CHAPTER 7

Future Perspective

The art of prophecy is very difficult, especially with respect to the future.

Mark Twain (1835-1910)

During the last two decades, most industries around the world have had to face major structural changes. The development of new technologies, globalization, and diminishing regulatory environments has had significant impact on business strategies and practices of many companies.[1] In some cases the directions of the changes were obvious long before they effectively came, in others not.

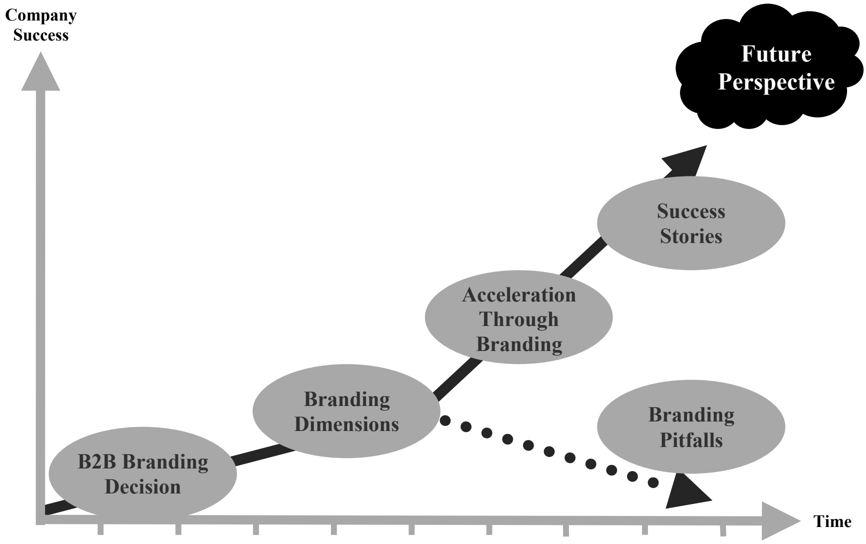

Fig. 69. Guiding principle future perspective

In our opinion, B2B branding and brand management will become increasingly significant. Some even argue that the future of brands **is the future of business** and that sooner or later, the brand will become the only major sustainable competitive advantage in many B2B areas. How this brand future will be constituted is the question. We agree with Scott Bedbury and his Principle No. 8 from *A New Brand World:*[2]

> Relevance, simplicity, and humanity
> – not technology –
> will distinguish brands in the future.

A brand should no longer simply be seen as a logo or icon. Rather, it is a holistic experience in which all activities of a company must be aligned and integrated to gain maximum competitive advantage. Although more than half of the 50 most valuable brands in the world were created more than 50 years ago, age is not a deciding factor for brand success. Even the strongest brands today can get stuck in a complacent time warp, resting on their old laurels and thereby missing out new and important market trends.

Old and once prestigious company brands being overtaken by new and baggage-free competitors is a common phenomenon.[3] The real challenge for businesses is therefore to **maintain their position**, not just to establish it in the first place. It is essential to check the relevance of your brand message regularly and improve and adapt to new circumstances and trends, while keeping the heart of the brand untouched. Companies must be able to constantly deliver on their brand promise, which has to be relevant, meaningful and valued by customers.

Here we will discuss the four major trends that all companies need to recognize and respond to.

- Corporate Social Responsibility
- Branding in China
- Design and Branding
- Lovemarks and Brand Leadership

7.1 Corporate Social Responsibility

There is a continuous debate about whether corporations owe anything more to society than to satisfy customer needs and make money in the process. At one extreme are groups that attack and dislike corporations. In the middle are groups that believe corporations owe something back to society. At the other extreme are groups that see corporations with no obligations to contribute to social welfare.

Let's examine the first group. In 2004, the documentary *The Corporation* based on the homonymous book *The Corporation: the Pathological Pursuit of Profit and Power* by Canadian law professor Joel Bakan attracted considerable attention. Beginning with the nineteenth-century US Supreme Court decision granting the corporation status as a "person", the film proceeds with anthropomorphizing the corporation by wondering what type of "person" it would be. By applying the *Diagnostic and Statistical Manual of Mental Disorders* to the corporate "personality," they conclude that it would be clearly judged as "psychopathic" because it effectively has no **moral or social obligations**. This "pathology" gimmick is employed throughout the film, but actually does nothing to clarify the essential features of the entity. By being provocative and emotional, the film mainly appeals to those young people involved in the anti-globalization and other social protest movements, yet lacks any serious critique of contemporary social and economic life. Fundamentally confused, the work can be seen as both backward and reactionary. Their recommendations at the end are mere band-aid solutions, generally pleading for state regulation.[4]

Anti-globalization protestors attacking multinational companies and their brands as "bullies" is not really a new phenomenon. An activist crying for better social behavior of the so-called "bullies" can be compared to beauty pageant candidates pleading for world peace. Both are not taken too seriously and their wishes are unlikely to be realized any time soon. Companies are not here to make the world a better place but to provide us with what we need in order to make our lives more comfortable and to make money in the course of doing this. If we would like to see more social awareness from these companies, it is the employees, customers, and stakeholders who have to initiate the demand. And this is where the power of the brand comes in.

Those in the middle see today's corporations surrounded by a word-processed, all-seeing digital world. Companies have no choice but to behave well. The strongest incentive comes from their desire to have a positive global brand. To protect the reputation of its brand, a business has to acknowledge that its success demands a holistic approach to promoting its product or service, including more social responsibility.

Brands of the future will have to stand not only for **product quality** and a **desirable image** but will also have to signal something wholesome about the company behind the brand. "The next big thing in brands is social responsibility," says Mr. Olins, "It will be clever to say there is nothing different about our product or price, but we behave well. Far from being evil, brands are becoming an effective weapon for holding even the largest global corporations to account. [5]

Brands actually function to protect consumers, create prosperity, to bind people together internationally, and they have the potential to bring enormous benefits to the developed – and developing – worlds. They are central wealth creators to businesses and economies and they can only play a positive role.

More corporations now understand and have witnessed the positive effects of implementing cause-marketing campaigns, but how much more is there to corporate philanthropy? And how can corporations wishing to help the community, as well as the bottom line, profit from the experiences of their peers?

Branding and social responsibility seek to create a just and sustainable world by working with companies to promote more responsible business practices, innovation and collaboration. Company reputation and corporate citizenship often affect a company's ability to operate overseas or influence consumer purchase behavior. According to the 2001 Corporate Social Responsibility Monitor, fortytwo percent of North American consumers reported having punished socially irresponsible companies by not buying their products.[6]

Companies that do business in a manner that is responsive to the concerns of their multiple stakeholders have a strategic business advantage. A company's brand image can be enhanced when it is identified with issues that strongly appeal to its customers and employees. Out of this favorable identity, businesses can build strong loyalty among employees and customers and position themselves favorably in the marketplace.[7]

Many American companies are now discovering what their international counterparts have known for years: that **reputation as a good corporate citizen matters** and that transparency and accountability for corporate citizenship can enhance brand image and good will. The institutionalization of such practices is evidenced by the fact that the number of companies reporting on corporate citizenship has climbed from 200 five years ago to over 4,000 today.[8]

Companies are expressing corporate social responsibility in at least six ways:[9]

1. **Cause promotions** support a cause by increasing community awareness and contributions to the cause.
2. **Cause-related marketing** ties donations to a cause to the corporation's performance, most typically to product sales volume.
3. **Corporate social marketing** focuses on campaigns to influence positive behavior change.
4. **Community volunteering** involves employee and retail/franchise partner donation of their time in support of a cause.
5. **Corporate philanthropy** entails writing a check, giving a grant or in-kind contribution of corporate services and resources.
6. **Corporate socially responsible business practices** relate to the adoption of discretionary business practices and investments that contribute to improved environmental and community well-being.

Through these actions and those of their intermediaries – companies reflect the understanding that they are an integral part of the social and economic world in which they operate. This is why corporate managers need to bring society into the company; why they need to turn their brands into citizen brands.

In the emerging networked, post-industrial world, managing that relationship is one of the most important challenges that companies face. And companies that understand and embrace this are likely to be the ultimate winners in the future.

7.2 Branding in China

With a branding industry that grossed a staggering US$13 billion in advertising spending in 2003, and US$30 billion in 2005, China presents a whole new frontier in the global race for mindshare and market share. Although China is better known as the world's manufacturing base, branding and innovation have started to appear more frequently in the ambitious blueprints of an increasing number of Chinese companies. The long-term benefits and strengths generated from the branding strategies of many international companies are now more visible to local enterprises. While many Chinese companies have been competing on price and the struggle for immediate benefits, international players have been increasing the presence and reputation of their products and companies on the China market. Branding, which has yet to be mastered by the majority of local companies, has been a major contributor to their success, just as it has been on the international market. The investment that these overseas companies have made in terms of building a long-term image for their products is finally paying off.[10]

Twenty three years ago, Theodore Levitt published his provocative classic, "**The Globalization of Markets**," in the *Harvard Business Review*. He saw global corporations exploiting the "economics of simplicity and standardization" to price their global products far below the local competition. "No one is exempt and nothing can stop the process," he proclaimed, "everywhere everything gets more and more like everything else as the world's preference structure is relentlessly homogenized."[11]

His argument seemed irresistible to executives. In the 1980s, for instance, Japanese companies like *Toyota* and *Panasonic* applied exceptional production quality controls and scale efficiencies to market standardized products across the globe at prices that tempted even the most patriotic consumer. During the late 1980s and the 1990s, scrambling to establish beachheads in some new country markets, global companies had no time-or apparently any need-to worry about local adaptation.[12]

In March 2000, *Coca Cola's* CEO Douglas Daft announced the company's new "**think local, act local**" marketing strategy. Having embraced Levitt's vision for decades, global-brand owners started to listen more closely about how to adapt product attributes and advertising messages to local tastes. However, it didn't mean that Levitt was so wrong about the global standardization of markets and brands. Two forces will drive its return: the rebound of the global economy and China's emergence as a player on the world economic stage[13]. Just as the global economic downturn led consumers around the world to focus locally, a rebounding world economy will revive the appeal of global brands. In an up-cycle, consumers feel more optimistic and extravagant and are eager to participate in an international marketplace; the pace of China's economic and industrial growth ensures that China will become the twenty-first century's factory to the world; any company anywhere in the world will be able to outsource the production of anything to China. Yet, already, China itself is emerging as a source of global brands. Chinese brands like *Lenovo* in computers, *Haier* in appliances, *TCL* in mobile phones, and Tsingtao in beer are extending internationally. And there will be more. The more or less virgin status of branding industrial products or services can be compared to the status of general branding in China.

For decades, China has enjoyed a dominant place in world manufacturing because of its low-cost labor. Chinese businesses were satisfied with the role of being OEM's, supplying the world's biggest brands and retailers' private labels with a huge diversity of product. Today, the wind has changed and even China's government has explicitly stated that it sees "branded commodities" as their way towards world success.[14] It is now urging some of China's largest companies to brand their products globally. This is a logical strategy – China is after all the world's biggest potential consumer market. The market is growing internally and externally, with GDP increasing 9.2 percent year one year to 14.753 trillion Yuan US$1.833 trillion (2005 est.) in July 2005. This continued stable and rapid growth is alluring for all businesses.[15] As the Chinese economy grows and diversifies, customer preferences and behaviors will inevitably change.

Competitive pressures in the Chinese home market put constant pressures on prices, underlining the importance of branded products that can be much more profitable than those of mere OEM's. The foreign competition moreover puts tremendous pressures on companies to constantly improve and innovate, thus providing the chance to move away from the image as producers of cheap goods. Market research and marketing information systems are still in their infancy in present day China. Nonetheless, the market is strongly characterized by rapidly growing brand awareness and preference of consumers. In order to exploit these trends, companies have to invest heavily in product innovation and quality. Businesses have to move away from constantly tapping into severe price wars with competitors as this has almost become a national passion. On the road to internationalization, Chinese companies must convert their domestic advantages into international ones. The actual marketing management in China though, shows many areas that need further improvement. The United States still has the strongest marketing engine in the world, while China has just started to build its own. If Chinese businesses continue to apply the science of modern marketing management, the years to come will undoubtedly show a narrowing of this difference.[16]

According to the professional assessment organization *Beijing Famous-Brand Evaluation Co., Ltd.* the Chinese *Haier* group is on top of the most valuable Chinese brands. This producer of household appliances is the most valuable brand with more than 100 billion Yuan (US$12 billion) assets. In 2004 the group reported exports of more than US$1 billion. Reasons for this huge success are seen in the further opening of the market and the following increase in competition in this special sector.[17] *Haier* is now one of the world's biggest refrigerator brands. Some argue that this is partly due to the "borrowed" belief among customers that the brand is of German origin. More than 20 years ago, the company bought the production-line technology from *Liebherr*, a German industrial conglomerate. They obviously made a decent attempt to borrow the name ("-herr" pronounced to the best of their linguistic ability as *Haier*) as well as the technology.[18]

In the research report Brands in 2004 on the most valuable Chinese brands, there are 43 brands listed. The average sales scale of the brands in 2004 is RMB 11.885 billion Yuan (US$1.478 billion), increased by 24.7% compared with that in the last year, and the brand value has grown by 14% in average. The average ratio of brand value to sales income is 0.84 to 1. Most companies of the list are selling to end-user; B2B companies have not made it to the list, only six supply to industrial clients.

Table 7. Most valuable brands in China

Brands	Company	Main products	Brand Value in RMB billion Yuan
Haier	Haier Group Company	All types of household appliances	**61.600**
Hongtashan	Yuxi Hongta Tobacco (Group) Co., Ltd.	Cigarettes	**46.900**
Legend	Legend Group Co., Ltd.	Computers	**30.700**
TCL	TCL Group Stock Co., Ltd.	TV sets and mobile phones	**30.569**
Changhong	Sichuan Chonghong Electronic Group Co., Ltd.	TV sets	**27.016**
Midea	Guangzhou Midea Group Stock Co., Ltd.	Air conditioners and microwave ovens	**20.118**

These brands are in 24 industries, and 18 provinces and regions. Guangdong ranks the first and owns 9 brand companies, Sichuan owns 6, Jiangsu owns 4, Zhejiang, Shandong, Jilin, and Beijing own 3 each. According to the total value of brands, Guangdong still ranks the first, and then Sichuan, Shandong, Jilin, Yunnan, and Beijing in sequence.

The Chinese government is now urging some of China's biggest companies to sell branded products abroad. The home market is fiendishly competitive and puts constant pressure on prices. Branded products can be more profitable than those of OEMs, and competing in foreign markets forces companies to innovate and improve, thus helping them to move away from their image as producers of cheap goods.

Here we describe three Chinese companies – *Galanz Group, Haier,* and *TTI* – each of which has taken a different route to expansion and branding. Then we will describe B2B Chinese companies.

Galanz Group – Taking OEM Route

Most Chinese companies seeking to expand abroad have pursued an OEM strategy, enabling them to build scale quickly without the need for corresponding investments in marketing. Information technology has made it feasible to construct global networks that seamlessly link production in China to marketing and design operations in developed markets. Conversely, manufacturers in developed markets can outsource what would otherwise be high-cost production, in turn creating greater price flexibility.

Cost and quality leadership and the ability to support a number of global customers and to acquire the needed technology and capabilities are the key success factors in this model. Low costs, which are necessary to secure the initial contracts, must be accompanied by excellent skills in supply chain management and sourcing. A number of customers are required to minimize dependence on any one of them and to gain scale. But while this strategy demands the lowest level of additional skills from Chinese companies, it also offers the lowest upside from the market. Returns can come only through expanding scale to achieve a position of global dominance in components and assembly.

Galanz Group Co. Ltd, a Guangdong-based home appliance company is an example of globalization through an OEM strategy. Founded in 1978 as a textile company with 200 employees, in 1992 it started making microwave ovens, which it soon began manufacturing for OEM customers, targeting those keen to lower their manufacturing costs but not yet ready to set up operations in China. The company is now the world's largest producer of **microwave ovens**, with almost 30 percent of the global and 70 percent of the Chinese market.

Galanz maintained cost leadership while integrating itself into its customers' networks and lowering prices to gain market share and scale; industry average pricing dropped by 18 percent a year in the late 1990s. Since then *Galanz* has signed more than 80 contracts with OEMs. The strategy has paid off. By 2005, sales to OEMs represented over 60 percent of the company's revenue, and annual production had reached 15 million–plus units. Total sales had risen to more than 5 billion renminbi (over US$600 million) and net profits to more than 450 million renminbi. *Galanz* is now introducing branded products for markets in South America and rolling out an OEM approach for other home appliances.

Haier and CSSC Case – The Build-up Step-by-Step Approach

In B2B many Chinese companies are just at the beginning of branding. An interesting example is *Haier*. *Haier* is seen as a role model for the next Chinese industrial giants. *Haier* is a diversified manufacturer of more than 80 products ranging from refrigerators, washing machines, and air conditioners to cell phones and televisions and the world's fifth largest maker of white goods. Since the end of the last century, *Haier* has been enjoying leading domestic market shares in washing machines (25 %), refrigerators (22 %), vacuum cleaners (20 %), and air conditioners (12 %).[19] Figure 70 summarizes the three stages of development through which *Haier* passed.

	1984 – 1991 **Branding in China**	1992 – 1998 **Diversification and Expansion**	1998 – **Globalization**
Key initiative	• Built a strong brand name in refrigerators through a well developed TQC system	• Diversified the product portfolio to "avoid having all the company's eggs in one basket" through mergers and acquisitions	• To build an international brand name • Aspires to become fortune 500
Key results	• Won the first prize in "the most favorite light industry products refrigerators" 5 years in a row • Won the state prize for quality management • Presented with the customer satisfaction cup by China's customer satisfaction movement congress	• Acquired 14 enterprises under the "eating dormant fish" strategy. • Successfully turned these businesses around by leveraging Haier's brand and introducing Haier's OEC management • Expanded product portfolio from 1 product to over 9,000 products in 42 categories	• Sold products to over 160 countries and regions and established more than 38,000 sales outlets across the world

Fig. 70. Development stages for branding in China

In 2005, the company had worldwide sales of more than US$10 billion, a 15 percent increase since 2001. Long dominant in China as one of the first truly nationwide brands, *Haier* now aggressively pursues a globalization strategy on several international fronts, now selling its products in 160 countries and owning 13 factories outside China:

- **Japan –** *Haier* executes sales of nine appliance products through Sanyo Corporation at prices 10-20% lower than Japanese competitors.
- **United States** – A US$40 million Camden, South Carolina production facility went on-line in 2000, producing large volume refrigerators.
- **Europe** – *Haier Europe*, founded in 2000, coordinates sales and marketing of customized product lines across 13 countries. The

company also purchased a Padova, Italy factory for localized white goods production

- **India –** *Haier* is in talks with *Tata Group* to outsource part of the manufacturing as labor cost in China is already higher than in India.

Haier's global branding approach is to extend *Haier's* strong domestic brand reputation into the West by introducing innovative products for niche consumer markets and then expanding into bigger ones. Such strategy enables the company to enjoy the higher margins that come with brand sales instead of slugging it out as a low-cost supplier to Western companies.

TTI and TCL Case – Buying Your Way in

The alternative to entering a market step-by-step is to buy into it through **mergers and acquisitions**. Suitable targets would be companies with valuable assets—brands, customer bases, technology, or channels—as well as products that have become overpriced as a result of management's failure to monitor costs, to move production offshore to low-cost locations (such as China), or to extract the best prices from overseas factories or offshore OEMs.

A buyer could move the bulk of the acquired company's production to China and retain the brand name, distribution channels, and some of the local talent. Over time, it could co-brand the product with its own name to build consumer awareness of its Chinese brand. Once the association and awareness had been firmly established, the buyer could phase out the target brand. The biggest obstacle for a Chinese company would be locating qualified turnaround managers for its typically distressed targets, since it would be unlikely to have post merger-management and marketing skills in-house.

Techtronic Industries Co. Ltd. (*TTI* or the Group) is a world-class supplier of superior home improvement and construction tools with a powerful portfolio of trusted brands and a strong commitment to innovation and quality. *TTI's* acquisition spree started 2000.

In August they acquired *Ryobi* brand in North America for power tools. In August 2001 *TTI* acquired *Ryobi Europe* for power tools and outdoor products. In November of the same year they bought the *Homelite* brand of lawn and garden equipment. In March 2002 they also integrated *Ryobi Australia* and *Ryobi New* Zealand power tool and outdoor power equipment businesses. April 2003 *TTI* acquired *Royal Appliances Mfg. Co.*, and January 2004 they added *Ryobi* brand in North America for outdoor power equipment. Finally January 2005 they acquired *Milwaukee*® and *AEG*® electric power tools and *DreBo*® carbide drill bits. Run by a strong management team, the brands are kept separate, but the production facilities are integrated and run cost efficiently. Branding is on the mind of the business leaders. More brands are on their shopping list, but financial restriction could hinder the expansion. But this brand expansion model may soon spread more over China.

Fig. 71. Brand portfolio of the *TTI Group*

A leading Chinese electronics maker is pursuing a variant of this approach. *TCL International Holdings* purchased an insolvent German television maker, *Schneider Electronics*, for US$8 million in September 2002 in an attempt to break into the European market. Included in the acquisition price were *Schneider's* plants; its distribution network of chain stores, hypermarkets, and mail order; and trademark rights to a series of brands, including *Schneider* and *Dual*. *TCL*, hoping to avoid European quotas on the importation of Chinese TV sets, expects to continue production in Europe. A professional management team is helping *TCL* understand the local market and sales networks, and some *Schneider* employees have been rehired to oversee production. If the strategy is successful, *TCL* could one day introduce the *TCL* brand to the European market. Electronics products bearing the name are already exported to Australia, the Middle East, Russia, South Africa, and Southeast Asia. In a twist, *TCL* is using its *Schneider* brand to position its mobile telephones in the high-end segment of the Chinese market. More recently, *TCL* bought *GoVideo*, of Scottsdale, Arizona, which makes DVD players.

In July 2004 *TTE Corporation* ("TTE"), the biggest global TV manufacturer, jointly set up by *TCL* and Thomson, officially started operation in ShenZhen, China, which its business covers all major markets in the world.

Thomson owns two leading television brands, Thomson in Europe, and RCA in the US. The RCA brand is respected as one of the oldest brands in televisions in the US, and commands a 13 percent market share. The two companies have manufacturing facilities in China, France, Mexico, Poland, Thailand and Vietnam, and it is likely that there will be some consolidation of manufacturing facilities. Major US retailers have put unrelenting pressure on makers to cut their prices, and that has benefited manufacturers with major facilities in China, which benefit from a large domestic market.

For *TCL*, the deal represents an opportunity to transform from a Chinese company to a global company. Chinese companies take advantage of their manufacturing expertise and huge domestic market to build presence; now more want to stretch their wings and become global companies.

The traditional route would have been to focus on certain foreign markets, and build brand recognition. This is a long, slow and expensive process, especially when the newcomer has to fight established brands. For a business challenged by low margins, such as television manufacture, a brand-building strategy would have quickly forced it into the red. As a result, *TCL* opted instead to partner with Thomson as a way to quickly expand into major international markets.

Also, in April 2004, *TCL Mobile* has signed memorandum of understanding (MOU) with *Alcatel* to form a joint venture which is engaging in mobile phone development, production, sales and relevant services in the world. *Alcatel* intends to grant to the joint venture company a license to use the *Alcatel* brand name for handsets sales and distribution, building on the brand's strength in the telecommunications industry globally.

Many of China's appliance and consumer electronics manufacturers have little choice but to go global. Born into an industry that is essentially open to worldwide competition, they must gain scale in the only place they can—the home turf of the world's multinationals. Just getting into the branding game, though, will require a combination of attractively priced products, good service, and first-rate technology. To stay there, the Chinese will have to build or buy a wide range of new skills. But if standards of quality and service remain high, a number of Chinese companies will earn shelf space for their branded goods in developed markets and, one day, might even capture the price premiums that some of their Japanese and South Korean competitors enjoy.

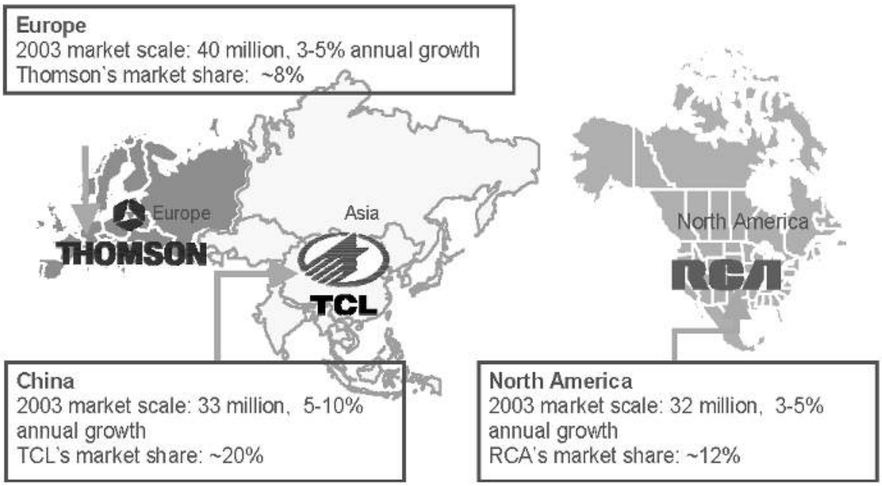

Fig. 72. *TCL* global brand coverage

Chinese B2B Companies

In the B2B world, a few outstanding Chinese companies can be identified today. On the list of the top 25 Chinese brands are the *Jiefang* brand for commercial trucks from *FAW Group Company*, the plastic pipe manufacturer *Guangdong Goody Plastic Stock Co., Ltd.*, and the *Jinde Pipe Industrial Group Co., Ltd*. Most of the former state owned industrial conglomerates are not known to the public, but also working on their brand improvements. As a typical example, consider the *China State Shipbuilding Corporation (CSSC)*. The new *China State Shipbuilding Corporation* is a state-owned conglomerate of 58 enterprises engaged in shipbuilding, ship-repair, shipboard equipment manufacturing, marine design and research. The workforce of 95,000 is located in East China, South China and Jiangxi Province. Major enterprises include *Jiangnan Shipyard, Hudong Shipbuilding, Guangzhou Shipyard* and *China Shipbuilding Trading Company*.[20] *CSSC* had delivered 5 million dwt (deadweight tons) ships in the year, accounted for 40% of the overall output of China, and 7% of the world output, which symbolized that *CSSC* had achieved its goal of stepping into the top five shipbuilding corporations in the world.

Its brand is recognized by the users and buyers of vessels in China, and now is also in some parts of the international markets, like fish trawler or merchant ships. The holding company has a visible logo and even a tag line *Shipbuilding for Tomorrow*, but the marketing power lies in the operating companies, and often they compete with each others.

China presently builds about 15 percent of the world's total tonnage of ships and holds 17 percent of all the global orders. Currently they are No. 3 and their goal is to beat the Korean and Japanese competition and to become No. 1 world wide. Brand will play an important role in that process.

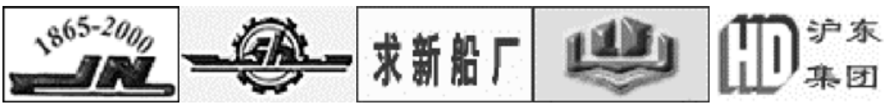

Fig. 73. Brand portfolio of *CSSC*

"Made in China" today is what "made in Japan" was in 1960s. Twenty years from now or even sooner, China will be the new Japan in terms of economic power.

7.3 Design and Branding

Design is an increasingly important tool for differentiation. "Mankind has always used symbols to express fierce individuality, pride, loyalty, and ownership. The power of symbols remains elusive and mysterious – a simple form can instantaneously trigger recall and emotions.

Competition for recognition is as ancient as the heraldic banner on a medieval battlefield."[21] To take just one example, a precursor of brand design can be found in the work of Herman Miller, Inc., a leading global provider of office furniture and services that create great places to work.

The founder developed a unique design, signature and brand and what set his products apart was his recognizable editorial style, covering everything from product to corporate identity (CI). Through problem-solving research and design, the company seeks to develop innovative solutions to real needs in working, healing, learning, and living environments. Net sales of US$262,000 in 1923 grew to US$25 million in 1970, the year the company went public; net sales in fiscal year 2004 were US$1.34 billion.[22]

From a historical perspective, it is fascinating to consider parallels between the worlds of fine arts and branding. We could identify

Fig. 74. *Herman Miller* design

great cultural leaders, such as Rembrandt or even Warhol, as the inspirers of their own powerful brands because, ultimately, the key to their success lay in their unique ability to echo the cultural values of their societies. Today, however, the underlying principle of branding has to do with the nature of customer needs, and it is simply not enough to be flexible and responsive to that needs. What is required is a deeper level of insight, one that enables us to become a driver of change by anticipating the emerging values in business and society.

Siemens, one of the world's oldest and largest electrical companies, can boast of more than 100 years of product and brand design history and business success. This colorful past vividly illustrates the fact that design has played a more important role in electrical engineering than in any other technology-related or -based field. *Siemens* maintained its leadership position in business for a very long time, and the design orientations supported that superiority. Over the years *Siemens* moved more and more out of the consumer business, took their household appliances into a joint venture with *Bosch*, and in 2005 sold off their mobile phones business to the Taiwanese competitor *BenQ*. Now they are concentrating only on business solutions. Nevertheless, *Siemens* maintains its multifaceted picture of design culture which influences the specific exigencies of "electrical design" during the 20th century and stays ahead of competition.[23]

Design language and brand identity of a company goes together. While brands speak to the mind and heart, brand identity is tangible and appeals to the senses. Brand identity is the visual and verbal expression of a brand. Identity supports, expresses, communicates, synthesizes, and visualizes the brand. It is the shortest, fastest, most ubiquitous form of communication available. You can see it, touch it, hold it, hear it, watch it move. It begins with a brand name and a brandmark and builds exponentially into a matrix of tools and communications. On applications from business cards to websites, from advertising campaigns to fleets of planes and signage, brand identity increases awareness and builds businesses.[24]

A similar success story could be seen at *Philips*.[25]. Beginning in 1991, Stefano Marzano, CEO and chief creative director of *Philips Design*,

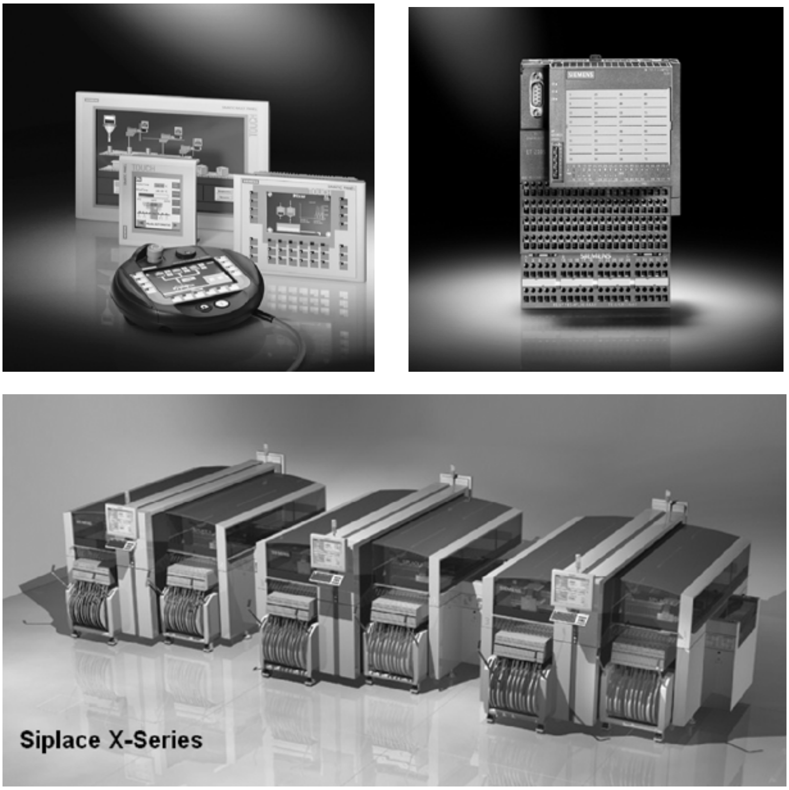

Fig. 75. Classic *Siemens* electrical and electronic components[26]

has been developing a new role for design, based on a simple but challenging ideal – to anticipate and create preferable and sustainable futures through design[27]. This thinking matured into the notion of High Design. According to High Design principles, design is a multidisciplinary synthesis enriched by diverse and complementary bodies of knowledge from human sciences, technology, and materials expertise to aesthetics and communication sciences. Such a vision of design led *Philips Design* to the definition of Strategic Futures, a methodology that facilitates the alignment of business roadmaps, technology trends, and global/regional cultural forecasts and sociological insight to creatively support actionable solutions.

The fundamental starting point of High Design is its ability to focus on the emerging values and needs of people. Over the past decade, *Philips Design* has built up a multicultural team of researchers (including ethnographers, cultural anthropologists, sociologists, popular-culture "cool hunters," and long-term-sustainability strategists) with one goal – to study different societies and develop ways of feeding the knowledge gathered into the design and brand process. The final aim is to leverage design as an agent of change and, in so doing, to enable more sustainable relationships among people, artifacts, and environments. In order to extend this philosophy, the High Design principles were translated into the dedicated brand design process currently in use at *Philips Design*.

Philips Heart Care Telemedicine Services (PHTS) provides an appropriate demonstration of the way in which brand design supports human-focused, and technology-based businesses. *Philips Medical Systems* is a leader in the B2B healthcare industry, directly targeted to end users. The result is a brand positioning based on the deeper values and preferences of European end users. The *PHTS* launch anticipates a fundamental shift in health management, from therapy to prevention, from hospitals to on-site treatments, from cure to care, and it represents a new vision of "connected care" relevant to Europeans. In summary, *Philips's* brand design process offers a unique design management approach to delivering a strategic brand direction.

Design and brand identity is about real passion, strong emotions and deep attachments. For a growing number of companies, design has become a professional obsession. Beginning in 1999, the *International Design Magazine (I.D.)* has been publishing a list of the 40 "most design-driven" companies that push innovation**. In** 2005, *Nike* was number one. But also on that list are and were industrial companies like *Caterpillar*, *Federal Express, Bloomberg* and *John Deere*. *John Deere* produces farm and earth moving equipment. Farm implements are "cool", farmers love the company's machines and service. Lucky are also the American mechanics who work on European cars. *Hazet Tools*, a major German tool manufacturer with many special tools for European cars offers a product line, *Ingenious Tools* which pleases both eyes and hands.

Design goes far beyond the beauty of a product or service. Customer involvement and employee participation is necessary to incorporate various aspects of "design products". When the designers follow the basic principles of industrial design – **form follows function –** success is possible and design awards are granted. In 2005, *Hilti*, producers of saws for demolition, general construction and masonry trades, won the *Red Dot* award. This amazing power tool cuts through anything. The saw is equipped with the technique *Smart Power* which is an innovation incorporating a motor with variable power control and an intelligent sensing system. Design, technology and practicability are coming together.

One arena where design matters most – and is the least considered – is in the creation of essential enterprise systems. Systems are typically invented when problems arise, such as customer service, maintenance, and supervision of all sorts of activities: transportation, production, even marketing. "Beautiful Systems" are simple and straight to the point. They fulfill their purpose without hesitation. We do not want system overload, we want results. Again look at *FedEx*, study the supply chain of *General Electric* and draw your conclusions. Tom Peters phrases it this way in his *Essential* mini book: "We need fewer techies and more poets in our systems design shop, and more artists … and more jazz musicians … and more dancers." [28] He even wants to place the designer"… at the CEO's immediate right at the boardroom table." Design has the opportunity to capture the soul of an enterprise. B2B companies such as *Bombardier*, *Caterpillar*, *FedEx IBM*, and *Microsoft* are on the list of the most design-driven companies in America.[29] Design relevance related to corporate and product design is an essential part of corporate success. Bob Lutz, the head of *General Motors North America*, says that he thinks that *General Motors* is in the art business. It's art, entertainment and mobile sculpture that coincidentally happens to provide transportation. Well, if *General Motors* is in the art businesses, then all of us in some fashion are in the art business.

The direction is about increased corporate and product design strategy to create brand identity through thorough alignment and

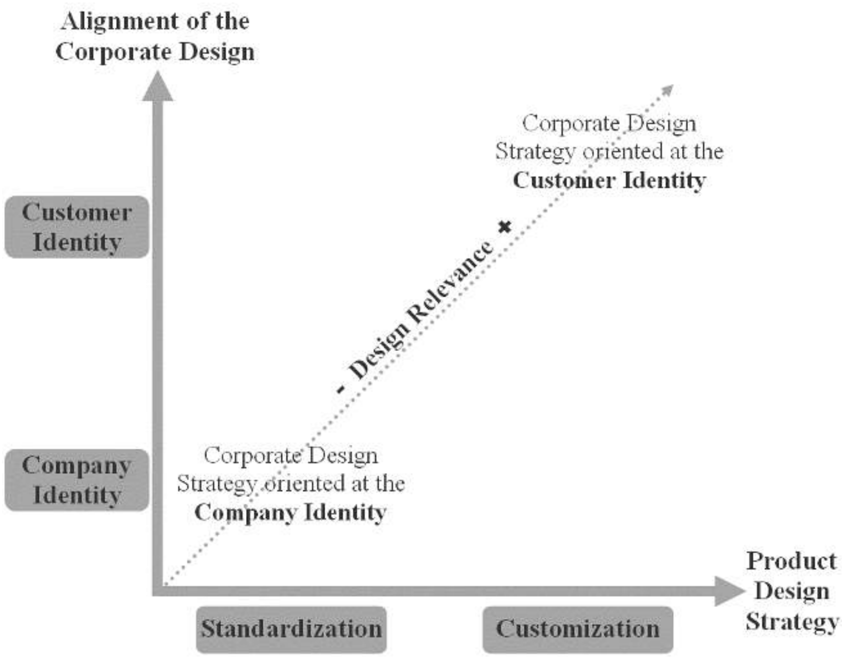

Fig. 76. Design relevance related to corporate and product design

customization. A litmus test could easily be applied at any corporate document or product. Does your design show simplicity, clarity, grace and beauty? If your customer confirms your findings, you have a chance to beat the competition. By creating uniqueness you have the chance to create an emotional connection, and make a difference.

For readers looking for some help in designing brand identity, we recommend using the following steps of the time-tested method from Alina Wheeler's Designing Brand Identity.[30]

Research and Analysis: Create a core team, define members, and communicate project kick-off, purpose, and team to the rest of the company, schedule meetings, clarify the vision, strategies, and goals of the leadership, research stakeholders' needs and perceptions, conduct an internal, competitive, technology and legal audit, interview key management, and evaluate existing brands and brand architecture.

Brand Strategy: Clarify brand strategy, develop a positioning platform, co-create brand attributes, present brand brief document, create a naming strategy, evaluate sub-brands.

Design Concept: Visualize the future, design brand identity, finalize brand architecture, examine applicability, present visual strategy.

Brand Expressions: Finalize identity solution, initiate trademark protection, prioritize and design applications, design identity program, apply brand architecture, asset management strategy, build synergy around new brand, develop launch strategy and plan, launch internally first, launch brand externally, develop standards and guidelines, nurture brand champions, support the legacy, monitor brand quality and performance.

Creating a new brand identity may take 2-3 months, depending on the size of the organization, complexity of business, number of markets served, type of market (global, national, regional, local), nature of the specific problem, research required, legal requirements, decision-making process, number of decision makers, and number of brand applications. There are no shortcuts to this process, developing an effective and sustainable brand takes time. There are no instant answers, and a commitment to a responsible process is imperative. When a new brand is created, it will be easier for salespeople to sell, customers to buy, and for the company's brand to build equity.

"In the last 40 years, design has really been liberated from the cultural discrimination between developed and developing countries and has become truly global. Today, no matter where you go – the United States, Europe, Asia, Latin America, the Middle East, Russia – customers want the best possible product, and they want world-class design. Tokyo, Seoul and Singapore are now as sophisticated as Milan, New York and London. Hong Kong, Shanghai and Kuala Lumpur lead in urban architecture. The most beautiful modern bridges are in Tokyo, Istanbul and Denmark. And India is taking the lead in software development. "[31]

7.4 Lovemarks and Brand Leadership

As consumers, we are all surrounded by so-called Lovemarks[32] – brands that have managed to reach far beyond mere brand recognition and loyalty. They are essential parts of our lives today. People would sorely miss *Coca Cola*, *McDonald's*, and *Starbucks* if they were no longer available. These brand can more easily survive negative headlines – e.g. product defects – or other similar tough times that would heavily damage other brands. This is because the consumers "do care about them" and have internalized the brand message completely.[33]

A great B2C example is the *Apple iPod* with its irreplaceable batteries. After two self-professed *Apple* junkies made a film called "iPod's Dirty Secret" and launched a protest Web site, *Apple Computer Inc.* addressed and eliminated the problem. The fascinating part is that the protest was an act of love: "We made that film because we believe in the brand so much." Instead of being disappointed in it and changing to another brand they "invested" in it to assure a better brand performance in the future.

Is there a potential for industrial Lovemarks? What in the B2B world could customers love? What about consumers wearing *Caterpillar* licensed boots or CEOs' alter ego, their *Lear Jet*?

Yes, B2B brands could be loved, even take on a new level of insistence by the customers. Just imagine you expect a needed spare part and *FedEx* or *DHL* delivers it on time over and over again. This carrier becomes a part of your daily life; it is your emotional rescue. But again it is the customer who brings **your brand to a new level**.

This insight means that expectations are the essence of branding and they need to be managed efficiently. In a complex world with sophisticated technology and multiple relations, the task is to keep your operations and offerings as simple as possible. Coordination and collaboration with the various share- and stake-holders is required, just as important is leadership from the top.

B2B companies need to move from product and system to more attention to service. Large corporations like *IBM* and *GE* have more then 60% of their turnover created by services. *Tata Steel's* premium pricing became possible because they adopted a holistic branding approach covering everything from the development, design, to the implementation of marketing programs, processes, and activities. Marketing and brand management is an essential ingredient in business success.

> *Regardless of age, regardless of position, regardless of the business we happen to be in, all of us need to understand the importance of branding. We are CEOs of our own companies: Me Inc. to be in business today, our most important job is to be head marketer for the brand called you.*
>
> Tom Peters in Fast Company, 1997

Summary

In our constantly changing business environment of new technologies, globalization and market liberalization, alert companies are presented with great opportunities. Winning companies will disrupt old practices and initiate new ones to exploit major trends. The following trends should be watched and incorporated into your company's thinking and business action:

- **B2B branding and brand management** will become increasingly important, and the future of brands is the future of business, probably the only major sustainable competitive advantage. Companies that are going in this direction are on the right track.
- **Branding and social responsibility** seeks to create a just and sustainable world by favoring companies that promote more responsible business practices, innovation and collaboration.
- **Branding in China** is in a stage of leap-frogging into the world market. For decades, China has enjoyed a dominant place in world manufacturing because of its low-cost labor. Chinese businesses today are pursuing aggressive branding strategies involving internal growth or acquiring foreign brand icons and managing them. Both approaches could lead to world success.

- **Design and branding** are increasingly important tools for differentiation. Relevance, simplicity, and humanity – not technology – will distinguish brands in the future.
- **Lovemarks go beyond branding** – brands that have managed to reach far beyond mere brand recognition and loyalty. Their customers "do care about them" and have internalized the brand.

To be successful in the B2B world, a holistic branding approach is required. It should cover everything from the development and design, to the implementation of marketing programs, processes, and activities that are intersecting and interdependent. Marketing and brand management will be critical to a company's success in the future.

Notes

1 Duane E. Knapp, *The Brand Mindset*, 2000, p. 182.

2 Scott Bedbury, *A New Brand World*, 2002, p. 183.

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4 Joanne Laurier and David Walsh, "The Corporation: A Reformist Plea for State Regulation," *WSWS* (25 August 2004).

5 "Who's Wearing the Trousers," *The Economist* (8 September 2001), pp. 26-28.

6 Jenny Rayner and Walter Raven, *Corporate Social Responsibility Monitor,* 2002.

7 Philip Kotler and Nancy Lee, *Corporate Social Responsibility,* 2004.

8 "Branding and Corporate Citizenship," *WinWinPartner.com, 2002*.

9 Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause* (Wiley 2005).

10 Wang Pei, "Building a Global Brand in China," *China International Business* (February 2006).

11 Theodore Levitt, "The Globalization of Markets," *Harvard Business Review* (Vol. 61, May-June 1983), pp. 92-102.

12 Kong Lihua, "Making Brands Go Global: Chinese Companies' Brand Management," 2006.

13 John Quelch, "The Return of the Global Brand," *Harvard Business Review* (August 2003).

14 Rita Clifton and John Simmons, *Brands and Branding,* London, 2003, Introduction, p. 1.

15 Central Intelligence Agency (CIA), "The World Factbook 2006," (10 January, 2006).

16 Waldemar A. Pfoertsch, Oliver Kong and Amber Xu, "Branding in China: Haier & TCL Building Their World Wide Consumer Recognition," 2005, pp. 2-6.

17 "Haier Ranked Most Valuable Chinese Brand," *China Internet Information Center* (4 December 2002); "Haier Listed in World's Top 100 Recognizable Brands," *China Internet Information Center* (3 February 2004).

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19 In 1984 Qingdao General Refrigerator Factory was on the verge of bankruptcy. It was collectively owned by 820 workers with an accrued deficit of RMB 1.47 million, and sales of less than RMB 4 million annually. Today, renamed *Haier*, the company employs nearly 20,000 workers, sells its products in 31 countries, and turns over $US 10 billion, predominantly in the sale of white goods. Zhang Ruimin, Chairman and CEO of the *Haier Group* won 2006 the 26th place in the list of "world's most respected business leader", becoming the only Chinese entrepreneur on the list of the Financial Times. He became famous in China through is pursue of quality; the story goes that he go so outraged in a meeting that he destroyed with a sledge hammer a faulty refrigerator, and all the fore worker had to do the same. This story is portrayed in the move **CEO Mi Ji I** from LIAO ZHU and helped to introduce *Haier* to the Japanese market.

20 According to a statistic, during the period of "Tenth-five Plan"(2001-2005), *CSSC*'s output, with an annual increase of 24.4%, had been growing from 2.09million dwt in 2001 up to 5million dwt in 2005. With an overall amount of only 1.43million dwt, year 2000's total output was only equivalent to 3 months' in 2005. By the end of November 2005, *CSSC* had won 95 new ships orders in 2005, amounting 7.54million dwt, which was 2.94million dwt more than the whole year's amount of 2004. In the mean time, there were 285 ships order in hand, totally 15.86 million dwt, which was 3.21million dwt more than the beginning of the year. For more information see http://www.globalsecurity.org/military/world/china/cssc.htm.

[21] Alina Wheeler, *Designing Brand Identity*, 2003, p. 1.

[22] Herman Miller follows even in its web design the branding principles Who are we? What we believe? What we do? Where we are? Where we've been? available at http://www.hermanmiller.com/CDA/SSA/IP/0,1776,a10-c11,00.html.

[23] Christoph Hoesch, *Siemens Industrial Design* (Hatje Cantz Publishers, 2005).

[24] Alina Wheeler, *Designing Brand Identity*, 2003, p. 4.

[25] Marco Bevolo and Reon Brand, "Brand Design for the Long Term," *Design Management Journal* (Vol. 14 No. 1, 2003), pp. 33-39.

[26] This circuit board surface mounting equipment is characterized by its maximum user-friendliness with the implementation of vision technology. Use on the portal side and improved monitoring is now possible thanks to a lower construction height and a transparent visual access. As a high end product, this new range has been consistently designed in accordance with the corporate design of the "Si-place" product family. designafairs 2005 for Siemens, Germany.

[27] Stefano Marzano, *Creating Value by Design*, 1998.

[28] Thomas J. Peters, *Design*, 2005, p. 61.

[29] "Top 40 North America's Most Design-Driven companies," *I.D. Magazine*, (January/February 1999); *I.D. Magazine (International Design)* is America's leading critical magazine covering the art, business and culture of design.

[30] Alina Wheeler, *Designing Brand Identity*, 2003.

[31] Hartmut Esslinger, "The Riveting Head of Frog Design Talks About Business Before and After the Bubble," *I.D. Magazine* (June 2003).

[32] Kevin Roberts, *Lovemarks*, 2004.

[33] Tom Asacker, A Clear Eye for Branding. *On Business, Brands and Marketplace Success*, Paramount Market Publishing, Ithaca, N.Y. 2005.