



# China's Top 50: Much Progress But More to Do

The recently released China Top 50 ranking once again confirms the value of a strong brand and highlights the remarkable growth of China's economy over the past decade. But it also provides an opportunity to define some of the specific challenges currently facing Chinese brands.



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While they are growing well at home, China's developing brands face a very different environment outside of China. In developed markets, these brands need to sharply increase their levels of awareness and penetration. But beyond that, to actually achieve profitable growth, Chinese brands need to provide consumers with an experience that is meaningfully different.

As we have seen in previous years with the BrandZ Global Top 100, the share prices of strong brands greatly outperform the average. This year's China Top 50 ranking provides another example of the value of this "brand gap." (See Figure 1.) While the MSCI China Index registered a 6 percent loss over the past 15 months, the China Top 50 brands were up 20 percent.



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## The New China: Fertile Ground for Brands

December 2011 marked the tenth anniversary of China joining the World Trade Organization, and some observers say that a hundred years' worth of societal and economic transformation has occurred in the decade since. Nearly 300 million new middle-class consumers have emerged to create a growing market that has allowed new brands to become established extraordinarily quickly. Six of the brands in the Top 50, collectively worth US\$50 billion, didn't even exist 10 years ago, while more than half the brands in the Top 50 were created after 1990.





Some observations about this year's ranking reveal the dynamic environment in which Chinese brands are thriving.

#### *Privately held brands are growing*

The entrepreneurial nature of Chinese business shows up in the relative growth in value of privately owned brands. These brands make up the majority (two-thirds) of the Top 50, and they grew 27 percent year-on-year, compared to a mere 13 percent for state-owned enterprises (SOEs). However, the privately held brands have a considerable way to go to match the dominance of the SOEs, which currently account for 70 percent of the value of the Top 50 brands and occupy eight of the top 10 positions in the ranking. (See Table 1.)

**Table 1: The China Top 50—First 10 Brands**

|    | Brand                      | Field                   | Value (USD Millions) | % Change from 2010 |
|----|----------------------------|-------------------------|----------------------|--------------------|
| 1  | China Mobile               | Telecom                 | \$53,607             | -4                 |
| 2  | ICBC                       | Financial               | \$43,910             | +15                |
| 3  | China Construction Bank    | Financial               | \$21,981             | +1                 |
| 4  | Bank of China              | Financial               | \$18,643             | -17                |
| 5  | Agricultural Bank of China | Financial               | \$17,329             | +5                 |
| 6  | Baidu                      | Search Engine           | \$16,256             | +67                |
| 7  | China Life                 | Insurance               | \$15,253             | -17                |
| 8  | Sinopec                    | Oil & Gas               | \$13,791             | N/A                |
| 9  | PetroChina                 | Oil & Gas               | \$13,755             | -3                 |
| 10 | Tencent                    | Internet Service Portal | \$12,624             | +3                 |

In contrast to the top 10 brands overall, the Top 10 Risers (the brands with the biggest increases in value)—are nearly all private. (See Table 2.) Web portal Sina heads this list with a dramatic increase of 244 percent over last year. Search engine Baidu, though it grew by a smaller percentage (67 percent), registered the biggest increase in actual dollars. It added \$6.5 billion to its value—more than the combined values of the bottom 12 brands in the ranking.

#### *Top risers reflect improved living standards*

The fastest-growing brands come from categories that have benefited from increases in discretionary spending.

**Table 2: The China Top 50—Top 10 Risers**

|    | Brand         | Field               | Value (USD Millions) | % Increase from 2010 |
|----|---------------|---------------------|----------------------|----------------------|
| 1  | Sina          | Portals/ E-Commerce | \$1,905              | 244                  |
| 2  | Fulinmen      | Cooking Oil         | \$380                | 138                  |
| 3  | Tong Ren Tang | Pharma              | \$1,026              | 89                   |
| 4  | ChangYu       | Alcohol             | \$3,223              | 77                   |
| 5  | Baidu         | Portals/ E-Commerce | \$16,256             | 67                   |
| 6  | Mengniu       | Food & Dairy        | \$3,446              | 66                   |
| 7  | Wu Liang Ye   | Alcohol             | \$4,037              | 65                   |
| 8  | Gree          | Air Conditioning    | \$1,632              | 58                   |
| 9  | Moutai        | Alcohol             | \$9,129              | 58                   |
| 10 | Yunnan Baiyao | Pharma              | \$1,897              | 49                   |

In addition to the two Internet brands, the Top 10 Risers include three alcohol brands, two herbal remedy producers, two food brands, and a manufacturer of air conditioners.

As Chinese brands have continued to steadily increase in value, the proportion of earnings that are driven by brand and consumer preference has also edged up. In comparing the Top 50 rankings from 2010 and 2011, we observe that 16 brands improved their brand contribution scores while none declined.

The brand contribution score describes the extent to which “brand,” as opposed to factors like price and location, is responsible for earnings. The increase in these scores is a reflection of the fact that Chinese consumers are becoming more informed and discerning about brands. Exposure to multi-national brands has raised their expectations of quality and value, and Chinese brands have answered this challenge with some real achievements in brand building: improvements in innovation, marketing, image building, and the ability to keep pace with rapidly changing consumer expectations.

#### **Outside of China: Chinese Brands Lack Roots**

Though they have made great strides in China, most Chinese brands are still relatively unknown outside of China. Across the Top 50, foreign earnings average less than 5 percent.



Millward Brown's recent "Going Global" study helps to put those earnings figures into perspective. The staggering finding from that project, which investigated knowledge of Chinese brands in several key markets outside of China (including India, Malaysia, Australia, South Africa, the UK, and the United States), was that, overall, 83 percent of respondents could not name a single Chinese brand.

Among the few brands that did have name recognition was PC maker Lenovo, unusual among Chinese brands in that 50 percent of its sales come from abroad. Another relatively well-known Chinese brand was the appliance maker Haier. Respondents also had some knowledge of Tsingtao beer and Li-Ning, the sports shoes and apparel brand.

So it seems that the first challenge facing China's brands as they venture into global territory is to gain familiarity. However, to compete effectively against established brands in well-developed markets, they also need to establish a meaningful point of difference.

**How Difference Drives Value Growth**

Analysis of the BrandZ database, both in China and elsewhere, confirms that those brands that offer a meaningful difference are the ones most likely to achieve profitable growth. Offering an experience that is meaningfully different can enable a brand to support a price premium or to capture a higher proportion of sales at a price that is on par with the market.

Figure 2 shows an analysis that relates people's perceptions of the qualities of "meaning" and "difference" to brand contribution scores. In BrandZ, we measure difference directly, with the attribute "different than others." We captured the concept of meaning through a combination of the attributes "high opinion" and "appeal." We took the 1,172 Chinese brands measured by BrandZ from 2008 to 2011, split the brands into three groups (according to tertiles) on both difference and our composite measure of meaning, and then calculated the average brand contribution scores for each of the resulting nine groups.

The three red boxes in the upper right contain the indexes for brands that are score high on difference or meaning or both. Note that these numbers are far higher than those in the

**Figure 2: The Impact of "Brand" on Sales**  
Average Brand Contribution Scores (Indexed)

|            |        |                |        |      |
|------------|--------|----------------|--------|------|
| Difference | High   | 85             | 121    | 143  |
|            | Medium | 73             | 100    | 130  |
|            | Low    | 55             | 83     | 104  |
|            |        | Low            | Medium | High |
|            |        | <b>Meaning</b> |        |      |

BrandZ® China 779 brands 2009-2011 (Average = 100)

other boxes. The brands that are high on both difference and meaning index at 143; thus they have an average brand contribution score that is 43 percent higher than average. The brands that are high on meaning and in the middle group on difference index at 130, while those that are high on difference but in the middle third on meaning also index much higher than average at 121.

Conversely, being in the bottom third of brands on either or both dimensions leads to significantly lower scores on brand contribution. The group that is low on both has an index of 55. Note that even the brands in the top third on difference had relatively low brand contribution scores when they scored in the lowest third on meaning, indexing at 85.

When we narrow our focus from all Chinese brands to the China Top 50, we see another example of Chinese brands moving in the right direction. The average brand contribution score for the China Top 50 improved from 118 in 2010 to 124 in 2011. This narrows the gap between the China Top 50 and the Global Top 100, for which the average brand contribution score in 2011 was 129.

Another difference we observe between the China Top 50 and the Global Top 100 is in the distribution of brands across the nine boxes. Only half the China Top 50 brands appear in one of the three upper-right-hand (red) boxes, compared to 70 percent of the Global Top 100 most valuable brands. So even though Chinese brands have made great gains, they can still improve on creating differentiation and meaning.

**Figure 3: Distribution of China Top 50 on Meaning and Difference**  
Percent of brands in each group

|            |        |                |        |      |
|------------|--------|----------------|--------|------|
| Difference | High   | 2%             | 6%     | 26%  |
|            | Medium | 6%             | 8%     | 18%  |
|            | Low    | 2%             | 8%     | 24%  |
|            |        | Low            | Medium | High |
|            |        | <b>Meaning</b> |        |      |

50% of the Top 50 are strong on one or both elements

**Some Meaningfully Different China Success Stories**

A meaningful difference is one that is considered to be important—one that provides a brand with a meaning that is likely to influence brand choice. As Nigel Hollis said in his recent POV “Not Just Different but Meaningfully Different,” brand meaning can originate from many different sources: heritage, function, style, and price are a few of the possibilities. Therefore, a meaningful difference might be a tangible product-oriented quality, or it might be an intangible emotional benefit. Whether it is tangible or intangible, a meaningful difference is a difference that is significant and influential.

Some of the brands in the China Top 50, most notably those among the Top 10 Risers, have done a great job of establishing a meaningful difference and should provide inspiration to other developing Chinese brands. Sina (No. 25 overall, No. 1 among the Top 10 Risers) has distinguished itself through innovation by creating a micro-blogging site, Sina Weibo. With 227 million users posting 86 million messages each day, Sina Weibo offers something unique and valuable to consumers and has helped rejuvenate the Sina brand.

Heritage can be another key differentiator, and Chinese brands have a rich and unique tradition on which to draw. Tong Ren Tang (No. 36 overall, No.3 among top risers) is a traditional Chinese medicine manufacturer that was established over 340 years ago. Herbal remedy producer Yunnan Baiyao (26/10) leverages Chinese medicine by incorporating the

ancient baiyao powder, which stops bleeding, into modern products such as toothpaste, bandages, and skin-care creams.

Trust is a critical issue, particularly for food brands, because of a number of quality issues and scandals in recent decades. Both Fulinmen (47/2), the leading cooking oil and rice producer, and Mengniu (18/6), a maker of dairy products, have benefitted from clear communication of their healthy provenance. Fulinmen has projected the caring and protective image of a wise mother, while Mengniu has connected the consumption of dairy products with the strength of the Chinese people.

**Outlook for the Future**

The China Top 50 brands, collectively worth US\$325 billion, testify to the fact that strong branding is the result of providing a great product experience and developing a trusted relationship with customers. But even though Chinese brands have made remarkable progress over the past 10 years, they have more work to do if they are to compete effectively in global markets. They must increase their strength in their home market by continuing to build perceptions of meaningful difference in the face of increased competition from multinational brands. Outside of China, they need to raise awareness and communicate their meaningful difference at the same time, and in so doing they must take into account the varying mindsets and attitudes toward brands that exist in other countries. A one-size-fits-all marketing plan will not be effective. However, the China Top 50 ranking showcases a number of Chinese brands that are acquiring and honing the skills that will make them successful overseas.

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