending on the audience. However, at the core we find answers—from an employee perspective—to the basic question: "What's in it for me?" Change does not come easy, and few people enjoy being "changed." This is why it is important that internal branding is taken seriously. We have found it useful to conduct workshops and hold discussions around "on brand" behavior with employees at various levels in the organization. This makes the brand come alive and anchored in the everyday activities of employees throughout the firm. The administration of internal surveys about the brand can become a useful support tool to measure change over time.

8.5. Separate businesses

Many firms that previously focused on contract manufacturing have found it difficult to remain a credible supplier of contract manufacturing services at the same time as they seek to develop branded products. This situation results in an agonizing dilemma that is difficult to manage. Existing customers for the contract manufacturing business often become wary about helping to build up a potential future competitor, and worry about leakage of intellectual property rights.

During the transition period, the former contract manufacturer is still heavily reliant on cash flow from the contract business to feed the development of branded products and services. As a result, good account management capabilities become even more important due to the need to not alienate contract manufacturers while simultaneously seeking to grow the branded businesses. In our experience, we have found that there is no easy solution to this problem, but that there are measures a company can take to neutralize or at least minimize the perceived threat from contract customers.

One approach is to separate the two businesses into different units, or even to spin off the branded business. This can both reassure contract customers that the contract business will continue in the long run and minimize the risk of intellectual property leakage. One example of this is Acer's spin-off of Winstron and BenQ. Acer only retained a 30% ownership in BenQ to lower perceived conflicts of interest. This move followed substantial loss of contract manufacturing business from IBM in 2000 (Gayatri & Madhav, 2004). Similar strategies have been undertaken by Taiwanese electronics manufacturer MiTAC (using Mio as its own brand) and Taiwanese

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computer maker Asus (using Asus as its own brand and Pegatron for OEM). A further advantage of the separation strategy is that it could help to ring-fence resources for development of the branded business. Many firms we have been in contact with experience a classic exploitation versus exploration dilemma; the cash generating contract business ends up winning all or most of the internal resource allocation discussions. Without a ring fencing of the emerging branded business, there is a risk that it becomes starved of cash and talent.

This is, however, not an easy game to master. BenQ has recently made the decision to spin off its branded business in order to focus on contract manufacturing (BenQ, 2007). This comes after BenQ lost its Motorola contract in 2004 and its Nokia contract in 2005 (Maldar & Chaudhuri, 2006). The decision to spin off the branded business has been viewed as evidence of BenQ's failure to build up the branded business and a retreat to contract manufacturing ("BenQ a Cautionary Tale," 2007).

Another approach is to focus the contract and the branded business areas toward different customer segments. This reduces the threat to contract manufacturers by the company's new branded product range. One example of this strategy is Singapore sugar producer SIS, which is a contract manufacturer to a major grocery chain that sells SIS sugar as a private label product. In addition, SIS markets its own branded product range with an everyday premium positioning.

A further alternative is to differentiate the functionality between the products. As an example, new functionality could be introduced first to contract customers, and only later in the company's own branded product range. We know of one company which has used this strategy for mobile phones and navigation devices. However, this strategy would be difficult to sustain for a company which aspires to a premium positioning for its own brand. It tends to work better if the branded products are positioned as discount products. Companies can also implement a degree of geographic segmentation. An example of this is Taiwanese electronics manufacturer HTC, which initially focused its own DoPod brand in Asia while also selling its products to contract customers in Europe, North America, and the Middle East. Another example is Sri Lankan lingerie producer MAS. MAS is a contract supplier to firms such as the Gap, Marks & Spencer, Next, Triumph, and Victoria's Secret, but has also introduced its own branded product range in India.

A final strategy relates to the introduction of complementary, rather than competing, products. Singapore based PC components manufacturer Esys has continued to be a contract player in the PC components market while starting to provide branded systems integration services under its own brand.

9. Final thoughts

As we have seen, manufacturing is no longer the same high margin business that it used to be during the industrial era. Many Asian manufacturing firms are trying to re-define themselves and follow in the footsteps of Japanese and Korean firms which have already made the transition. This article has illustrated the branding challenges faced by Asian manufacturing firms, shown what successful firms do differently, and highlighted some prescriptions for firms about to embark on a branding journey. Success is possible, but it requires a strong customer orientation, a long-term view, a focus on quality and innovation, and constant communication and follow-up.

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