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## China and high-end brands: an international perspective

China's rapid economic growth of the past decade, coupled with a fast expanding middle class, means that the country is often perceived as the leader of the BRIC nations. For many luxury brands that are currently feeling the impact of an economic downturn in the West, China offers hope for the future – a market where the appetite for luxury is on the increase when the rest of the world faces gloomy economic prospects.

China's taste for luxury is currently dominant in its key cities – yet this only represents a small proportion of the overall population. There is a huge capacity for luxury brands to expand across other parts of China as people's lifestyles improve. But brand success is also dependent on a thorough understanding of the market and the ability to adapt locally. There are wide cultural differences that affect the consumer buying habits of those purchasing luxury in China, compared with people who purchase luxury in Europe or the US.

### Consumer attitudes

National markets inevitably develop at different stages, affected by population, consumer culture, communications and wealth. But mindset also plays a strong part. In China, social norms put community and family before the individual and hierarchies remain strong. This is in stark contrast to the individualistic attitude that has emerged within Western culture. Consequently, a person's motive to buy luxury is driven by different needs and reasoning – even though the purchased product itself may be the same across cultures.

"For the Chinese consumer, the ability to purchase luxury is an indicator that the person has obtained – and can afford – a better lifestyle," says Jonathan Chajet, managing director of Interbrand China. "In the West, luxury is associated with the life that I see for myself. The buyer is saying that they know good quality and historically it has been about that. In Asia this is secondary: status matters and the driver is to show that they've arrived; that they have good taste."

The slow-down of Western consumerism, due to the shock of Europe's 'credit crunch' and the subsequent recession, has impacted on many mainstream brands. At the luxury end, however, the reasoning is that people will still pay for quality and a premium brand, even if the market has slowed down. This means that traditional luxury brands may still successfully ride out an economic slowdown. However, the Chinese consumer matters: "The Chinese turn to international brands because they believe that they are higher quality," says Chajet. "There is cache in being international and these brands are able to command a 20% price premium."

While local brands currently suffer from a reputation of poorer quality – reinforced by high profile manufacturing and health/safety scares – this downside is countered by a strong national pride, which surged during China's hosting of the Olympics. Support of domestic brands – in theory – is huge, and if local brands succeed in winning over a domestic audience within a population of over a billion people, then there will be plenty of scope for China's own brands to challenge international contemporaries.

## **The future for luxury in China?**

In the short-term, it looks like Western brands will continue to dominate at the luxury end of the market in China. But China is a country that is changing quickly – not just through economic growth but in areas such as communication, including online technology. This means that trends can tip quickly and China's own brands may rise to prominence over the coming decade, both domestically and internationally.

Despite a global economic downturn, China continues to be an emerging consumer society that is demanding more. The question is whether international luxury brands can meet that demand both logistically – by supplying enough product – through to offering products and services that are adapted to fast-changing local tastes.

**Melissa Davis**

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**'Brand South Africa': is 2010 the key?**

'Place branding' – the branding of a nation, town or even a continent – is an area of branding that has undergone huge growth in the past five years. In the case of Africa, branding its nations is currently a popular topic. Many, including the rock star Bono, argue that perceptions need to start changing about Africa – moving away from the charity image to, instead, portraying its various cultures, economic strength and highlighting the positive stories about Africa.

Yet it seems that South Africa, as a leading African nation, has always managed to sidestep the downtrodden image that other African nations are burdened with. South Africa, since its transition from apartheid in 1994, has created a strong identity for itself. Figures like Nelson Mandela and Archbishop Desmond Tutu are practically international celebrities; South Africa's sporting teams are internationally recognised, and successful country exports, like its wine, have all contributed to build a positive side to South Africa's 'brand'.

However, years of poor leadership under President Mbeki (a leader who started with great potential); the country's HIV crisis; increasing disparities in wealth and subsequent high crime rates, along with recent political upheavals have weakened South Africa's brand internationally. To many an outside observer, South Africa looks like a nation in disarray – one that had been full of promise but has yet to deliver.

But next year South Africa will be hosting football's World Cup – an international sporting event that, executed well, could turn around perceptions of the country. The World Cup in 2010 has already led to a surge in infrastructure and development, creating jobs during a recession that has hit South Africa hard. The event, many South Africans believe, offers the country a chance to demonstrate its strengths and a new face – under a new political leadership – to the rest of the world. "2010 is the platform for a gear change for South Africa – it is the launch into the next phase of growth," says John Battersby, UK country manager for South Africa's International Marketing Council. "All focus is on the World Cup. South Africa is gripped by 2010 fever."

**Sport for a nation**

International sporting events, if planned and executed well, can have the potential to boost a country's image and economy. Generally, the upswing lasts for a year after the event has taken place. The key for countries (or cities) is to ensure that there is a long-term communications strategy in place to build on the surge of national pride and growth. In some cases – like China's hosting of the Olympics – the hosting of an international event has the potential to transform existing perceptions. China's goal was to demonstrate its progress to the world. It succeeded.

South Africa's goal, through its hosting of the World Cup, should be to demonstrate its unity as well as its potential in areas such as economic growth – after all, football is a uniting sport in South Africa, played across all sections of society. To date, the most memorable international sporting event for South Africa was the Rugby World Cup in 1995 that followed Mandela's election as leader. While that is a hard act to follow, the 2010 FIFA World Cup could tap into that history – to show that the 'Rainbow Nation' proclaimed by Mandela in 1994 is still a possibility, or even a growing reality. As Battersby says, "We can use sport as a way to unite people – to recapture the unity of 1994. Football in South Africa is bigger than anything else and unifying people around 'feel good' factors is an important legacy. It can lead to a more united country that has shared this experience and has a shared future." Demonstrating this unity will need to be made tangible during 2010, for example, by making matches accessible to all South Africans and not just to international visitors.

South Africa also has the opportunity to confront misleading perceptions about Africa as a continent, by opening people's eyes to the rich culture of the African continent as well as celebrating its own culture. But if South Africa as a nation is on the cusp of a transformation for the better, then it needs to tell its story beyond the World Cup. The country has already made history by being the first African country to host a football World Cup – an event which many believed would not happen. From a nation brand perspective, its hosting of the World Cup is timed well, following a strong leadership change and offering an ideal opportunity to challenge current international perceptions of the country. The key is to ensure that positive transformation continues beyond the FIFA World Cup.

**Melissa Davis**

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## Russia's brand status

Russia is a brand conscious nation. Like its BRIC counterparts of China and India, luxury Western brands offer individuals a means of differentiation and identity. This search for identity is important nearly 20 years after the country emerged from its former Communist Soviet roots, with a new generation brought up on communications and consumer culture rather than censorship.

Consequently, over the last decade, the brand landscape in Russia has developed at a huge pace from the former Soviet days. Before 1991 products and services were state-owned, with little choice and poor quality. This lack of competition offered no reason to create brands. The Lada car characterised the manufacturing of the Soviet era – a small cheap car that was introduced in 1970 and became a symbol of Russia and Eastern Europe until the end of the Cold War. But today, in line with evolving tastes, the Lada has revamped its image through collaboration with French car maker, Renault, to become an increasingly strong brand in the new Russia.

This growing sophistication among the majority of Russian consumers means that formerly popular 'cheap' brands are on the decline (according to Interbrand's brand rankings for Russia) and being replaced by brands that appeal to the sophisticated palette – across sectors ranging from orange juice to cosmetics to cars. An increase in personal earnings have also boosted consumer spending: in 2002, Russians earned about US\$160 per month; they now earn US\$540 (FT.com, 3.9.08). While the recession is now reducing the Russian billionaire fortunes, it has yet to impact on a broader taste for luxury and Western brands, as Douglas Kaufman, head of brand strategy at Cocoon Group, based in Prague, points out:

"Western brands have become a convenient, off the shelf solution for Russians' need for self-identification of their place in society. This is why the real estate market has suffered while brand consumption remains constant: real estate is an *investment* while brands are a *necessity* – a form of self-identification and self-expression. For this reason, brands which are seen as status symbols continue to do well – although in the downturn, they need to also have elements of quality inherent in them. Cars, perfumes, electronics, and other typical high-end brands help fulfill this need for status expression."

However, Russia is not recession-proof. While luxury may continue to sell, some mainstream international brands that made strong entries into the Russian market are currently suffering as the country endures its worse recession of the past decade. Both Samsung and Motorola have closed flagship stores in Moscow due to sales declines and Carlsberg, which owns the beer brand, Baltika, reported falling demand this year.

### **From Communism to consumerism**

This surge of brand consciousness also opens up opportunities for Russian-owned brands to service the local – and large – market. The status-conscious may turn to Western brands for accessories but home-grown brands, particularly in the food sector, are seen as superior to the pre-packaged Western offerings: “The Russians are wary of Western foods and food-brands, believing it to be mass-produced and laden with preservatives and other chemicals,” says Kaufman. “In food production, local and traditional is seen as a net positive. With other categories, however, the ‘made in Russia’ tag doesn’t work so well. Most are seen as inferior to their Western counterparts.”

This is in sharp contrast to the Western perception of Russia that associates the local food with low quality. Internationally Russia is known for its vodka; its oil and gas with energy brands like Tatneft oil and Gazprom (the former Ministry of Gas), as well as more traditional associations such as cavier and a rich imperialist past. However, brand categories like chocolate, (Korkunov is a high end chocolate brand founded in 1999) and cosmetics (such as Kosmetika XXI) have potential, both at home and abroad.

Undoubtedly, the Russian market will remain key to Western luxury brand sales as the Russian middle class grows and consumers seek to differentiate themselves through status brands. Within an economic downturn, however, people often turn to traditional brands as a reminder of the past, believing them to be solid and trusted. Russia is in a good position to connect its rich heritage with a more modern ‘naturalness’ and take this offer to broader brand audiences. Times may be difficult, but Russia is a BRIC nation worth watching.

**Melissa Davis**