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**EXTENDING BRANDS TO EMERGING MARKETS**  
**- IMPLICATIONS FOR BRAND MANAGEMENT STRATEGY**  
**THE CASE OF VOLVO CONSTRUCTION EQUIPMENT IN CHINA**

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## **Abstract**

Brand management has become a topic of interest in recent years. The contribution of an organisation's brand to company's assets is now widely acknowledged and brand management is becoming a more integral part of overall business strategy. There are many important questions to be considered in regards to brand management. This thesis explores the issue of extending a brand to new geographical markets, more specifically emerging markets. This is a key issue considering the intensification of competition and decreasing margins prevalent in many western markets today. This thesis aims to ascertain how a multinational company should act in the event of extending its brand to an emerging market.

We provide an extensive examination of theories regarding branding and brand management. However none of these provide a framework that can be useful to a company extending a brand to an emerging market. Brand theorists generally discuss many of the important concepts but have failed to create any type of structure, which relates them under this context. Therefore a primary objective of this thesis is to provide an integrated framework that companies can use to assess how they should adapt their brand management strategies to an emerging market. All aspects that we feel must be considered in the event of a geographical extension to an emerging market, have been incorporated into the framework and this includes both internal and external influences.

The issue was examined on behalf of Volvo Construction Equipment, their operations in China being the focus point. In order to accurately assess how the company should act, Volvo Construction Equipment's global brand management strategy has been examined in relation to the elements identified in our framework.

**Key Words:** Brand, Brand Management, Brand Extension, Emerging Markets, Volvo Construction Equipment, China, Global Brand Management Strategy, Adaptation

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# 1 Introduction

*The purpose of this introductory chapter is to acquaint the reader with the area of study, by providing the background to the main problem, an explanation of the research questions, as well as the purpose and delimitation of the research. The chapter also serves to introduce the case company, Volvo Construction Equipment, and to give an overview of the construction equipment industry in China. At the end of the section, the outline of the thesis will be delineated.*

## *1.1 Background*

Strategic brand management is a concept that has received increased attention in recent years. The concept concerns building and maintaining brands based on the rationale that a strong brand could be a valuable generator of growth and profitability for a company. A brand can be defined as a name, term, symbol or design, or a combination of them, used to identify the products or services of a seller. Through branding, a company can design an identity for its product and thereby differentiate it from other offerings. This process involves designing and implementing an effective brand management strategy. A brand management strategy has three main functions: to create an identity for the brand that resonates with customers; to position the brand appropriately with respect to competitors; and to communicate the brand and its message to customers (Aaker, 1996).

A key concept in strategic brand management is brand equity. Brand equity can be defined as the added value endowed to a product as a result of past investment in the marketing for the brand (Melin, 1999). The creation of brand equity can be seen as a process where the brand owner creates perceived differences among products in order to drive customers from non-awareness to customer preference and brand loyalty. There are numerous benefits associated with creating brand equity, and consequently more and more resources are being allocated towards the process of building strong brands. The benefits include greater customer loyalty, larger margins, and increased marketing communication effectiveness.

Another significant benefit of brand equity is the emergence of brand extension opportunities (Keller, 1998). A brand can be extended to new products or product categories and this is a common way for companies to introduce new products. The norm for companies today is not to just own one single brand but to have many different brands and products under its control. This coupled with the numerous brand extensions frequently introduced by companies, can lead to a complex internal brand structure. This can present numerous challenges to companies, and often necessitates a separate strategy just to deal with these issues. An important aspect of brand management is therefore managing the brand portfolio.

A strong brand can be extended not only to new products but also geographically to new markets. Traditionally the biggest incentive for firms to extend brands to non-domestic markets is increased profits. However, recent forces have emerged that have further compelled companies to consider taking their brands abroad. These include increasing competition, slow growth in domestic markets, the need to spread risk, as well as the desire to reduce the rising cost of introducing new brands by trying to obtain economies of scale. These factors, coupled with new insights into the global mobility of customers and the immense success of certain “global brands” such as Coca-Cola, have motivated firms to implement global marketing programs and launch their brands in new countries. In many product categories, developing a global profile is almost considered a requirement if a brand is to be successful (Keller, 1998).

An important consideration in developing branding and marketing programs globally is recognising that different types of customers may exist in different countries. The question, which often arises, is to which extent a brand management strategy should be standardised, and to which extent it should be adapted to specific conditions of the country. There exist both advantages and disadvantages to developing standardised global brand management strategies. Some of the potential advantages include: economies of scale in production and distribution; lower marketing costs; consistency in brand image; ability to leverage ideas quickly; and, uniformity of marketing practices. The obstacles include: differences in customer needs, wants, and usage patterns, differences in customer response to marketing mix elements, differences in the competitive



environment, differences in the legal environment, and differences in marketing institutions.

Probably the most persuasive criticism of standardisation is that in standardising a global marketing program, companies ignore the basic differences that exist across countries and cultures. Critics maintain that standardising marketing programs often leads to ineffective strategies geared towards the “lowest common denominator” (Keller, 1998). According to supporters of standardisation, the ideal global marketing program for a brand would consist of one product formulation, one package design, one advertising program, and one pricing schedule that would be the most effective option possible for each country in which the brand was sold. However, such a uniformly optimal strategy is rarely possible. According to Keller (1998) two basic criteria must be met if a standardised marketing program is to be successful. First, market development and the competitive situation must be at similar stages from country to country. Second, customer target markets should be the same across countries and customers should share the same desires, needs and uses for the product. In other words, the brand identity must be relevant to customers in all countries in both a product-related and non-product-related sense. This is exceptionally difficult and probably the biggest obstacle to global marketing (Keller, 1998).

Most often a strategy cannot be completely standardised across markets but must be customised to some extent in each market in order to achieve success. Many companies therefore try to adopt both strategies by combining global objectives with more local concerns. Marketing is generally one of the last functions to be standardised, as it is difficult to measure its effectiveness. Strategic elements of the brand management strategy such as product positioning are more easily standardised than execution-sensitive elements such as sales promotions. Products that enjoy high scale economies or that are not highly culturally bound are easier to market globally. For most products the proper degree of standardisation varies from one element of the marketing mix to another, and from one market to another (Keller, 1998). When extending a brand geographically, it is therefore extremely important to investigate the new market in order to ascertain whether the two basic criteria for implementing a global marketing program can be met. If the criteria are not met, and great

disparities between the countries exist, then it will require that the firm adapt its brand management strategy in order to achieve equity for the brand in that particular market.

## ***1.2 Problem Discussion***

Due to the increasing interest in the area of strategic brand management among today's companies, academic research on the topic is also growing. In recent years numerous studies on the subject have been conducted, covering a wide range of issues. Presently, the focus of many researchers is on how to formulate the brand building process to achieve and maintain brand equity. Several of these studies have covered the issue of managing brand equity for brand extensions, including the area of extending existing brands into new countries. As evident from the discussion above, the question of whether a global branding program should be standardised, customised, or both, is an issue that has been examined thoroughly. Advantages and disadvantages of these approaches have been discussed, and the important aspects to consider when standardising a strategy across countries have been identified. However, studies regarding what issues should be considered when adapting a strategy to another country are lacking. Regarding this topic the existing knowledge base is poor.

Although much of the existing research maintains that there is a need for customisation, it does not give any guidelines as to how a company should proceed when adapting their strategy. The industry environment, and its effect on brand management, has been considered in some theories; however, it is not linked to the external environment to provide a wider perspective on the issue. We propose that a successful geographical brand extension would require an in-depth analysis of the external environment, including aspects such as the effect of the economic development and country culture on the competitive situation and customer preferences. This is of particular importance for companies wishing to extend their brands into emerging markets. Logic dictates that the greatest need for such research would be in the countries that are most different from the domestic market, which for western markets would mean emerging markets. These markets present a unique set of circumstances for western firms as they typically are less developed and have a substandard institutional structure.

Despite this, research on this topic in the context of an emerging market is virtually non-existent. We believe that there is a need for this kind of investigation as many companies, these days, are exploring the opportunities arising in these rapidly expanding markets. This study therefore aims to decrease the knowledge gap in the available literature by providing an answer to the following problem:

### ***1.3 Problem Definition***

#### **Main Problem:**

How should a multi-national corporation adapt its brand management strategy to the specific environment of an emerging market?

We feel that the best approach to solving this problem is to break it up into separate research areas. For this purpose we have formulated the following research questions.

#### **Research Question 1:**

How is the company's global brand management strategy formulated?

In order to investigate how a company should adapt its brand management strategy to an emerging market it is first necessary to outline the current strategy that the company employs in a global context. Comparing the current strategy with our findings regarding the external environment in the emerging market will allow us to distinguish which aspects of the global strategy require adaptation. However, we not only wish to determine which aspects of the brand strategy should be adjusted but also how they should be adjusted. Therefore it is not sufficient to examine only the current global strategy, it is also necessary to include other internal aspects that may influence or alter the strategy. This implies examining the entire internal framework surrounding the brand. This brings us to our second research problem.

#### **Research Question 2:**

How does the current brand portfolio strategy affect the MNC's brand management strategy?

Thoroughly examining the company's brand portfolio strategy gives a background to the brand and identifies the broader framework in which the brand finds itself. An understanding of the brand portfolio will help to identify whether any restrictions will be placed on the company's brand management strategy in the event of adaptation. In some cases the structure of the brand portfolio can also shape customer perceptions of the brand in a market. A company must, of course, also consider the specific environment of the emerging market when adapting its brand management strategy. This brings us to our third research problem.

**Research Question 3:**

How do aspects in an emerging market's external environment influence the MNC's brand management strategy?

In order to determine to what extent adaptation to an emerging market is required, it is necessary to assess the degree to which the institutional setting in this market differs from the setting in which the strategy was formulated. Important factors to examine include customer wants and needs, and the competitive situation. It is thereafter essential to examine what impact these identified differences in the emerging market's external environment could have on the brand management strategy. It is also important to take into consideration customers' existing knowledge and feelings of the brand. This brings us to our final question.

**Research Question 4:**

How do the existing customer perceptions of the brand in the market affect the MNCs brand management strategy?

Before formulating a brand management strategy, the current customer perceptions of the brand should be established, as these will influence the effectiveness of future strategies. Market research should give a clear view of where the company's brand currently stands in the market and these findings will serve as a starting point, based on which a suitable course of action can be determined. It is our belief that by answering these four research questions, we will be able to establish the necessary knowledge base for providing a solution to our main problem.

## ***1.4 Purpose***

The purpose of this thesis is to examine how multi-national corporations should adapt their brand management strategy to the specific environment of an emerging market. The objective is to establish a framework that could be employed by companies when extending their brand to an emerging market. We intend, through a case study, to explore which key factors in the internal and external environment need to be taken into consideration under such circumstances, and explain how these factors affect the MNC's global brand management strategy. We further aim to describe how the MNC should adapt its brand management strategy accordingly.

In order for us to achieve our research objective a clear focus is required, and therefore it is essential to set up some boundaries to the scope of the study. The delimitations of the study are specified in the following section.

## ***1.5 Delimitations***

This study is limited to focusing on a single case company, Volvo Construction Equipment (Volvo CE). Volvo CE is a multinational corporation that is presently in the midst of extending its brand into an emerging market, China, and consequently its contextual conditions are highly relevant to the phenomenon we wish to examine.

As Volvo CE is in the construction equipment business, this industry constitutes a natural focus for our study, as does China, which will be the geographical focus of our study. As a result of these delimitations there will be no comparisons between firms in different industries or different markets.

Furthermore, by focusing on Volvo CE and the Chinese construction equipment industry, the thesis will be limited to examining the above-specified problem in an industrial brand management context. We will thereby exclude the specific aspects related to managing customer brands.

## ***1.6 Case Company Presentation***

### **1.6.1 Volvo Group**

The Volvo Group AB is a world-leading manufacturer of transport equipment for commercial use. The company, which was founded in 1927, today employs 74,112 people, has production in 25 countries and operates on more than 185 markets. In the year 2000, the Volvo Group's total sales amounted to 130 billion SEK. The Volvo Group consists of eight business areas, Volvo Truck, Mack Trucks, Renault Trucks, Volvo Buses, Volvo Penta, Volvo Aero, Volvo Financial Services and Volvo Construction Equipment (Volvo Group, 2002). As well as focusing on products, the Volvo group is aiming to develop its service operations and ultimately provide customers with total solutions including financing, leasing, insurance and maintenance. In 1999, Volvo Group disposed of its most recognised company division, Volvo Car Corporation. The division was acquired by the American company Ford and has since emerged as one of the world's most profitable brands (Burt, 2002). The disposal left the Volvo Group with substantial funds to spend on developing its remaining business areas and product range expansion, and market expansion have since become priorities. Volvo Group has recently extended its reach to markets in South East Asia. Countries there present enormous opportunities as they are still in the process of developing their infrastructure. This situation allows Volvo group to profit from its wide range of products and diverse business areas. Not only can the company provide construction equipment to build roads but also the trucks and buses that run on them (White and Simison, 1999).

### **1.6.2 Volvo Construction Equipment**

Volvo Construction Equipment (Volvo CE) is one of the worlds largest companies active in the construction equipment industry, and secured a global market share of 5 percent in 2001 (Volvo CE internal company material). The company was established in the 1950s when Volvo Group acquired a company previously known as BM. Volvo CE has since become a major international company developing, manufacturing, and marketing equipment for construction and related industries. Volvo CE has a long heritage of providing technologically advanced machines. The company invented the articulated

hauler, of which the new model recently won the German Red Dot prize for best design (Volvo CE press release, 2002:1). Its other products include a comprehensive range of wheel loaders, hydraulic excavators, motor graders and compact equipment (Volvo CE internal company material). Volvo CE has sizeable assets with total sales amounting to 2046 million USD in 2001 and has over 130 different models in its product range. Volvo CE has production facilities on four continents and is present in over 100 countries. The headquarters is situated in Brussels and the company employs approximately 7782 people (Volvo CE internal company material).

Volvo CE aspires to provide superior goods with a focus on quality. The company's products are made available to customers through an extensive network of independent distributors. The company offers a complete set of business solutions to customers including financing, rental and used equipment and service contracts (Volvo Construction Equipment, 2002).

In the year 2002, the company has made several moves to increase its scope. In February 2002, the company announced that it would establish a rental equipment chain with operations in North America and Europe (Nordic Business Report, 2002). Volvo CE also signed a co-operation agreement with Komatsu Ltd. for the production and development of construction equipment components. Discussions on further collaboration are also in progress. This initial venture is considered a significant step in the companies' commitment to reinforcing cost competitiveness, further improving quality and technology and increasing customer satisfaction within the construction industry. The agreement will not include co-operation in sales or distribution and the companies will continue to engage in business as independent competitors, each with its own brand and product identities (Diesel Progress, 2002).

Volvo CE has succeeded in expanding its product range both organically and through acquisitions. The company recently developed its own line of backhoe loaders, which it exhibited for the first time in March 2002. Through acquisitions Volvo CE has been able to merge high quality, competitive products with the Volvo brand name and with the company's strength in distribution. The result is beneficial to both customers and dealers (Recycling Today, 2002). Recent acquisitions include the telescopic-handler business of

UpRight, and the assets of Scat Trak, the skid-steer-loader business of Textron's subsidiary, OmniQuip. Both agreements include exclusive rights to manufacturing and product design rights but not to manufacturing facilities. Both models are to be further developed and launched under the Volvo brand name in late 2002 and 2003 respectively (Construction Equipment, 2002). Thus Volvo CE has profited by adding first class products at the right time without adding any manufacturing capacity. This is crucial to the further development and broadening of the product range (Recycling Today, 2002). Volvo Construction Equipment's recent geographic expansions include the take-over of Samsung's operations in South Korea in 1998 and the establishment of manufacturing facilities in India (Volvo Construction Equipment, 2002).

### **1.6.3 Volvo Construction Equipment China**

Volvo Construction Equipment's operations in China fall under the management of Volvo CE Asia, which oversees all of the company's activities in the Asian region. Volvo Construction Equipment first entered the Chinese market by establishing a representative office, which was originally situated in Beijing but moved to Shanghai in 2001. The business in China is managed by a staff at the representative office with sales support from the regional office Volvo CE Asia. Volvo CE currently serves the Chinese market through imports and is represented in the market by a number of independent dealers. Volvo CE has significantly expanded its dealer network in 2002 with 9 dealers being appointed in May 2002 and three additional dealers being announced in September. Each of the dealers' sell and service Volvo's complete range of construction equipment - wheel loaders, articulated haulers, excavators, motor graders and compact equipment - in their respective territory. Volvo CE plans to add more dealers in the future as increased market coverage is considered a vital step in the development of the company's presence in China (Volvo CE Press Release, 2002:2).

In May 2002, Volvo Construction Equipment announced its plans to establish a wholly owned subsidiary and facility, Volvo Construction Equipment (China) Co, Ltd., for the production of construction equipment in China. The new company will be based on 70,000 m<sup>2</sup> of land in the Jinqiao Export Processing Zone in Shanghai's Pudong New Area and will initially employ 150 people.



The investment in the new facility amounts to approximately 15 MUSD. The new facility is scheduled to begin operations in spring 2003 and will initially be used for the assembly of crawler excavators. The facility will have the production capacity of approximately 2000 units per year depending on customer demand. Volvo CE will use the facility to boost its share of the Chinese excavator market, which is one of the largest in the world. The market has over 10,000 units sold annually and it is expected to grow substantially over the next few years (Volvo CE press release, 2002:3).

### ***1.7 Construction Equipment Industry in China***

According to a respondent active in the construction equipment industry a number of conclusions can be drawn with regards to the industry on a global level. The first is that over the past few years operating margins in the industry have been high. This was largely due to the global macro economic situation, which spurred large amounts of capital to be invested into the industry. The second is that the industry is largely product driven and is very unsophisticated in terms of marketing and the third is that one dominant global brand exists in the market, Caterpillar. However the global construction equipment industry is starting to acquire more characteristics of mature markets. Competition is intensifying, margins are decreasing and companies are fighting to secure a market position. The global construction equipment industry currently provides a tough and challenging environment for firms.

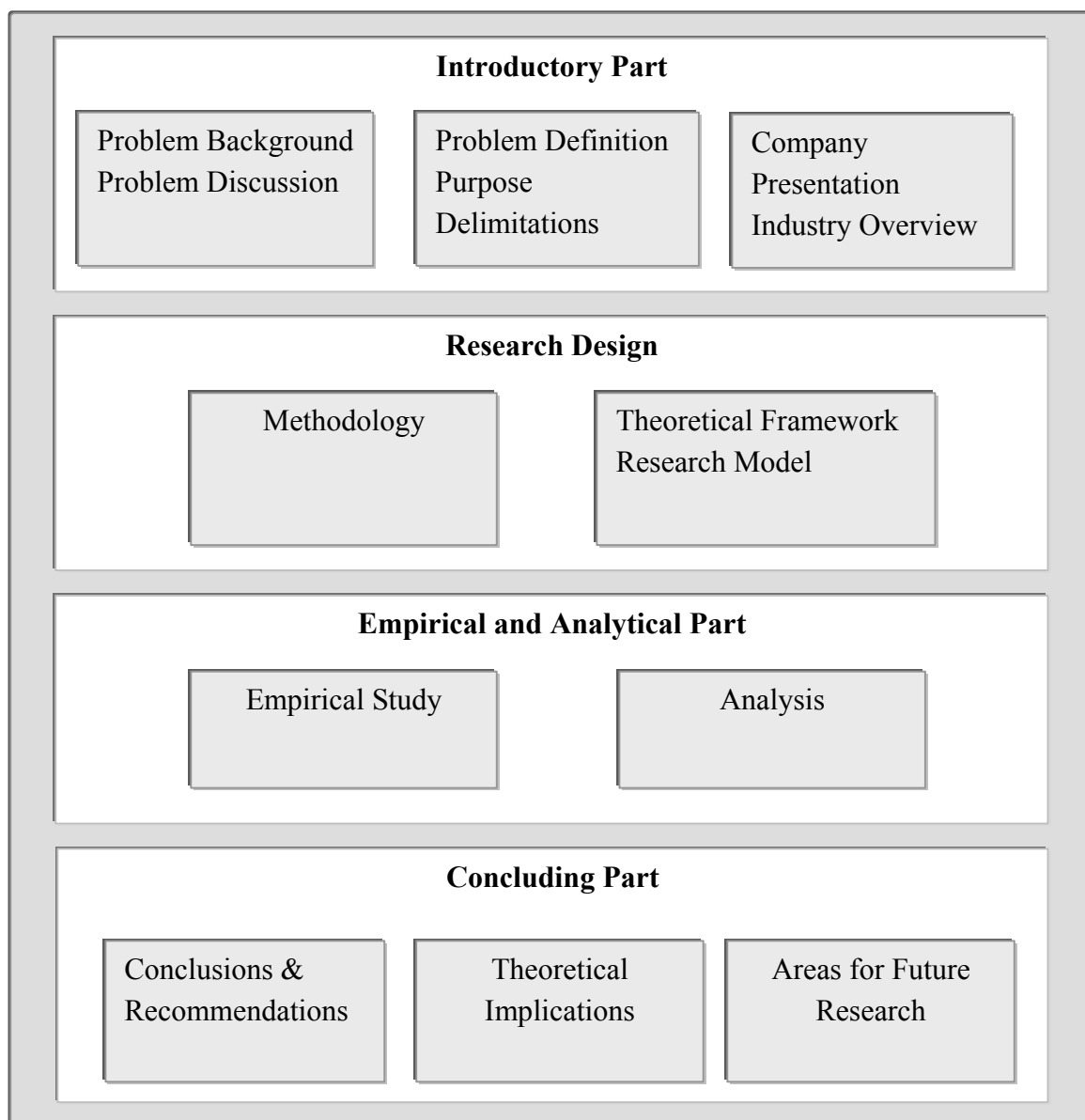
The situation is different in China however. China is currently the world's sixth largest economic entity with an annual gross domestic product rising at more than 7 percent (Price, 2002). This strong economic growth is reflected in the thriving construction industry. The construction equipment industry in China is growing at a rapid pace and is expected to continue to grow substantially during this decade. In 2000, China imported construction machinery, building material machines, construction vehicles and construction equipment worth 2.44 billion USD (Price, 2002). This growth is not expected to slow down in the near future. In fact China's construction machinery market, currently the nation's fourth largest industrial sector, is expected to become the largest in the world in five to 10 years. Recently a senior official from the State Economic and Trade Commission claimed that the construction equipment industry would grow by 10 percent annually in the 10th five-year plan period (2001-2005).

Construction equipment will be needed for major projects such as the Three Gorges Project and the West-to-East Gas Pipeline Projects and additional resources will be poured into the industry. New construction projects are estimated to be worth several billion USD and each year approximately five to eight percent of building funds go towards buying construction equipment (Munich Trade Fairs North America Corp., 2002).

The Chinese construction equipment industry is plagued by over-capacity as a result of the wave of privatisation that began in the 1980s. At the end of 2000, the Chinese construction equipment sector consisted of 1008 domestic manufacturers that supplied roughly sixty percent of domestic demand while the remaining forty percent was provided by foreign manufacturers (People's Daily, 2000). Heavily subsidised state enterprises continue to be active in the market and corruption is still a prominent factor (South China Post, 2002). However the strength of China's CE industry, the country makes up more than 7 percent of the world-wide market for construction equipment (South China Post, 2002), is incentive enough to keep foreign firms in the market. The Chinese government has also made improve conditions and foster co-operation between foreign and domestic firms. According to a representative from the State Economic and Trade Commission the Chinese government is in the process of developing policies to increase transparency and provide a more market-oriented environment in the construction equipment industry. This will help to promote fair competition between domestic and foreign producers (People's Daily, 2000).

## 1.8 Thesis Outline

This thesis is comprised of four main parts, as illustrated in figure 1 below. In the introductory part, the problem area is presented and the need for the study is established. In the subsequent part the study's research design will be developed and explained. This involves the methodology and theoretical framework, which constitute the tools that will guide the collection and analysis of empirical data. This is followed by the empirical and analytical part where the empirical data is presented and analysed. In the final part conclusions are drawn, based on which, recommendations are provided. Lastly, the theoretical implications of the study will be discussed.



**Figure 1:** *Thesis Outline*, Source Authors' Own



## 2 Methodology

*Methodology is a prerequisite to all research studies as it provides the researcher with guiding principles in the pursuit of knowledge. However, in order for these principles to be useful, they must be consistent with the research problems being discussed as well as with the study's propositions. If not, their guidance will lead to questionable results in which case the purpose of the study will not be attained (Arbnor & Bjerke, 1994). In light of this, we will in the following chapter discuss some of the different methodology tools available, after which we will present and motivate our choices.*

### 2.1 Research Strategy

There are numerous research strategies to consider when conducting a study, each with its own advantages and disadvantages. Yin (1994) describes five major research strategies in the social sciences, all of which are different ways of collecting and analysing empirical data. Depending on the relevant situation, a researcher can either conduct an experiment, a survey, a history, an archival analysis, or a case study. The different strategies are distinguished by three conditions; the type of research question posed, the extent of control over behavioural events, and the degree of focus on contemporary as opposed to historical events.

Regarding our thesis, we have chosen to conduct a case study as the circumstances regarding our research problem fit the conditions specific to this strategy. Yin (1994) defines a case study as *"an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident."*

Our choice of research strategy is based on an analysis of our research situation in accordance with the above-mentioned key conditions. A case study strategy is appropriate when answering "how" and "why" questions, when little control is required over behavioural events, and when focus of the study is on contemporary events. As our main problem and research questions constitute *how*-questions, and since the issue under investigation represents a present-day problem currently faced by numerous companies trying to take advantage of

the opportunities that are arising from investing in emerging markets, we consider the case study strategy to be suitable for our study.

When devising a case study, a choice needs to be made between four basic types of case designs; the holistic single-case design, the embedded single-case design, the holistic multiple-case design, and the embedded multiple-case design (see figure 2 below). Each design has its own strength and weaknesses, and which type to choose depend on the number of case studies that needs to be included in the research, as well as on how many units of analysis that are involved.

	Single-case designs	Multiple-case designs
Holistic (single unit of analysis)	Type 1	Type 3
Embedded (multiple units of analysis)	Type 2	Type 4

**Figure 2:** *Basic Types of Designs for Case Studies*, Source: Yin

Regarding our case study, we believe the most appropriate design type to be the holistic single-case design. Generally, a single-case design is suitable for situations where the case represents a critical test of existing theory, where the case is a rare or unique event, or where the case serves as a revelatory purpose. In addition to this however, there are circumstances under which a single-case study may be conducted as a prelude to further studies. These include the use of a case study as an exploratory device or the carrying out of a pilot case serving as the first of a multiple-case study (Yin, 1994).

The latter situation accurately describes the circumstances pertaining to our case. As there is a lacking of previous studies on the phenomenon we wish to examine, it is our intention that this study will serve as a foundation for future research. For this reason we believe it is necessary to conduct an in-depth study which will be facilitated by focusing on a single case. Consequently, as mentioned in the delimitations, we will address our research questions by

focusing on the case of Volvo Construction Equipment adapting to the specific circumstances of the Chinese market, and the single unit of analysis will be the company's brand management strategy.

## ***2.2 Research Approach***

When conducting a case study there are primarily three different research approaches to consider; the explorative approach, the descriptive approach, and the explanatory approach. The determining aspect when deciding on which approach is suitable for a specific research is the purpose of the study.

The exploratory approach is used in situations where, at the starting point, little knowledge exists regarding the topic of investigation, where there is a need to identify problems or develop the problem structure, or when evaluating a particular procedure. The main purpose is here to gather as much information as possible in a certain problem area. The research is often based on generating ideas, which later can be used in future studies. In order to achieve the best possible quality of the research, the investigator should not have a preconceived notion regarding what could be the result of the study (Aaker, 1980).

In cases where prior knowledge of the research topic already exists, and the problem is clearly structured, a descriptive approach might be appropriate. This method includes extensive market research and the objective is to obtain a clearer picture of certain aspects at a specific point in time. These aspects are often described in a detailed and systematic way (Aaker, 1980).

A case study can also be conducted for the purpose of explaining a specific occurrence or set of events. For this situation the explanatory method would be the appropriate research approach. As in the case of the descriptive approach, there is already at the starting point a formulated research problem. In this instance however, rather than simply describing a phenomenon, the researcher attempts to ascertain the causal connections between the variables of investigation (Malhotra, 1999).

Regarding our case study, the available literature provides a rather meagre theoretical base. As mentioned previously in the problem discussion, there have

been numerous studies conducted on the general topic of brand management. However, since none of these studies cover the specific issue of how to adapt the brand management strategy to the specific environment of an emerging market, the existing theories do not provide a conceptual framework that can be applied in our research. We therefore need to gather as much information as possible on the research area, in order to clearly structure our problem and to establish a suitable theoretical framework that will guide the data collection and analysis. Our study will consequently, in part, be conducted using an exploratory approach. In addition to working out the theoretical development and problem specification, an exploratory approach will be used when evaluating the performance of Volvo CE's global brand management strategy, which is necessary in order to examine how it should be adapted.

Our study will also be comprised of certain descriptive elements, as we in the empirical results will include a presentation of Volvo CE's current brand management strategy and brand hierarchy, as well as a description of the market specific aspects examined. Following that, in the analysis, we will examine the causal relations between the variables of investigation to determine what affect the internal and external environment have on Volvo CE's brand management strategy. Consequently we will also apply the explanatory approach.

### ***2.3 Research Procedure***

When conducting a case study, one of the main tasks of the researcher is to effectively apply abstract theory to describe real conditions. A prerequisite for accomplishing this is that the appropriate research procedure is employed. The most influential factor when deciding on the suitable procedure is the level of development of the existing theoretical framework (Holme & Solvang, 1997). This can vary to a great extent, in some cases the framework will comprise very precise, strictly defined theory that can be used to accurately describe the situation under investigation.

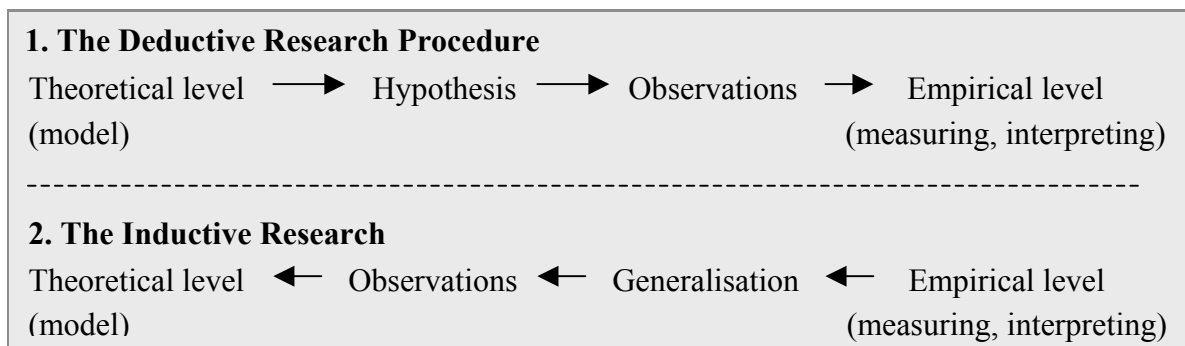
In other cases however, the theories can be characterised as rather vague, imprecise notions of real conditions. In these situations, research studies can be conducted in order to further develop the theory. For some topics it may not be possible to find any existing theory, in which case a whole new framework



needs to be created. Depending on these circumstances, one of three different research procedures should be applied: the deductive procedure, the inductive procedure, or the abductive procedure.

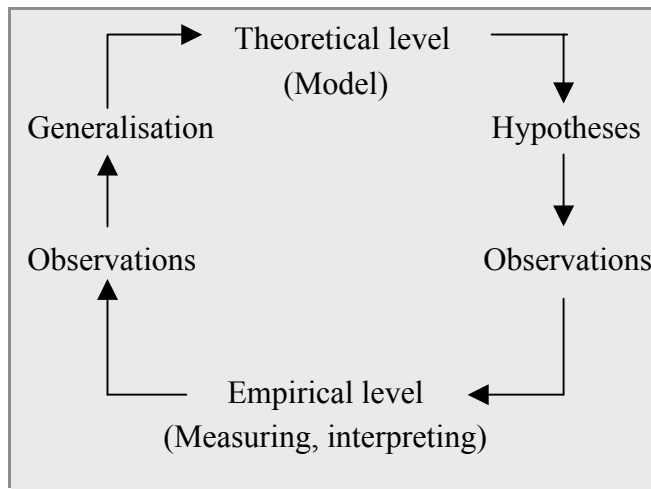
The deductive method has been characterised as the most stipulated research procedure (Patel & Davidsson, 1994). Already existing theories determine what kind of data that is to be gathered, how the data should be interpreted, as well as how the result should be related to the existing theory. Commonly, when using the deductive approach, theory-based hypotheses are developed in order to be empirically tested and proven. The starting point of this process is consequently at the theoretical/general level based on which the researcher draws conclusions regarding specific events and ends up on the empirical level. This is illustrated in model 1 in figure 3 below.

In contrast, the inductive procedure starts with the systematic gathering of empirical data, as illustrated in model 2, figure 3 below. The researcher examines the specific phenomena without first having anchored the study in general principles and theories. Based on the collected empirical information, generalisations are made which are subsequently developed into theory (Patel & Davidsson, 1994).



**Figure 3:** *The Deductive and Inductive Research Procedures*, Authors' own.

The abductive research procedure implies alternating between the empirical and theoretical levels and between using deductive and inductive reasoning (see figure 4 below). This method is commonly used when the purpose of the research is to, through empirical studies, further develop or challenge existing theory.



**Figure 4:** *The Abductive Research Procedure*, Modified from Wiedershem (1991)

Our research procedure will be abductive in nature. As mentioned previously, we will begin our research procedure on the theoretical level, as we need to create a conceptual framework that will guide us in the gathering and analysis of empirical data. Once this is established, the collection and interpretation of the data will be conducted using a deductive approach, which will bring our research to the empirical level. Subsequently, based on the empirical inquiry, we will apply our finding to the theory in order to determine if an analytical generalisation can be made. This final step of our study will consequently entail inductive reasoning, which will bring us back to the theoretical level.

## ***2.4 Research Method***

Based on the type of data being examined it is possible to distinguish between two different research methods, the *quantitative* and the *qualitative* method. Qualitative studies involve soft data such as attitudes, feelings, and motives and the main rationale for choosing this research method is when it is necessary for the researcher to create a deep rather than broad understanding of the observable fact. Qualitative studies are conducted through interviews with the least possible interference by the investigator. Open questions should be posed to allow the interviewee to develop his/her own thoughts and opinions on the subject (Holme & Solvang, 1997).

Quantitative studies on the other hand, entails hard data, i.e. data that could be quantified and expressed in numbers and statistics. In this type of research, a wide understanding is the objective. These studies therefore include a greater number of research objects than do qualitative studies, while the amount of information required on each object is less. When gathering quantitative evidence, the researcher should provide the interviewees with already specified answers to the questions posed (Holme & Solvang, 1997).

Our case study will primarily be undertaken using a qualitative research method. This method is suitable as the nature of our research problem necessitates that we attain a deep and comprehensive understanding of the internal and external factors affecting our case company's brand management strategy. This requires gathering data of the soft kind. However, in order to be able to reach a greater number of research subjects, some of the questions will be given already specified answers, and consequently the study also entails some quantitative elements.

## ***2.5 Data Collection***

### **2.5.1 Data Collection Method**

Having established what type of data should be collected, it is necessary to, within the scope of the selected research procedure and the theoretical framework, decide on the most suitable way of obtaining the required information. Two categories of data can be distinguished, *primary data* and *secondary data*. These categories entail varying amount of effort with regards to the collection process. Primary data is data that is gathered directly from a source to be used for a specific purpose, whereas secondary data has been previously compiled for a different purpose and consequently is already more or less accessible (Wiederheim, 1991). When collecting primary data there are a number of different data collection methods to choose from. Depending on the phenomenon under investigation, data can be gathered either through direct observations, where the relevant behaviours or environmental conditions are simply being observed, or through conducting interviews.

We have used both primary and secondary data in our research. The secondary data has been collected from literature, documentation in journals and online

and archival records provided by our case company. The primary data has been gathered by conducting a series of interviews. According to Yin (1994), the interview is one of the most important sources of case study information.

An interview can be conducted in a number of ways, including structured surveys that can be carried out face-to-face, via mail or via the Internet. Other methods include focus groups, and open-ended or focused interviews conducted via the telephone or in person (Malhotra, 1999). The advantages and disadvantages of these methods have been summarised in the table below.

	Face-to-face Survey	Mail Survey	Internet Survey	Phone Interview	Open-ended Interview	Focused Interview
<b>Degree of perceived anonymity</b>	Low	High	High	Medium	Low	Low
<b>Risk of interviewer influencing the answer</b>	High	Low	Low	Medium	High	High
<b>Suitability for handling sensitive issues</b>	Low	High	High	Medium	Low	Low
<b>Control over the response environment</b>	High	Low	Low	Low	High	High
<b>Suitable when interaction and flexibility is required</b>	Low	Low	Low	High	High	High
<b>Possibility to adapt to the individual</b>	Low	Low	Low	High	High	High
<b>Response time</b>	Fast	Slow	Medium	Fast	Fast	Fast

**Table 1:** *Advantages and Disadvantages of Different Data Collection Methods, Authors Own.*

For the purpose of this study, the greater part of the interviews conducted, have been of a focused nature. Among these interviews, two were conducted over the phone, while the majority was conducted face-to-face. The respondents were generally interviewed for about an hour, and although the interviews were structured around a previously specified set of questions, they were conducted in a conversational manner allowing for adaptability and interaction.

In addition to this, we have conducted a face-to-face survey. This survey consisted of eleven questions, six of which were open-ended and the other half of which had pre-determined answer alternatives. The first part of the survey

included general questions concerning all brands in the Chinese construction equipment market, while the final part was comprised of questions that pertained specifically to Volvo CE. The questionnaire was first constructed in English. To avoid errors caused by misunderstandings and misinterpretations, a Chinese version of the questionnaire was drafted with the assistance of a person fluent in both English and Chinese. The questionnaire was first translated into Chinese and then translated back into English. The English version of our survey can be found in appendix 1.

## 2.5.2 Sampling

In cases where it is difficult to interview the entire target population, it is necessary to select a representative sample. According to Holme & Solvang (1991) there are two principal methods of sampling: *probability sampling*, where all the individuals in the population have equal chance of getting selected; and *non-probability sampling*, where the researcher, based on his/her own judgement, selects the respondents.

The respondents who were interviewed for this study were selected utilising the *purposive sampling* method, which is the most common form of non-probability sampling. In this type of sampling, the sample is selected with a purpose in mind and consequently a specific predefined group is sought. Regarding our survey, we were targeting construction equipment customers operating in the Chinese market. The sample was selected at Bauma; a construction equipment trade fair that took place in Shanghai this past November, and it consisted of 133 Chinese construction equipment customers. This form of purposive sampling, in which the researcher selects the respondents that are most easy to contact, can be referred to as *convenience sampling*, and is a common approach when it is necessary to reach a targeted sample quickly and at a low price (Aaker, Kumar & Day, 1995).

We believe that the target population at large is well represented by the selected sample, as we made sure to verify that the respondents we approached all met the criteria for being in the sample; they were all construction equipment customers operating in various parts of the country.

Regarding the fully qualitative interviews, the respondents were selected through *expert sampling*, which is another variation of purposive sampling. According to Cantzler (1991) this sampling method is useful to elicit the views of persons who have specific expertise in some area. Our criteria for the sample were that respondents could provide good insight into China's institutional setting or the internal framework of our case company. Based on this the assembled sample consisted of selected Volvo CE employees, dealers, main competitors of Volvo CE in the Chinese construction equipment industry, various trade organisations, as well as numerous other external sources. A complete list of the respondents can be found in the interview table in the reference section.

## ***2.6 Quality of Research***

In order to arrive at results of high quality when conducting a research study, measures must be taken to ensure the applicability and dependability of the findings. It is generally agreed that four tests can be used to establish the quality of the empirical research (Yin, 1994). These concern the aspects of validity and reliability. A description of the four tests and the tactics that have been used for the purpose of this case study is provided below.

### **2.6.1 Validity**

The validity of a study concerns the extent to which the findings really measure that which was intended to be measured. According to Yin (1994) there are three different tests involving the validity aspect; *construct validity*, *internal validity*, and *external validity*.

The aspect of *construct validity* involves establishing correct operational measures for the concepts being studied, so that valid deductions can be made from the measures to the theoretical constructs on which they were based (Yin, 1994). This means that agreement must exist between the theoretical concepts and the specific measuring device or procedure. In order to enhance the construct validity of this research, several tactics have been applied. Firstly, great effort has been made to clearly defining the meaning of the different concepts so that errors could be avoided when translating them into measures. We have also made sure to have our measurements validated by outside sources. The use of multiple sources of evidence when collecting the empirical

data has been another attempt at improving our study's construct validity. This method is commonly referred to as data triangulation (Yin, 1994). Furthermore, in order to prevent the emergence of researcher bias, leading questions have been avoided. The potential influence of this type of bias has further been decreased by the fact that we have been two investigators.

Despite these measures taken to ensure the construct validity of our findings, there are still some factors that might have affected the results. These include *hypothesis guessing* and *evaluation apprehension*. Hypothesis guessing is a construct validity threat that emerges when the respondents are trying to guess what the purpose of the study is and then formulate their responses accordingly. Evaluation apprehension is a phenomenon that occurs when the participants are worried that their answers will not look good (Trochim, 2002). We believe that these issues might have had an influence on the findings gathered in our survey. We suspect that some of the respondents were under the impression that we were Volvo CE employees, something that could have made them more eager to give us the answers they thought we wanted to hear. Although efforts were made to stress that we were independent students conducting an independent study, this influence was hard to prevent as many questions specifically concerned Volvo CE.

The second test involving the validity of the research study concerns the *internal validity*, which involves the question of whether there is a causal relationship between the separate variables of investigation. According to Yin (1994) internal validity is a concern only for explanatory studies in which the researcher seeks to establish if certain conditions can be shown to lead to other conditions. As our study in part has been explanatory in nature we have attempted to enhance the internal validity by, during the analysis of the empirical data, applying the analytical tactic of pattern matching where we compared our propositions constituting the predicted pattern of outcomes, to the actual pattern of outcomes.

*External validity* deals with the problem of generalising the results and involves the question of whether the findings derived from a study can be applied to other persons in other places and at other times. Critics have stated that single cases provide a poor basis for generalisation. However, according to Yin

(1994), this is true mainly for studies relying on statistical generalisation, and not for cases relying on analytical generalisation, in which the investigator is striving to generalise specific findings to some broader theory.

External validity can be enhanced through replication of the findings, however in our case the foremost objective is to understand the particular area in depth, which is why our research strategy involves a single case study. Regarding our statistical findings, we believe the external validity to be fairly high as we feel that the selected sample is well representative of the target population. We further believe that the theoretical implications derived from our findings can be applied to other situations where similar circumstances are found, involving MNCs in the heavy machinery industry extending their brands into emerging markets.

### **2.6.2 Reliability**

The reliability aspect of a study involves the extent to which the data collection procedure can be replicated by a different investigator under the same circumstances arriving at the same result and whether the empirical findings are consistent with the data collected. In order to enhance the reliability of this study we have attempted to clearly describe how the data was collected and we believe that if our measurement instruments were to be applied again under the same conditions the findings would be similar. Also, as mentioned previously we have employed the tactics of data triangulation and investigator triangulation to avoid errors and biases. In addition to this, we have during the interviews used thoroughly constructed interview scripts and documented the data both by taking notes and by using a tape recorder.



### **3 Theoretical Background**

*Having a theoretical framework from which to work is essential when conducting a research study such as this, as it will guide the collection and analysis of empirical data. In this chapter, such a framework will be developed and explained. The chapter begins with a brief presentation of some of the different perspectives on branding, after which the main concepts of brand management will be introduced and defined. Subsequently some of the existing theories on brand management will be critically reviewed before the conceptual framework that will be applied for the purpose of this study is presented. Finally a research model will be created providing a clear overview of the linkages between the different constituents of the framework.*

#### ***3.1 Perspectives on Brand Management***

The notion that well-known brands constitute a highly valuable asset for a company is today generally accepted. However, as mentioned in the introductory chapter of this report, the concept of strategic brand management is a relatively recent phenomenon and is consequently still in its early stages. Although brand research has its roots in the earlier half of the 20<sup>th</sup> century, conducted as part of marketing management, it was not until the mid 1980s that what is referred to as modern brand management emerged. It was around this time that companies became increasingly aware of the real economic value that could be derived from strong brands. This is believed by many to be a result of a wave of mergers and acquisitions involving companies with extensive brand portfolios taking place at the time (Kapferer, 1997 and Melin, 1999). These take-overs led to the realisation that brands were important intangible assets whose value was a concept distinct from the net income of the target companies.

An important outcome of these developments was the introduction, in the early 1990s, of the concept of brand equity. This concept will be examined in depth in a subsequent section but for now it will be defined as the added value that a brand endows to a product. Brand equity has in the past decade been the focus of most brand researchers and in recent years, numerous views on brand management have been provided. Some of these still regard brand management

from a marketing management perspective, while others have realised that brand management is a strategic concern that must involve all levels of a company. A brief overview of the main differences between these two perspectives is provided next.

### **3.1.1 Marketing Management Perspective**

From the perspective provided by the marketing management tradition that emerged in the 1950s, a brand is regarded as one of many components constituting the marketing mix. This mix is comprised of the famous 4 Ps; *Product*, *Price*, *Place*, and *Promotion*, and in this context branding is considered to be a less important issue than the product strategy. The main focus of this strategy is on the launching of new products and the brand is simply a decision relating to the development and marketing of individual products (Kotler, 1999). There are still a large number of companies that maintain this perspective of brand management and consequently devote attention merely to the branding activity itself, which involves issues such as brand name selection, logo design, and advertising. These firms consider branding a tactical and financial decision, and an activity that should be confined primarily to the marketing department.

### **3.1.2 Strategic Brand Management Perspective**

From the strategic brand management perspective, the brand is considered one of the most important assets of a firm. Companies of this viewpoint do not simply regard the brand as a tactical device but more as a strategic resource, and consequently an issue that concerns all the different company levels and functions. These companies have realised, that only by mobilising all of their internal sources, can they ensure successful branding and set themselves apart from their competitors (Kapferer, 1997). Branding, in this context, means more than just giving a product a brand name. It also deals with issues such as the number of brands needed, how the brand portfolio should be managed, how far the brand should be stretched, and how far to extend the brand geographically. This perspective is increasingly utilised by both large and small companies, and constitutes the position taken for the purpose of this thesis. In the following section the concept of strategic brand management will be further developed.

## ***3.2 Conceptualising Strategic Brand Management***

As mentioned previously, strategic brand management concerns the process of building and maintaining strong brands. However, before we begin examining how this can be achieved, we will introduce the terminology that will be used throughout the remaining part of the thesis.

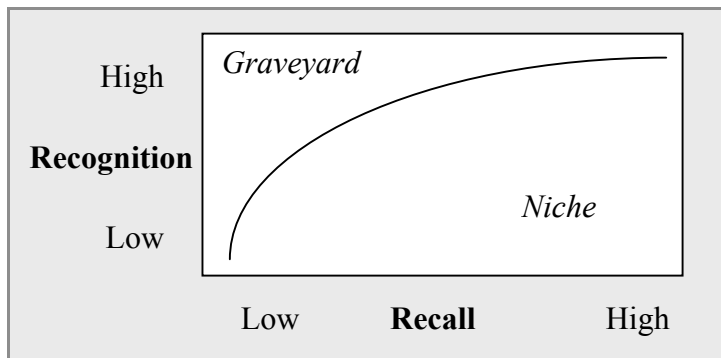
### **3.2.1 Defining Key Concepts**

Several concepts exist that are common to almost all research on the subject of strategic brand management. These concepts will be introduced and described below. It is important to note that although they often use the same names, different authors sometimes choose to define these concepts in different ways. To avoid confusion we will introduce only those concepts and definitions that we have chosen to use in our study.

*Brand equity* is probably the most significant concept of contemporary strategic brand management. It is defined as the added value endowed to a product as a result of past investment in the marketing for the brand (Keller, 1998). Two important concepts in this context are *brand preference*, which refers to a customer's willingness to choose the brand over another product offering in the same category, and *brand loyalty*, which refers to a customer's willingness to continue purchasing a brand regardless of other product offerings that may be available.

The key to creating brand equity is to first create awareness or familiarity of the brand in customer's minds. This is referred to as *brand awareness*. Brand awareness represents the strength of a brand's presence in a customer's mind (Aaker, 1996). There are two factors that constitute brand awareness: recognition and recall. Recognition refers to whether the customer knows that the brand exists. It implies familiarity with the brand, which has been proven to be a deciding factor in the purchase decision as customers instinctively prefer an item that they have previously seen to a new one.

Recall involves linking the brand with the correct product class. A brand is said to have recall if it comes to customer's minds when the product category is mentioned. Recall can be a deciding factor in whether the brand gets on the shopping list. The relative power of recall versus recognition is illustrated by the graveyard model developed by Young and Rubicam Europe. Brands in a product category are plotted on a recognition versus recall basis as illustrated on the graph below. As a brand develops it tends to move along the curved line



**Figure 6:** *The Graveyard Model*, source Aaker, 1996

shown in the model. There are two exceptions to this. The first is a healthy niche brand, which has relatively low recognition but high recall among a group of loyal customers and is therefore able to survive.

The second exception is the graveyard. The graveyard is populated by brands with high recognition but low recall. This means that customers know about the brand but it does not come to mind when the customer is contemplating a purchase. Escaping from the graveyard can actually be hampered by a brand's high recognition, as people are often not enthusiastic about hearing a new story about an already familiar brand. The model demonstrates that high recognition is not necessarily indicative of a strong brand and that recall is equally as important as recognition when creating brand awareness (Aaker, 1996).

Once the company has achieved brand awareness it must make certain that customers make the correct associations when visualising the brand (Aaker, 1996). A firm must actively try to establish the brand in customer's minds as well as shaping what the brand represents. *Brand Associations* refer to what a customer links a brand to in his/her mind. These are the perceptions that the customers have in their minds about the brand. Brand associations can also be referred to as the *brand image*. The brand image or associations are created and influenced by specific attributes in the brand identity. Associations can be both emotional and functional. They can make up a picture of the brand that is positive and strong compared to competitors (Melin, 1999).

*Brand Identity* refers to how the company wishes to be portrayed in the customers' minds. A brand identity is developed by the company itself and is based on product, organisational attributes and core values. A brand identity is implemented by the company through positioning and market communication.

*Product Attributes* are characteristics directly related to the purchase or use of a product, which provide functional benefits to customers. These can include product quality, package design, and visual identity. Product attributes represent the functional added value that a product gives to customers (Melin, 1999).

*Organisational Attributes* are characteristics, which are associated with the organisation and can include innovation, care for customers, concern for the environment to name a few. Organisational associations are created by the people, culture and programs of a company. They are often more enduring and less affected by competitive claims than product attributes (Aaker, 1996) They represent an emotional added value that the product or service gives to customers.

*Functional Benefits* are benefits based on product attributes, which provide a functional utility for a customer. This type of benefit will often relate to a function performed by the product or service for a customer (Aaker, 1996). Product performance and maintenance are examples of functional benefits. *Emotional benefits* involve intangible aspect and occur when the purchase of a product or service gives the customer a positive feeling. They add to the experience of owning the brand (Aaker, 1996).

*Core values* are the fundamental essence of a company. They embody what the company stands for and are often used as the motto of the company. Core values can often differentiate a company from competitors.

A brand *position* is the part of the brand identity and value proposition that is to be actively communicated to a target audience and that demonstrates and advantage over competing brands (Aaker, 1996). *Market communication* refers to how the chosen position is communicated to customers. It includes not only which channels are chosen to convey the message but also what that message

should be. Market communication is the means by which firms attempt to inform, persuade, and remind customers directly or indirectly about the brands that they sell (Keller, 1998). The result of a market communication program should be to increase brand awareness and enhance brand associations in the customers' minds.

### **3.2.2 Brand Building as a Process**

There have been numerous studies presented on strategic brand management, each providing different approaches to building strong brands. Generally, theories on the subject contain many of the same concepts but authors vary in how they apply and relate them. We have chosen to base our study primarily on theories developed by David Aaker and Frans Melin. These authors both view strategic brand building as a process but provide different views as to how this process should look. In Aaker's model, a strategic brand analysis is included, which provides a company with an external perspective as a platform from which to build their brand, whereas Melin incorporates a detailed customer perspective to enhance the brand building process. We therefore felt that by combining and modifying these two models we could create a solid base from which to develop a framework for how an MNC should adapt its brand management strategy to an emerging market. The following section will provide an overview of Aaker's and Melin's theories. Subsequently we will introduce and explain our own theoretical framework.

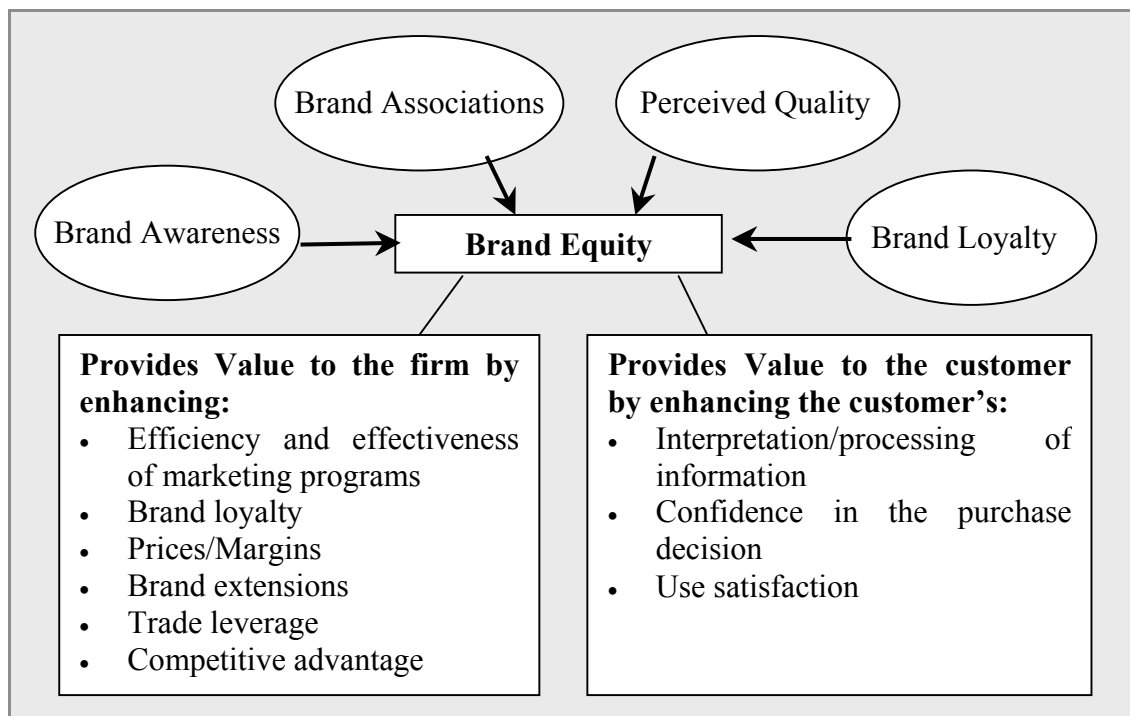
#### **Aaker**

David A. Aaker is a leading brand management researcher who has presented numerous theories on the subject. He has examined many different themes relating to brand management and brand equity. For the purpose of this report we will look at Aaker's *Brand Equity Model* and his *Brand Identity Planning Model*.

#### ***Brand Equity Model***

According to Aaker (1996), the objective of a firm's brand management strategy should be to create and enhance brand equity. Aaker maintains that brand equity is comprised of a set of four assets, which provide value to both the firm and the customer. As indicated in figure 7 below, this set of assets

includes brand awareness, brand associations, perceived quality and brand loyalty.



**Figure 7:** *Brand Equity Model*, source Aaker, 1996

*Brand awareness* demonstrates the strength of a brand's presence in the customer's mind, and according to Aaker, creating brand awareness can considerably increase brand equity. There are two factors that constitute brand awareness: recognition and recall. Aaker maintains that there is a difference between simply creating awareness by enhancing recognition and recall, and creating strategic awareness. Strategic awareness occurs when a brand is remembered for the right reasons and not remembered for the wrong ones (Aaker, 1996).

According to Aaker, *brand associations* are the associations that the customer makes with the brand. Positive associations strengthen brand equity and are therefore a key consideration for a company. The associations that are created in the customer's mind are directly linked to the brand identity established by the company.

Aaker elevates *perceived quality*, which is most commonly considered a brand association, to the status of a brand asset. He gives three reasons for this. First,

of all brand associations, perceived quality is the only one that has been shown to drive financial performance. Second, perceived quality is often a major strategic thrust of a business, and third, perceived quality is linked to, and often drives, other brand associations.

Aaker incorporates *brand loyalty*, which is often excluded from conceptualisations of brand equity, for the following reasons. First, a brand's value to a company is for the most part created by the customer loyalty it commands, and second, deeming loyalty an asset will encourage and justify loyalty-building programs within the company, which will then create and enhance brand equity.

Aaker suggests that each brand equity asset creates value in a different way, which ultimately results in providing value for both the firm and the customer. The value provided to the customer includes enhancing the customer's interpretation/processing of information, as well as the confidence in the purchase decision and the use satisfaction. The value provided to the firm includes: enhancing efficiency and effectiveness of marketing programs; enhancing brand loyalty; increasing prices/margins; increasing brand extension opportunities; trade leverage; and enhancing competitive advantage.

### ***Brand-Building***

Aaker claims that brand equity is made up of four assets and that brand management, then, involves making investments in order to create and enhance these assets. In his book "Building Strong Brands" written in 1996, Aaker expanded his original concept of how the brand building process should be formulated by focusing on the concept of the brand identity. Here, Aaker stresses the importance of taking a broader view of the brand by enhancing and developing the concept of brand identity. As a result Aaker's brand building process is seen in the context of the brand identity and includes three main tasks: the *brand identity system*, the *brand identity implementation system*, and the *strategic brand analysis*.

According to Aaker, the *brand identity* is the central concept to building a strong brand. It provides direction, purpose and meaning for the brand and is consequently vital to the brand's strategic vision. Brand identity is also the

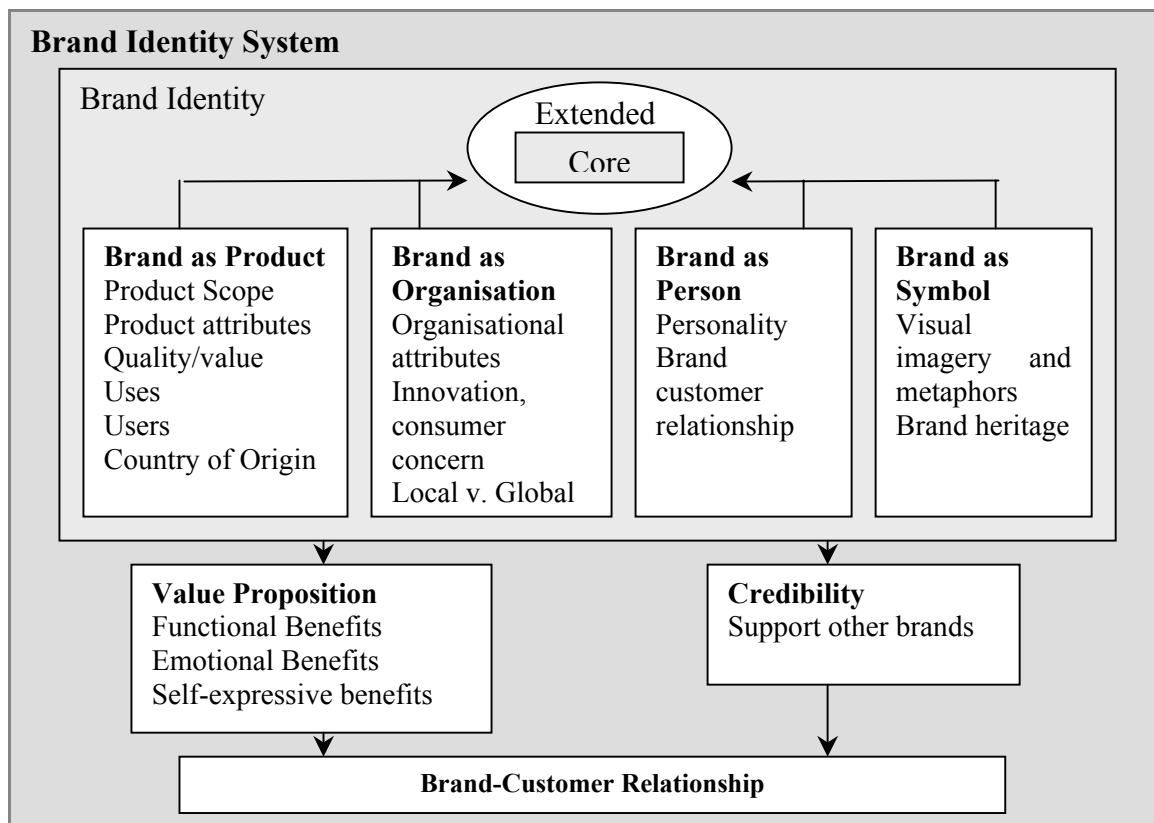


driver of one of the four asset categories that constitute brand equity, namely brand associations, which make up the heart and soul of the brand (Aaker, 1996). As stated by Aaker:

*“Brand identity is a unique set of associations that the brand strategist aspires to create or maintain. These associations represent what the brand stands for and imply a promise to customers from the organisation members.”*

Aaker believes that brand identity is conceptualised too narrowly and in order to achieve maximum brand strength, and create an optimal brand strategy, it is necessary to broaden the scope of the brand identity. Expanding the concept of brand identity is necessary as it helps to avoid common identity traps. These traps represent approaches to creating an identity that are excessively restrictive or tactical and can result in ineffective, and often dysfunctional, brand strategies. The most common identity trap, according to Aaker, is the product-attribute fixation trap. This occurs when firms assume that product attributes are the foundation for customer decisions and competitive dynamics, and therefore the strategic management of the brand is focused on these attributes alone. Product attribute based identities are limited in their effectiveness because they fail to differentiate, they are easy to copy, they assume a rational customer, they limit brand extension strategies, and they reduce strategic flexibility.

As a result, Aaker presents four perspectives from which a brand can be seen. These include the *brand-as-product*, *brand-as-organisation*, *brand-as-person*, and *brand-as-symbol* perspectives. Each perspective includes several elements that can be used to clarify or enhance the brand identity. Aaker’s model is illustrated on the following page.



**Figure 8:** *Brand Identity System*, source Aaker, 1996

According to Aaker, the *brand-as-product* perspective is the most important when developing a brand identity, this in spite of the danger of falling into the product attribute fixation trap. The reason is that product related associations are those that are directly linked to brand-choice decisions and user experience. The brand-as-product perspective includes the following dimensions: product scope, referring to which products the brand is associated with; quality, an attribute that is important enough to be considered separately; and product attributes. Other dimensions include: association with use occasion, which occurs when a company attempts to dominate a particular usage situation; associations with users, which implies positioning a brand with a particular type of user; and finally associating the brand with its country of origin in order to provide credibility.

The second perspective is the *brand-as-organisation* perspective, which focuses on the attributes of the organisation rather than the product or service. This perspective includes organisational associations such as innovation and care for customers. It also includes the local versus global dimension. This involves a firm's choice to have a global identity or to try to connect with the

local market. According to Aaker, this can be an important identity decision as both options can provide advantages to the firm. A local strategy provides a link to customers and can result in a better understanding of customer needs whereas a global strategy indicates longevity and a commitment to the future of the brand (Aaker, 1996).

The *brand-as-person* perspective is the third perspective and includes the brand personality dimension as well as the brand customer relationship dimension. A brand personality suggests that there is a set of human characteristics that can be associated with the brand. This can include such characteristics as gender and age as well as personality traits such as warmth and concern.

Aaker's final perspective is the *brand-as-symbol perspective*. Aaker maintains that a strong symbol can provide strength and structure to the brand identity, and can help to increase recognition and recall among customers. Aaker confirms the symbol's potential power by elevating it to the status of being part of the brand identity. According to Aaker the most effective ways of symbolising the brand are through visual imagery or by demonstrating a meaningful brand heritage. These four identity perspectives provide a wide range of elements that a firm can choose from when creating an identity. According to Aaker, not every brand identity needs to employ all of these perspectives but all should be considered, and those that are most effective in communicating what the company wants the brand to stand for in the customer's mind should be employed.

Aaker organises the brand identity into a core identity and an extended identity, where the *core identity* symbolises the timeless essence of the brand. It is comprised of those associations that are most likely to remain constant as the brand travels to new markets and products. According to Aaker, the core identity should be resistant to change and generally there should be a close correspondence between the core identity of the brand and the values of the organisation. The core identity includes elements that make the brand both unique and valuable in such a way that it contributes to the value proposition and the credibility of the brand.

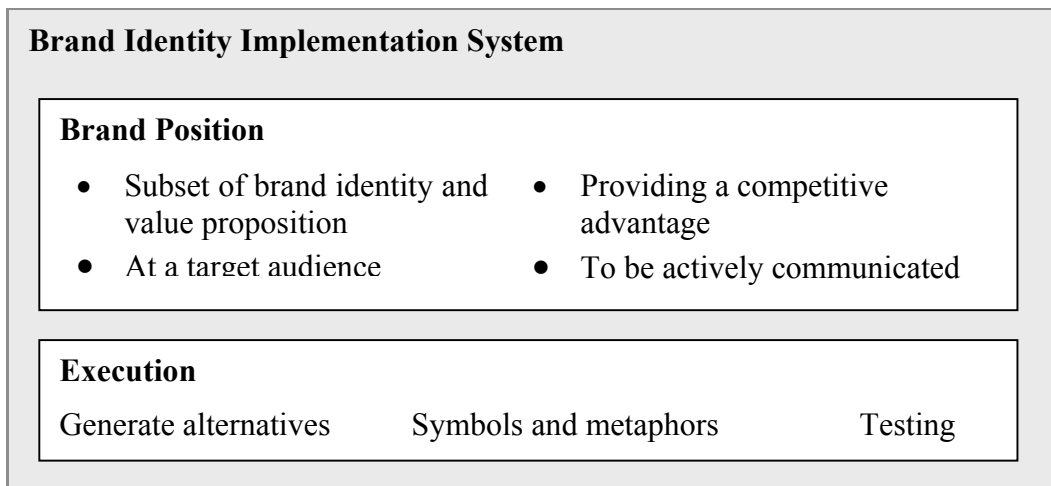
The *extended brand identity* adds elements to the core identity, which complete the brand. Aaker maintains that without the details added by the extended identity, all of the functions of the brand identity could not be performed. The core identity for example, may be too general to assist the company in selecting a position and devising an appropriate market communication program. The details that the extended identity provides are often necessary to accomplish this task.

The outcome, according to Aaker, should be that a company's chosen brand identity helps to establish a relationship between the brand and the customer and in doing so drives purchase decisions. This is achieved by generating either credibility for the brand or an effective value proposition based on functional, emotional and self-expressive benefits. Functional benefits are the most common basis for a value proposition and are based on product attributes, which provide functional utility to a customer. These benefits are often linked directly to the function performed by the product or service and are therefore directly related to customer decisions and experiences. Consequently, if a brand can dominate a major functional benefit, it can dominate a product category. The key then becomes to select functional benefits that resonate with customers and that will provide a strong position relative to competitors.

Emotional benefits occur when the purchase of a certain brand gives the customer a positive feeling. They add richness and depth to the experience of owning and using the brand (Aaker, 1996). Self-expressive benefits occur when a brand provides a way for a person to communicate his or her image.

According to Aaker, these benefits form a value proposition, which then leads to a brand-customer relationship. Brand-customer relationships often emerge when the brand is considered as more than a product, when it is considered from an organisational or personal perspective.

The next step in Aaker's brand building process is the implementation of the chosen brand identity. According to Aaker, the *identity implementation system* includes two elements: *positioning* and *market communication*, which Aaker refers to as *execution*. The identity implementation system is illustrated on the following page.



**Figure 9:** *Brand Identity Implementation System*, source Aaker, 1996

According to Aaker, properly *positioning* the brand is fundamental to the success of both the brand identity and the communication program. When positioning the brand, four main issues must be taken into consideration. First, it involves choosing which parts of the identity are to be actively communicated. Here Aaker suggests examining three areas: the core identity, identifying points of leverage, and the value proposition. Once the elements to be actively communicated have been selected, a target audience must be decided upon and the position must be communicated. In order to determine which communication task is required the current brand image must be compared with the brand identity. Based on the results of the comparison strategists can identify which course of action needs to be taken. If the existing image does not fit with the identity chosen by the company then it may need to be augmented by adding associations or softening restrictive perceptions. If the image fits with the identity but is not strong enough it may need to be reinforced and finally if the wrong associations are being made with the brand the image may need to be diffused.

Lastly, according to Aaker, a brand position should demonstrate an advantage over competitors. It should specify a point of superiority that both differentiates it from competitors and resonates with customers. Differentiation can be achieved by using functional benefits. A company can position itself against a competitor's functional benefits by claiming superiority or a lower price or it can offer a different functional benefit. Another way to differentiate is through using an emotional or self-expressive benefit, an organisational association or a customer relationship. As previously mentioned, correct positioning is key to a

successful market communication strategy. According to Aaker, the reverse also holds true.

*“The most strategically logical position will not be worth implementing if a brilliant execution cannot be found” (Aaker, 1996).*

Aaker offers the following guidelines for achieving brilliant *execution*. The first is to generate alternatives. According to Aaker, the more alternatives you generate the higher are your chances of creating something brilliant. Non-traditional media should be considered as well as this often leads to effective communication. Secondly, symbols and metaphors should be used if possible in communicating the brand as they can improve recall and influence the way a customer considers a certain product class and its brands. Lastly, testing should be performed when possible. This can both determine the positive impact that a market communication program has on the identity/position but also help to ascertain any unexpected negative reactions of a chosen communication alternative.

According to Aaker selecting a brand identity, a brand position and a communication method are strategic decisions and therefore a strategic perspective is required. The focus of these decisions should be on choosing markets and building assets for the future as opposed to dealing with tactical programs that tackle problems of the moment. The aim of a brand strategy should be to create a business that resonates with customers, avoids competitors’ strengths and exploits their weaknesses and exploits its own strengths and defuses its weaknesses (Aaker, 1996). As a result, Aaker maintains that a *strategic brand analysis* is required.

The primary objective of the strategic brand analysis is to enhance strategic decisions about the brand such as: the brand identity plan; the product classes with which the brand should be associated; the brand’s place within the organisation’s brand portfolio; and the investment level that should support it. Another aim is to identify strategic uncertainties that will affect brand strategy. The strategic brand analysis involves three different perspectives: a *customer analysis*, a *competitor analysis* and a *self-analysis*.



**Figure 10:** *Strategic Brand Analysis*, source Aaker, 1996

The *customer analysis* specifies four factors that should be analysed: customer trends, customer motivations, segmentation and unmet needs. Customer trends involve examining the general dynamics of the market and recent developments. Analysing customer motivations involves determining which functional, emotional and self-expressive benefits will motivate the customers to buy the product. Segmentation concerns analysing how and whether different segments respond differently to communication programs. This may justify different positioning strategies and even different brand identities across segments. Finally unmet needs, implies considering customer needs which are not currently met by existing product offerings. This last factor is particularly important as it can reveal opportunities for firms that want to make major moves in the market (Aaker, 1996).

The *competitor analysis* specifies two primary factors that should be considered by the company. First, competitors brand image and position and second their strengths and vulnerabilities. Knowledge of how customers perceive a competitor's brand is a fundamental input into determining an identity, as it is the key to developing a point of distinction from competing brands. Equally important to the firm is how competitors want their brands to be perceived or how they are positioning themselves in the market. Often the best way to determine this is to examine the competitors' advertising campaigns.

According to Aaker a detailed analysis of competitors' positions can give valuable insights to a firm. Often there are only a few limited positioning strategies used in an industry. A useful tool is to group firms with similar positioning strategies, and create what Aaker refers to as a "brandscape". Each positioning strategy should relate to this existing structure even if it is a new

and unique concept. Aaker claims that when deciding on its own position, a firm should evaluate the strength of each group and then decide if it wants to join the group and use the same strategy or if it wants to try something new. Generally a positioning approach should be avoided if one of the following three characteristics is prevalent in a group. If the number of competitors in the group is large, if the individual competitors in the group are strong in terms of market share and distribution or if competitors in the group are well-positioned or have a lock on a position. Companies that choose to enter a group with this last feature must, according to Aaker, be prepared to neutralise the position by adding some twist or refinement to it. Analysing competitors' strengths and weaknesses is also essential. Competing against a competitor's strengths with respect to a value proposition can be risky. It is more feasible to compete on points where the competitor is weak. Therefore it is of special interest to the firm to study a competitor's weaknesses.

The *self-analysis* also makes important contributions to the development of a brand identity. It involves an internal examination of ones own brand and organisation. Aaker identifies several areas of inquiry including the current brand image, the brand heritage, the brands strengths and weaknesses, the soul of the brand and organisation and links to other brands. Analysing the existing brand image involves examining several aspects such as how the brand is perceived, what associations are linked to the brand and how the image has changed over time. It is also important to consider how the image differs across segments, what benefits customers feel they are getting from the brand, whether there are any intangible attributes or benefits and whether the brand has a personality.

The brand heritage or the origins of the brand should also be considered as this can provide insight into what the identity should include. The strengths and weaknesses of the brand are key considerations. In order for a brand to be sustainable it must be supported by organisational strengths. The desired brand identity needs to be achievable given the organisation's resources, capabilities and priorities (Aaker, 1996). The links that the brand has to other brands need to be considered. A brand position decision cannot be made in isolation. A brand should work within the context of the other brands that exist within the organisation and as a result an identity and position should not be determined in

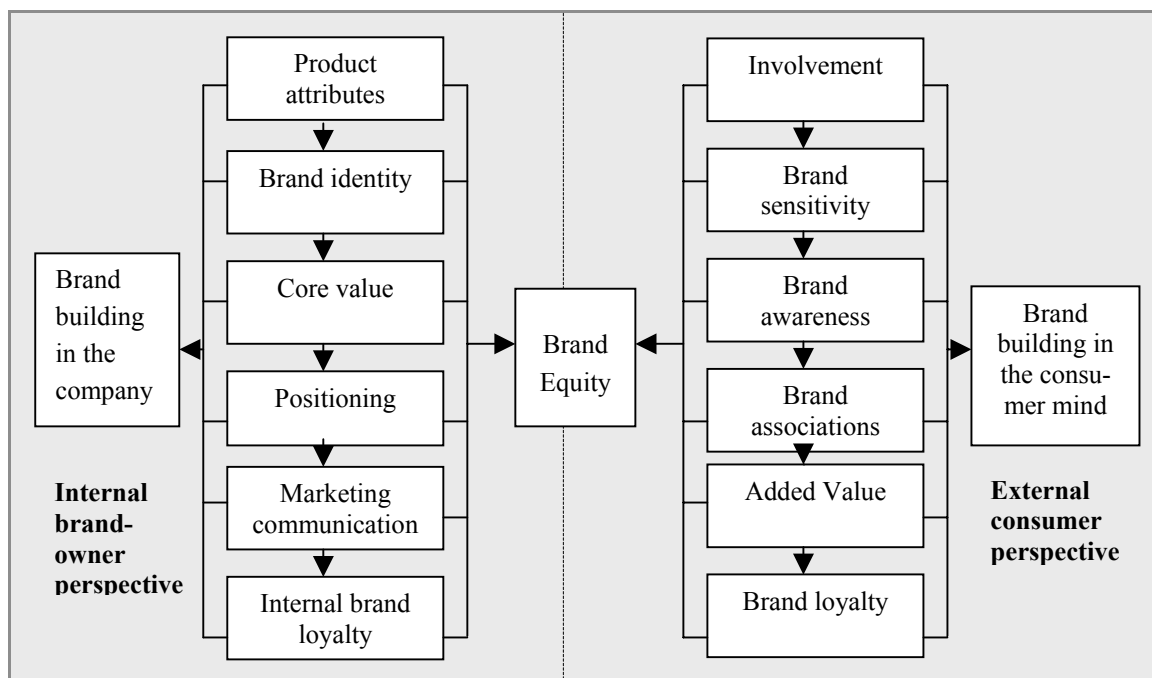


isolation. Therefore understanding and analysing the brand's role in the brand portfolio becomes an important part of the analysis.

### **Melin**

An alternative approach to strategic brand management is provided by Frans Melin. According to Melin (1999), brand building takes place, in parallel, both within the organisation and in the minds of consumers. On this premise it is vital to regard the process of building strong brands both from an internal brand management perspective, and an external consumer behaviour perspective. Brand equity is regarded as the common denominator between these separate but related viewpoints, as it is a concept that can be discussed both in a consumer behaviour context and a brand management context. Melin suggests that integration of the two perspectives is necessary in order to get a complete picture of the brand building process through which brand equity is created.

In an attempt to integrate the perspectives, he developed a model referred to as *The Brand Building Process*, as illustrated in figure 11. The model illustrates brand building as a value-creating process, taking place both in the minds of the consumers and within the company, and resulting in brand equity.



**Figure 11:** *The Brand Building Process*, Source Melin, 1999

### ***The External Consumer Perspective***

The overall purpose of brand building is, according to Melin, to establish a broad foundation of brand loyal customers. As is indicated by the right section in the figure above, he regards the development of brand loyalty as a step-wise process comprised of six central concepts derived from consumer behaviour theory. These include *involvement*, *brand sensitivity*, *brand awareness*, *brand associations*, *added value*, and *brand loyalty*. These concepts are strongly interconnected and represent consecutive steps in the value-creating process.

In the first step of the brand building process the brand-owner needs to stimulate the consumers' *involvement* in the buying process by encouraging them to take a more active interest in the product. According to Melin, a low level of involvement is less likely to result in long lasting brand loyalty, since it decreases the individuals' receptiveness to any kind of information communicated by companies. The main goal of stimulating the consumers' commitment is therefore to get them to attach greater importance to brands in the buying process, i.e. to increase their *brand sensitivity*. A brand-sensitive consumer uses brands as the primary source of information when choosing between different products. This increases the brand-owner's chances of making potential customers aware that his brand is a member of a certain product category.

Establishing *brand awareness* is considered to be of great importance. It can be regarded as the first step in the brand-owner's effort to establish a link between the brand and the consumer. In some cases, a high level of brand awareness can in itself be beneficial, as many consumers assume that well-known brands equal quality products. The most important aspect of brand awareness however, is that it is a prerequisite for consumers to make positive *brand associations*. The fact that a brand is well known is in most cases not as important as what the brand is known for. Therefore, in order to make the own brand an attractive alternative, the brand-owner must get consumers to associate it with certain benefits that are of relevance in their evaluation of different products. One of the most significant brand associations is, according to Melin, perceived quality, which provides a functional value to the brand. Brand associations can also be based on emotional values, such as trustworthiness and care.

The objective of the brand-owner is that the consumer's overall impression of the brand, and the product it represents, will result in an image that is strong, positive, and competitively advantageous. The brand image will under these circumstances produce an *added value* in the minds of the consumers that will help them to distinguish the brand from generic products and persuade them to choose it over competitors, preferably even at a higher price. If the brand image produces enough value in consumers' minds, the brand preference develops into *brand loyalty*, which if it lasts will result in *brand equity* in the form of accumulated trust.

### ***The Internal Brand-Owner Perspective***

In order for the brand-owner to reach this desirable result of having a strong base of brand-loyal customers he needs to acquire the necessary brand management competence for building, developing and maintaining a strong brand. From the internal, company perspective, brand equity can therefore be said to represent accumulated knowledge. Melin describes the brand building within the organisation as a process integrating six significant brand management concepts – *product attributes*, *brand identity*, *core values*, *positioning*, *marketing communication*, and *internal brand loyalty*. Together these concepts make up what Melin refers to as the company's strategic brand platform, in which each concept represents an activity in the internal brand-building process, and a potential source of competitive advantage.

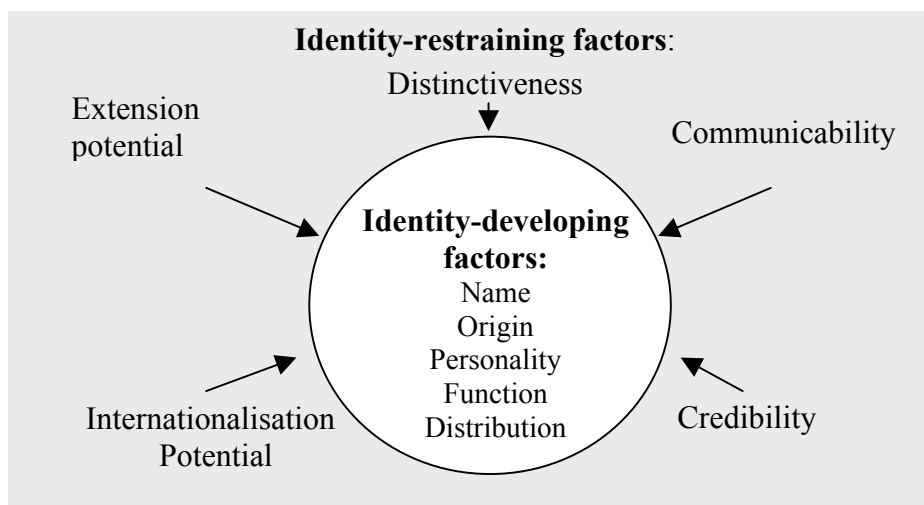
As illustrated in the left part of the model shown above, the first step or activity should, according to Melin, be the development of a functional value by linking the brand to specific *product attributes*. He argues that brands have no intrinsic value and that unless the brand is related to a product there can be no value-creating process. One of the most important product attributes in terms of brand building, and a key concept in Melin's discussion of functional value, is consistent product quality. Other significant concepts in this context include product protection, packaging design, and visual identity.

Having attached a functional value to the brand, the next step becomes establishing a *brand identity*, through the development of an emotional value. A strong brand identity can be a powerful source of competitive advantage that, due to its intangible character, is hard to imitate. It requires however, that the identity explicitly individualises and differentiates the brand from competing

offers. In this context, Melin regards effective identity protection, in the form of patents, to be an important concern.

Another issue of specific relevance in the discussion of brand identity is the choice of identity carriers, where Melin distinguishes between primary and secondary carriers. The name of the brand is usually considered to be the most significant factor when developing a brand's identity, and is therefore characterised as the primary identity carrier. Secondary carriers include logotype, symbol, packaging, and marketing communication, and these aspects are deemed to have a more supportive function. If any of these identity carriers are to contribute to a competitive identity, they must be unique in some aspect, and if several carriers are used, they must be co-ordinated so that they together create a uniform identity.

In addition to the issue of the brand's outward appearance, Melin also discusses the importance of developing a content structure for the brand. For this purpose he suggests developing what he refers to as a *brand identity platform*, as illustrated in figure 12. In doing so, the brand-owner should consider a number of important factors, some of which could be used to build the identity on, and others that could have a limiting effect on the development. These factors, and their respective effects on the brand identity building, are identified in the figure below. Of these factors, Melin attaches special importance to the brand's extension potential. This factor is dependent on the possibilities of identity transfer from the original product to other types of products. The choice of brand identity therefore becomes an issue of great concern to any company that wishes to expand through brand building.

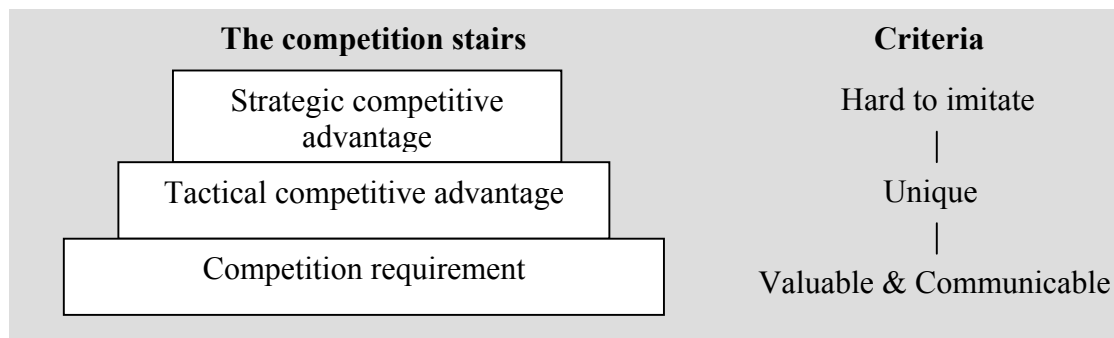


**Figure 12:** *The Brand Identity Platform*, Source Melin, 1999

As stated above, the brand identity factors represent the brand's emotional value, whereas the product attribute related factors embody the brand's functional value. There is also a differentiating value that according to Melin should be attached to the brand. This value relates to the brand's *core value* and is derived from those factors, emotional or functional, that are believed to produce a long-term differentiating competitive advantage.

The establishment of the core value constitutes the third step in the internal brand building process and involves the identification of factors that are valuable and communicable to the consumers, as well as hard to imitate and unique in relation to competitors. Melin categorises these four criteria into three groups based on their intrinsic competitive strength.

He illustrates this categorisation in a model he calls the competition stairs, where the criteria are divided into competition requirements, tactical competitive advantages, and strategic competitive advantages (see figure below).



**Figure 13:** *The competition stairs*, source Melin, 1999

The figure indicates that in order to produce a differentiating value, it is a basic requirement that the factor, to which the brand-owner wants to call attention, is valuable to consumers and possible to communicate. However, for the factor to generate a competitive advantage, it must also be unique in some aspect, and for the advantage to be long-term the factor must be hard for competitors to copy. The brand-owner's objective is that the brand's core value should represent a strategic competitive advantage.

*Positioning* is the fourth step in the brand-owner's value-creating process, a step that Melin describes as the development of an associative value for the

brand. He distinguishes between internal and external positioning, referring to internal positioning as the process of establishing a place for the brand in the mind of the organisation. He sees this process as a prerequisite for successful external positioning, as it creates alignment within the firm, enabling synergies in external communications. The purpose of the external positioning is to establish a strong mental position in the consumer mind based on the brand's core values. This should in turn generate a strong market position, raising the entry barriers for competitors.

A competitively advantageous position could not, however, be reached without effective *marketing communication*, which is the subsequent step in Melin's brand building process. According to Melin, a brand-owner who is striving for brand equity needs to invest a great deal in brand building advertising as this considerably improves the chances of developing brand awareness, which, as previously mentioned, is a prerequisite for brand loyalty. He also takes into account the qualitative aspect of brand building advertising, stating that an effective marketing communication requires a unique communicative identity that is uniformly conveyed through all the different marketing channels involved.

As mentioned previously, a successful implementation of these brand-building activities should result in brand loyal customers. However, according to Melin this external brand loyalty could not be long lasting unless *internal brand loyalty* is established. He defines internal brand loyalty as those actions a brand-owner must take in order to sustain a brand's legal and commercial status. These actions include trademark management, identity management, image management, and loyalty management, and together they make up the final step in the value-creating process.

This framework presented by Melin, and the theories developed by Aaker, will as previously mentioned form the base of our study. However, although we intend to make use of several of the suggestions provided by the two authors, we believe that there are some limitations to both of their brand-building processes, particularly in a context of adapting a brand management strategy to an emerging market. These limitations will be discussed in the following section.

### **3.2.4 Limitations of Existing Theories**

In their approaches to brand building and brand equity, Aaker and Melin examine many important concepts and their theories have become the basis for many other works. However we do not feel that either of their brand building processes are adequate to describe how a brand management strategy should be adapted to an emerging market.

Our principal criticism with Aaker's brand equity model is that Aaker places consumer related aspects such as brand awareness, perceived quality and brand associations within the concept of brand equity. He claims that these factors are assets, which make up brand equity as opposed to showing brand equity as an outcome of these assets. A related concern is the incorporation of loyalty as part of the brand building in the consumer's mind in Melin's model. To us, loyalty is an outcome, a result of successful brand building, and consequently it should be distinguished from the brand-building process itself.

Furthermore, in his model, Aaker does not make a clear connection between the building of the brand within the company and building the brand in consumer's mind. In his brand-building model he does not take into account whether there are any existing consumer perceptions of the brand or how these should be taken into consideration when designing a brand building strategy. Melin, however, includes the consumer perspective in his model but does not distinguish between consumers' perception of the company's brand (awareness, associations, and added value), and what to us are general industry conditions and prerequisites for brand building (brand sensitivity, and involvement).

In our opinion the brand building in the consumer's minds does not start until the consumers become aware of the brand. We agree with Melin that brand sensitivity and the degree of involvement in the purchasing process are important considerations in a brand-building context but we question the notion that a company through branding will be able to affect these aspects. We therefore believe that it would be more appropriate to incorporate these aspects separately as influencing factors. Although Aaker's strategic brand analysis includes industry conditions in the form of a customer and competitor analysis, he does not include customer's general sensitivity towards brands.

In addition to this we felt that certain external factors were missing with regards to both Aaker's and Melin's models. As previously mentioned, it is our opinion that the consumer perception of a brand is affected by the company's brand hierarchy as well as by the socio-economic and cultural environment of the market. Melin's and Aaker's models do not incorporate either of these aspects. We therefore feel that the perspective provided in these frameworks are too narrow and consequently not adequate to describe how a brand management strategy should be adapted to an emerging market.

The failure of these theories to describe how an MNC should adapt its brand building strategy to an emerging market has made it necessary for us to create our own theoretical framework. This framework will be developed and explained in the following section.

### ***3.3 Developing a Theoretical Framework***

Our framework is based on the brand building theories of Aaker and Melin. It includes elements from both theories, as well as some additional aspects that we felt were necessary to incorporate for the purpose of this study. We begin by presupposing that the company has a global brand building strategy, and use this as a starting point. The objective of the brand building strategy remains to create brand equity, however, the process is enhanced by adding internal and external factors that should be considered when adapting a brand building strategy to an emerging market. These include the external environment, the brand portfolio strategy, and the customer perspective. A detailed explanation of our theoretical framework is provided in the section below.

#### **3.3.1 Brand Management Strategy**

The ***brand management strategy*** is the most important part of the framework and is based on the theories of Aaker and Melin. This process includes three steps: *creating the brand identity*, *positioning the brand*, and *establishing a marketing communication program*. We believe that a company's objective regarding its brand identity is to create added value in the minds of customers. This is achieved by associating the brand with certain functional and emotional attributes. Functional attributes are derived from the product and can include quality, packaging design, and visual identity. Emotional attributes involve



intangible aspects that evoke positive feelings in the customers' minds such as organisational associations i.e. care, innovation and trustworthiness. The functional and emotional attributes that are believed to produce a long-term differentiating competitive advantage are called the differentiating attributes. These often correspond to the brand's core values. The purpose of positioning is to establish a strong mental position in the customer mind based on the brand's core values. This should in turn generate a strong market position, raising the entry barriers for competitors. The chosen position is communicated to customers through the marketing communication program. Important aspects to be considered by the company with regards to marketing communication are designing an appropriate message and choosing suitable marketing channels

### 3.3.2 Customer Perceptions

We have included *customer perceptions* of the brand as a separate factor that both influences, and is influenced by, the brand management strategy of the firm. The main purpose of a company's brand building strategy is to enhance brand equity and this is done through shaping customer perceptions. The customer perceptions include three factors: *brand awareness*, *brand associations* and *perceived added value*. The concept of brand awareness involves the amount of recognition and recall that customers have for the brand. Firms generally try to increase brand awareness by implementing market communication programs, which therefore becomes a key aspect of their brand strategy. Brand associations can be defined as the image that customers have in their minds with regards to the brand. This image is based on those functional and emotional benefits that customers received from the use of the brand. We believe that functional benefits are derived from product attributes such as product performance or quality while emotional benefits originate from associations that customers make with the intangible aspects of the product or with the organisation as a whole. Brand associations can be directly linked to the company's brand strategy through the brand identity and position. These are the means through which the company can shape associations in customer's minds.

As stated above, we believe that in addition to being influenced by the brand management strategy, customer perceptions can also influence the brand

management strategy of a firm. This is because customer perceptions about the brand can already exist in the market before the brand is introduced. Pre-existing knowledge of the brand can be present in a market if other products or product categories, which share common elements, enter the market first. This makes it important to investigate the brand portfolio strategy of the firm, and we have included this aspect as a separate influencing factor.

### 3.3.3 Brand Portfolio Strategy

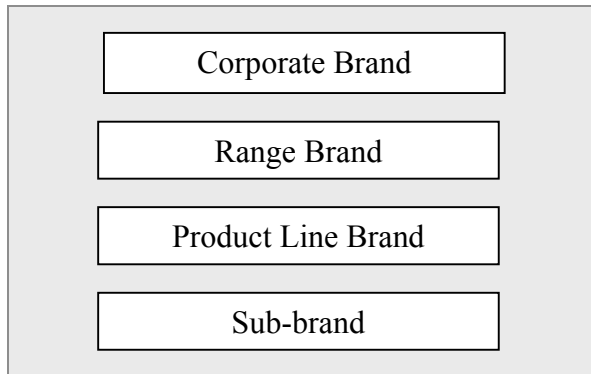
The norm for companies today is not just to own one single brand but to have many different brands and products under their control. A firm's collection of brands can be defined as its brand portfolio. Firms often have several combinations of brands, which are connected through complex sets of interrelationships. This abundance of brands and products within one single organisation raises concerns and challenges for companies and often necessitates a separate strategy just to deal with these issues. Thus a firm's brand portfolio strategy can be defined as how it manages and co-ordinates the different brands within its portfolio and which brand elements a firm chooses to apply across the products it offers for sale (Keller, 1998).

A company's brand portfolio serves as a platform from which to launch new products or brands and as a foundation for all brands in the system. The objectives of the brand system include exploiting commonalities to generate synergies, reducing brand identity damage and achieving clarity of product offerings (Aaker, 1996).

One of the first steps in developing a brand portfolio strategy is to identify the **brand hierarchy**. A brand hierarchy essentially shows an explicit ordering of brand elements within a brand portfolio. A brand hierarchy is a useful means to graphically portray a firm's brand portfolio strategy as it reveals potential branding relationships among different products or product categories sold by the firm. There are certain key aspects pertaining to the hierarchy that must be considered by a firm when formulating its brand portfolio strategy. The number of brand levels in the hierarchy that will be employed for each brand, the roles that each level will play and the relationships between brands created by common brand elements shared across the firm's products (Keller, 1998).

### Levels in the Hierarchy

Brands usually fall into a natural hierarchy and, as with most hierarchies, moving from the top level to the bottom level generally involves more entries, or in this case more brands, at each succeeding level. There are four levels in a brand hierarchy as illustrated in figure 15. At the top of the hierarchy is the



**Figure 14:** *Brand Hierarchy Levels*, source Aaker, 1996

*corporate brand*, which identifies the corporation behind the service or product offering. The corporate image, or the associations that customers have in their mind about the company making the product or providing the service, is extremely important especially in the case where the corporate brand plays a dominant role in the branding

strategy. Researchers believe that customer purchase decisions are more and more being influenced by their perceptions of a firm's role in society. This realisation that customers may be more interested in product attributes has prompted substantial investment in establishing the proper corporate image.

A corporate image depends on the following factors: which products the company makes, what actions it takes, and the manner in which it communicates to customers. A corporate brand may evoke a completely different set of associations than an individual brand. A corporate brand will be more likely to bring to mind associations of common products and their shared attributes or benefits, people and relationships, values and credibility. If a corporate brand name is linked across several diverse product categories then some of its strongest associations are likely to be intangible attributes, abstract benefits or attributes that span each of the different product categories.

On the next level is the *range brand*, which ranges over several product classes. A range brand can by definition be a corporate brand or a brand on a lower level of the hierarchy, which does not share the corporate name. The corporate brand name is often not effective in providing an identity when a large number of products are under its control. The reason for using a range brand instead of the corporate brand is that it can be hard to employ the

corporate brand name, as products become more and more dissimilar. A range brand is effective, as it can be a valuable way to link common associations to multiple but distinct products.

Below this is the *product line brand*, which involves brands linked to the firm's specific products. The principal advantage of creating individual brands is that the brand and all of its supporting marketing activities can be customised to meet the needs of a specific customer group. Brand elements such as the name and logo as well as product design and marketing communication programs can be designed to focus on a certain target group. If the brand fails or faces problems then the risk to the overall company is minimised. The problem with creating individual brands is the immense difficulty and cost of creating separate marketing programs (Keller, 1998).

Product line brands can be further delineated through *sub-brands*. Sub-branding attaches additional brand elements to the product offering. A sub-brand can itself be sub-branded by adding yet another brand element in fact two or three levels of sub-brands is not uncommon in a hierarchy (Aaker, 1996). Modifiers play an important role in communicating how different products in a category that share the same brand name differ on one or more significant attribute or benefit dimensions. They show how one brand variation relates to another in the same brand family (Keller, 1998).

### ***Designing the Hierarchy***

A critical issue in developing a brand portfolio strategy is the number of levels in the hierarchy to use when branding a product. Elements from different levels can be combined to brand a new product. For example, an element from the corporate level such as the corporate logo can be combined with an element from the product line level such as the product name to brand a product. Developing brands at lower level of the hierarchy implies using several levels to brand the product and is advantageous as it gives the firm a certain amount of flexibility in communicating the uniqueness of their products. Developing brands at a higher level in the hierarchy, so that the brand is applied across multiple products, is an economical means of conveying shared information and can provide synergies to the company's operations (Keller, 1998). Firms typically tend to use more than one level as it allows additional information to

be communicated about the product. If multiple brand elements from different levels are used then it is necessary to decide which element will have prominence or which element will be more visible compared to the others. Five possible situations are identified below:

<b>Name</b>	<b>Description</b>
Single entity	Image of product and company tend to be one and the same
Brand dominance	The brand is not related to the corporate name
Equal dominance	A separate image is maintained for the product but it is associated with the corporation
Mixed dominance	Sometimes the product name is dominant, sometimes the corporate name is dominant and sometimes both are used
Corporate dominance	The corporate name is supreme and applied across a range of product lines and communications tend to reinforce the corporate image

**Table 2:** *Brand Level Scenarios*, Keller, 1998

The current brand portfolio strategy is an important consideration when a company is introducing a brand to a new market. The levels of the brand hierarchy that are used when branding a product can influence the brand management strategy. If the product is branded in such a way that it shares elements with other products then certain restrictions will be placed on its individual brand management strategy. These can include limiting what elements can be used in the brand identity, influencing how the brand can be positioned and placing restrictions on market communication. This is especially true when the corporate brand name plays a dominant role and is applied across a range of products.

If the individual brand plays the dominant role then it will have the freedom to choose an independent identity as it is not related to any other levels or brands in the hierarchy. However if the corporate level is employed to brand the product then there will be limitations as to how the brand can be identified and positioned. The identity and position will have to correspond with a broader definition and no identity elements or position decisions will be permitted if they do not fit with the corporate image. Consequently for a company extending its brand to an emerging market where adaptation of the brand management strategy may be required, a clear understanding of the brand

portfolio strategy is necessary in order to determine which aspects of the current brand management strategy can be modified.

### **Brand Extension**

A brand extension occurs when a firm chooses to use an established brand name to introduce a new product. By leveraging a strong brand, which already enjoys brand equity, a firm can facilitate the introduction of a new brand, which can often be a costly and complex process. A brand hierarchy can therefore consist of several different brand extensions.

Brand extensions can be broadly classified into two categories: *line extensions* and *category extensions*. Line extensions, also known as vertical extensions, involve using the parent brand to brand a new product within a product category presently served by the parent brand. A category extension, or a horizontal extension, occurs when the parent brand is extended to a different product category than that currently served by the parent brand.

There are both advantages and disadvantages to extending a brand. The advantages can be classified into two categories: those that facilitate new product acceptance and those that provide feedback benefits to the parent brand and company. The advantages that can occur when extending a brand are summarised below:

#### **Facilitate new product acceptance**

- Can reduce the risk perceived by customers
- Can increase the probability of gaining distribution and trial
- Can increase the efficiency of promotional expenditures
- Can reduce the cost of introductory and follow-up marketing programs
- Can avoid the cost of developing a new brand
- Can allow for packaging and labelling efficiencies
- Can permit consumer variety seeking

#### **Provide feedback benefits to the parent brand or company**

- Can clarify the brand meaning
- Can enhance the parent brand image
- Can bring new customers into the brand franchise
- Can increase the market coverage
- Can revitalise the brand and permitting subsequent extensions

**Figure 15:** *Advantages of Brand Extensions*, source Keller, 1998

There also exist potential disadvantages of brand extensions. These are identified below:

- Can confuse or frustrate customers
- Can encounter retailer resistance
- Can fail or hurt the parent brand image
- Can succeed but cannibalise the sales of the parent brand
- Can succeed but diminish identification with any one category
- Can succeed but hurt the image of the parent brand
- Can dilute the brand meaning
- Can forgo the chance to develop and new brand

**Figure 16:** *Disadvantages of Brand Extensions*, source Keller, 1998

A successful brand extension should capitalise on the advantages and avoid the disadvantages. However this can be a complex and difficult process. Understanding how customers evaluate brand extensions is a key factor in the success of an extension. Keller gives four basic assumptions that must hold true in order for customer inferences about the brand extension to become favourable evaluations. The first is that customers must have some awareness of and positive associations about the parent brand and secondly at least some of the positive associations with the parent brands will be evoked by the brand extensions. The third assumption that must hold true is that any negative associations that exist with the parent brand are not transferred from the parent brand and finally negative associations should not be created by the brand extension.

The more these four assumptions hold true the more customers are likely to form positive attitudes about the brand extension. The ultimate success of an extension, however, rests on its ability to create brand equity in its own extension category as well as contributing to the brand equity of the parent brand. In order to create extension equity, a high level of awareness and positive associations must be achieved by the extension. Creating brand awareness will depend on the marketing program but can also be affected by the company's brand portfolio strategy. The more an existing brand which has already achieved a high level of awareness is used to brand an extension, the easier it will be to create awareness for the extension. Creating a positive image of the extension in the customers' minds will depend heavily on the

associations that exist about the parent brand and how these associations are seen in the extension context (Keller, 1998).

The brand portfolio can indirectly affect the brand management strategy by influencing customer perceptions of the brand. Again this occurs when common levels are used to brand various products or product categories. If two brands in a portfolio share common elements and one of these brands is introduced into a market before the other, it follows that customers will have some pre-existing knowledge of the brand when the second brand enters the market. A company introducing a brand into a new market should then thoroughly investigate whether the brand portfolio has resulted in any pre-existing customer perceptions and what these perceptions are. They must be considered before a strategy is devised, as they can help strategists understand which aspects should be emphasised.

### 3.3.4 External Environment Analysis

Before introducing a brand into a new market, a company also needs to investigate the *external environment* in order to assess the fit between the current brand management strategy and the institutional setting in the market, and to what extent adaptation of the strategy is necessary. We have consequently included an environmental analysis as a significant influencing factor in our theoretical framework. We will base this analysis on the theoretical framework developed by Hans Jansson (2000) referred to as the *Basic Institutions Model*. This framework will be explained next.

Jansson's institutional approach builds on the existence of environmental differences and the fact that the MNC strategy is grounded in a specific external institutional setting. The premise is that there is a large variation between different nations' institutional frameworks, especially between emerging markets and fully developed markets. Jansson describes each country as having its own specific business environment, created by ways in which the different institutions are linked to each other, and suggests that these institutional variations must be taken into consideration in strategic decision-making.



The basic institutions model, as illustrated in figure 17, provides a tool for identifying and describing the institutions that are relevant for an MNC active in an emerging market, as well as for explaining the influence of these institutions on the MNC's operations. As indicated in the model, Jansson distinguishes between three



**Figure 17:** *The Basic Institutions Model*, source Jansson, 2000

groups of institutions, categorised into different levels of description: *micro*, *meso*, and *macro institutions*. The main institution, and the focal point of the model, is the MNC, whose strategy and organisation are influenced by institutional factors within the company itself as well as by how the environment is organised. The MNC is found at the micro level where two layers of institutions surround it: the organisational fields and the societal sectors.

The organisational fields constitute the immediate environment and are comprised of meso institutions that exert a direct, two-way type influence on the MNC. The institutional agents in the societal fields are described at the macro level and consequently represent the wider institutional background of the MNC. In contrast to the institutional agents in the organisational fields, the macro institutions' influence on the MNC is indirect and one-directional.

According to Jansson, institutions can be viewed as rules, procedures, and practices typical of a legitimised social grouping, leading to habitual and routine behaviour or actions. Employing a definition that further specifies the institutional contents, Jansson describes institutions as being composed of cognitive, normative, and regulative structures that provide stability and meaning to social behaviour. The cognitive structures are the main focus of Jansson's institutional framework, and concern the established thought styles, or patterns of thinking, that takes place within and on behalf of the institution. The normative structures provide guiding principles in the form of societal norms and values, which stipulate expectations for behaviour. These principles influence the patterns of thinking within the institution by stating standards,

prescriptions, and roles. The regulative aspect of institutions, Jansson defines as enforcement mechanisms that produce social control through incentives and sanctions. Together these institutional structures determine the institutional behaviour patterns, and consequently it is imperative to consider these aspects when identifying and describing the different institutions.

Jansson's suggested framework encompasses four meso institutions, or organisational fields: product/service markets, financial markets, labour markets, and government. The societal sectors include: country culture, family/clan, religion, business mores, educational/training system, political system, legal system, and professional and interest associations. The significance of each of these institutions to the strategic decision-making of MNCs differs depending on the country of interest and on what managerial issue the strategy concerns. Consequently, an environmental analysis does not always require examining all the above-mentioned institutions. In some situations a more focused approach is justifiable, in which case only the institutions of relevance to the specific circumstances are selected.

Regarding our analysis we have identified four institutions in China that have a particular influence on Volvo CE's brand management strategy. These include two societal sectors; *country culture* and *economic development*, as well as two organisational fields; *industry conditions* and the *marketing communication setting*.

## **Societal Sectors**

### ***Country Culture***

In the basic institutions model, country culture is presented as an important societal sector, affecting every aspect of the business environment (Jansson, 2000). The institution is of great significance to MNCs, as it constitutes a significant source of national differences regarding the values that shape people's beliefs and attitudes and guide their behaviour. These differences may be large but are not always easily detected, as they can be rather subtle (Hollensen, 2001). As a result, managing cultural differences can be quite complicated, requiring a comprehensive understanding of the underlying cognitive and normative structures affecting the actors involved.

In an international brand management context, country culture is an issue of great concern, as the influence of different cultures will effect customers' perceptions of a brand's position in relation to other competing brands. Regarding this study, consequently, a cultural analysis is essential in order to establish what drives customer behaviour in the Chinese market, and to determine to what extent adaptation to the cultural specifics are needed. This will involve identifying and analysing the most important factors of influence from the cultural environment in China on Volvo CE's business. In order to achieve this, a framework combining three different cultural models will be applied as a supplement to Jansson's framework

Cultural studies can be a rather complex matter, which is why it is important to use an appropriate definition of the concept and to have a suitable framework from which to work (Fan, 2000). At present there are hundreds of different definitions of culture presented by different authors. The general consensus however, is that a culture must have the following three characteristics: it is *learned* through recurrent social relationships; it is *interrelated* through deep connections with other institutions; and it is *shared* by the members of the cultural group (Hollensen, 2001).

Just as there have been many attempts at defining culture, there have been a great number of frameworks proposed from which to examine cultural differences. These models are not mutually exclusive or all encompassing, but provide alternative ways of examining cultures. One of the first researchers to examine the notion of cultural dimensions was Edward Hall. He (1960) introduced the concepts of high and low context as a way of understanding different cultures. About four decades later, cross-cultural theory began to be applied specifically in business contexts. This field has focused on measuring the similarities and differences between cultures so that international managers need identify only the most significant areas for change (Hollensen, 2001). Geert Hofstede and Fons Trompenaars share this focus. These two researchers have both taken the dimensions approach to identifying similarities and differences among cultures and have each proposed a number of cultural dimensions.

For the purpose of identifying the most pervasive cultural differentiators in China and analysing their influence on market behaviour and customer perceptions, a framework incorporating these three different cross-cultural theories will be applied. Geert Hofstede's and Fons Trompenaars' cross-culture models will provide the base for our cultural analysis. According to Jansson (2000), Hofstede's framework is mainly useful in institutional analysis for developing the cognitive aspects of culture, since it does not distinguish between cognitive structures and normative structures. For the purpose of this analysis, an emphasis on the cognitive aspects is suitable as our primary interest is in people's attitudes and patterns of thinking and how these control behaviour. The two theoretical frameworks by Hofstede and Trompenaars will be supplemented by Edward T. Hall's approach to analysing cultures. We have chosen to include this since it specifically concerns intercultural communication, an issue of great significance in a brand management context, as it is essential to make sure that the receiver of the brand message encodes it correctly.

### *Cultural Dimensions*

Gert Hofstede has provided one of the most widely used approaches to understanding how cultural values influence various types of business and market behaviour. Hofstede (1984) defines culture as "*the collective programming of the mind which distinguishes the members of one human group from another.*" Based on a comprehensive study presented in 1980, Hofstede found that people's perception and interpretation of the world varies along four dimensions, and that various business and customer behaviour patterns can be closely linked to these dimensions. The four dimensions are: *Individual vs. Collective orientation*, *Power-Distance orientation*, *Uncertainty-Avoidance orientation*, and *Masculinity vs. Femininity orientation*. A fifth dimension, *Short-term vs. Long-term orientation*, was later added to his original work after an international study conducted by Hofstede and Bond (1988). Fons Trompenaars defines culture as "*the way in which a group of people solves problems and reconciles dilemmas.*" Trompenaars (1997) provided a framework comprising of seven dimensions of culture describing how cultures differ, in terms of how people relate to each other, to time, and to the environment. In the section below we describe those dimensions that we have identified to be of importance in a brand management context.

Hofstede's *uncertainty avoidance* dimension concerns the extent to which people in a society feel threatened by ambiguity and uncertainty, and the degree to which they prefer formal rules and fixed patterns of life as means to enhancing security and avoiding risk. Cultures scoring low in uncertainty avoidance are associated with a low level of anxiety and stress regarding an unknown future. This is reflected in a greater willingness to take risks and an ability to be more responsive in coping with change. In contrast, high uncertainty avoidance societies are characterised by a high level of risk aversion. Members of these societies aspire to meet the future in a structured and planned fashion, and consequently they tend to have a great concern with security and rule following.

Hofstede and Bond (1988) identified the *time orientation* dimension, initially called Confucian Dynamism, when conducting a study on Asian cultures. This aspect is defined as the way people within a culture exhibit a long-term perspective rather than a short-term view. Cultures with a long-term orientation prescribe to the values of long-term commitments, persistence and respect for tradition. These past-orientated cultures use the understanding of the past to understand the present and give value to that historical and cultural heritage. In societies with a short-term orientation, change can occur more rapidly as long-term traditions and commitments do not become impediments to change. Members of such future-orientated cultures believe that they can master nature and the future.

Trompenaars' *universalism versus particularism* dimension, also referred to as rules versus relationships, concerns the extent to which a society believes that ideas and practices can be applied in all situations without modification. In cultures with high universalism, people are unwilling to make exceptions to the rule system, as they believe that rules should be applied to all persons equally regardless what the specific circumstances are. In these societies, the focus is more on formal rules and procedures than on relationships, and contracts are adhered to very closely. In a business context, rational, professional arguments and a "let's get down to business" attitude are norm. Particularistic societies, on the other hand, focus more on relationships and trust and on the exceptional nature of matters, allowing circumstances to dictate how ideas and practices should be applied. Members of these cultures regard contracts merely as rough

guidelines for commitment and when conducting business their primary concern is developing relationships and trust.

Trompenaars *specific versus diffuse relationships* dimension concerns the degree of involvement that characterises the relationships in a society, and to what extent different aspects of society are interconnected. Members of a specific culture generally have a large public space that they willingly let others enter and share and a smaller private space into which only close friends and family are allowed. In these societies there is a strong separation of work and private life. Consequently, business relationships do not require personal liking and the authority of superiors do not diffuse all relationships. In diffuse cultures, everything is connected. This is reflected in the close links between work and private life, and the transfer of professional authority to all other relationships. As a result, individuals guard their public space carefully, because entry into public space means entry into private space as well. In these cultures relationships are more important than privacy and no interaction can be separated from one's history of previous contacts. Trust between people and keeping face takes on great importance in these societies.

The *neutral versus emotional*, or affective, dimension, introduced by Trompenaars, refers to the range of feelings expressed in a society, as a result of the members being encouraged to conceal or show emotions. A neutral culture is one in which emotions are held in check. People in these societies keep their feelings and thoughts strictly to themselves as maintaining composure is highly admired. Showing emotions is a sign of immaturity and considered a dangerous impulsiveness. In contrast, an affective culture is one in which emotions are openly and naturally expressed. In these societies touching, gesturing and strong facial expressions are common.

Trompenaars' dimension *achievement versus ascription* focuses on how status is assigned in a society. An achievement culture is one in which high status is given to high achievers. People are consequently evaluated based on how well they carry out their tasks and status is assigned based on their performance. In ascribing cultures, on the other hand, status is awarded independently from the task and the individual is not easily compared to others. The basis on which status is ascribed, is who or what people are, for example, age, class, gender, or

social connections. Performance in these cultures is measured by the loyalty and affection shown by the subordinates.

### *Hall's High- and Low-Context Cultures*

Edward T. Hall states that "culture is communication, and communication is culture." Hall (1960) was the first to examine cultures using the concepts of high and low contexts, and the focus of this theory is on communication and language. According to Hall, communication in high context cultures is implicit and indirect. The social importance and knowledge of the sender of the message and the settings surrounding the message add extra meaning to the information. An interpretation of the context of the communication is consequently necessary in order to develop a good understanding of the message. Much of the communication is expressed without words and what is left unsaid is often more important than what is actually said. In these societies, decision-making relies to a great extent on information that is communicated through trusted business contacts and networks. Companies will therefore connect to associates, friends, and family to see what they know or think.

Low context cultures rely on more on spoken and written language for meaning, and communication is expected to be clear and direct. In these cultures people expect to gain a good understanding of the intended message without having to read between the lines. As a result everyone has equal access to the information given. Decision-making in these cultures is to a greater extent based on information gathered from databases and other public sources. The major differences of high and low context cultures have been summarised in table three below.

<b>Characteristics</b>	<b>Low-context countries</b>	<b>High-context countries</b>
Communication and language	Explicit, direct	Implicit, indirect
Time consciousness	Linear, exact, promptness is valued, time = money	Elastic, relative, time spent on enjoyment, time = relationships
Family and friends	Nuclear family, self oriented, value youth	Extended family, other-oriented, loyalty and responsibility, respect for old age
Values and norms	Independence, confrontation of conflict	Group conformity, harmony
Beliefs and attitudes	Egalitarian, challenge authority, gender equity	Hierarchical, respect for authority, gender roles
Business/work habits	Deal oriented, reward based on achievement, work has value	Relationship oriented, rewards based on seniority, work is a necessity

**Table 3:** *General Comparative Characteristics of Culture*, Source Hollensen, 2001

### ***Economic Development***

Although the economic development is not included among the societal sectors in Jansson's suggested framework, it is added on the rationale that it has a great part in shaping a country's industry trends. According to Hollensen (2001), the level of economic development greatly affects a country's consumption patterns, which involve aspects such as customer wants, needs and brand sensitivity. As the level of economic development varies around the world, a company operating in more than one country will encounter national differences in consumption patterns. These differences may be considerable, which indicates that a certain degree of adaptation to the MNC's strategy is required. With regards to this study, the country of analysis, China, is an emerging market, while the origins of the case company, and the setting in which its brand strategy was formulated, is a fully developed market. An analysis of the economic development in China is therefore required in order to establish the effects on the consumption patterns in the construction equipment industry.

### **Organisational Fields**

#### ***Industry Conditions***

The environmental analysis will also entail an examination of the relevant industry conditions in the product market; in this case the construction equipment market in China. As it constitutes an organisational field, the product market lies closer to the MNC than the selected societal institutions and as mentioned above it exerts a direct, two-way type influence on the MNC. One of the most widely used frameworks for analysing industry structure has been developed by Michael E. Porter and is referred to as *Porter's five forces*. Porter (1980) suggests that the profit potential in an industry is determined by five competitive forces; the threat of entry, the threat of substitute products or services, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among the existing competitors.

For the purpose of this study, however, we will apply aspects of an alternative framework, known as the *Strategic Brand Analysis*, developed by David Aaker specifically to be applied in a brand management context. We have chosen only to use the customer and competitor analyses from Aaker's model as the self-analysis as indicated by the name involves investigating issues internal to the



company. As the details of the theory have already been explained in a previous part of the chapter it will not be discussed here. What is important to mention is that we have modified the customer analysis by grouping together trends, motivations and unmet needs under the title wants and needs. Furthermore we have included in the examination brand sensitivity and involvement, two issues regarding customers, which we feel are important to assess in an emerging market.

### ***Marketing Communication Setting***

An aspect of the external environment that must be considered if a brand management strategy is to be successful is the existing market communication setting. By this we mean not only those marketing channels that are available to firms but also the specific conditions in the marketing environment that a foreign company must be aware of. This includes understanding how customers behave, how culture affects the marketing in the country and recognising barriers to marketing. A key part of the brand building process is implementing a successful marketing communication program. However, a company cannot accomplish this, if it does not have a complete understanding of the marketing structure in a specific market.

### **3.3.5 Desired Outcome**

The ultimate objective of the brand management strategy is as previously mentioned to establish brand equity. In order to do this a company must first create preference for the brand among customers. Brand preference exists when buyers select the brand over other offerings (Kotler, 1999). When customers continue purchasing one specific brand regardless of other offerings they can be regarded as loyal to that brand. The more brand loyalty that a company can create among customers the higher its brand equity will be. Strong brand equity is a desired outcome since there are so many benefits to it such as larger margins, and increased marketing communication effectiveness.

An illustration of the linkages between the various elements of our theoretical framework is provided by our research model below.

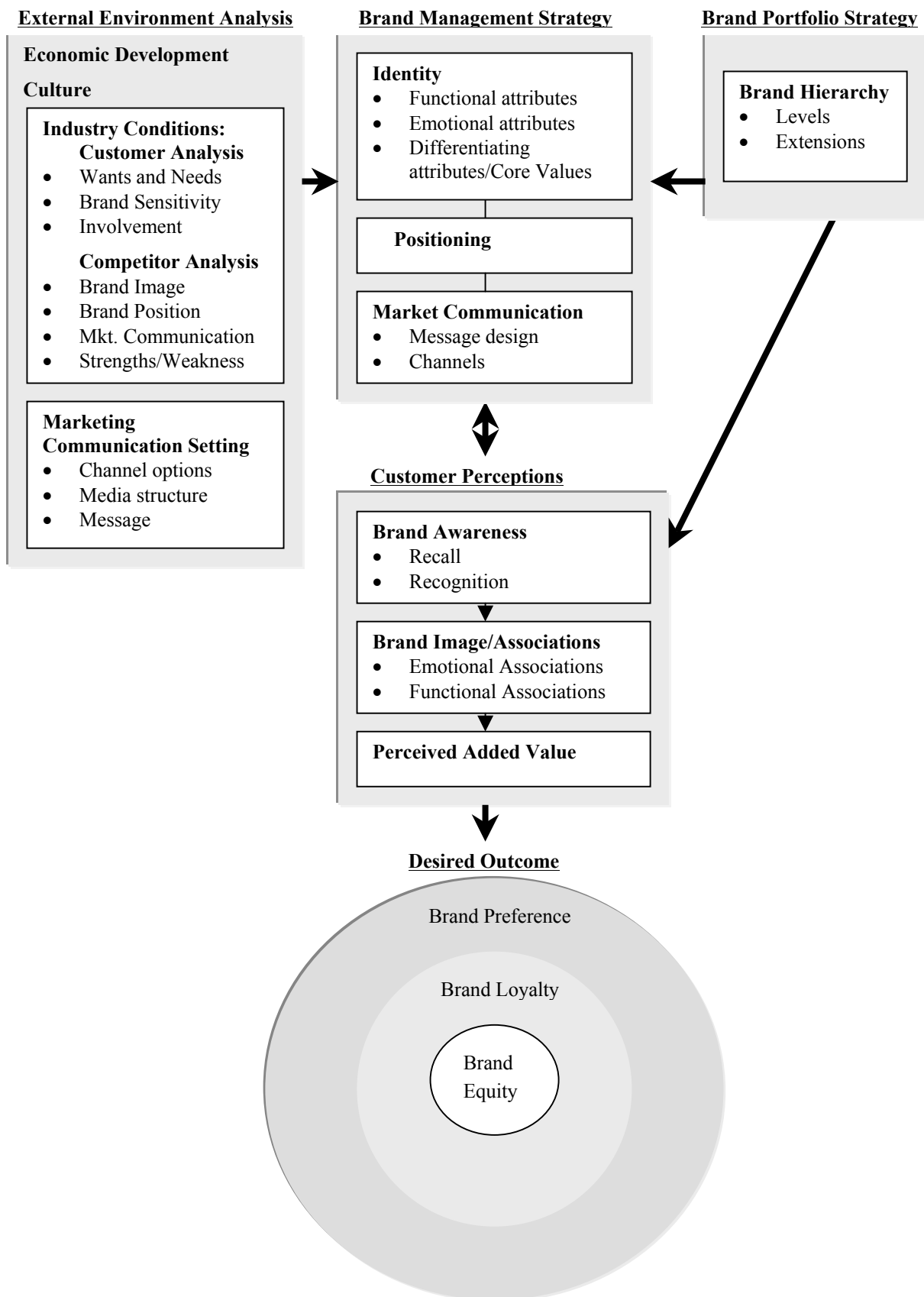


Figure 18: Extending Brands to Emerging Market, Authors' own

## 4 Empirical Results

*This chapter serves to present the findings of our empirical studies, which examined the factors that have been identified to exert an influence on VCE's brand management strategy in China. The chapter begins by giving an overview of VCE's current brand management strategy, after which the company's brand portfolio strategy will be examined. Following that, the external environment in China will be described, including an overview of the country's economic development and culture, the specific industry conditions, as well as the marketing communication setting. Finally an examination of the buyers' perceptions of the Volvo brand will be provided. The findings are, if not stated otherwise, based on data gathered from our interviews. We have chosen not to present the respondents by name so as to respect their wishes.*

### ***4.1 VCE's Brand Management Strategy***

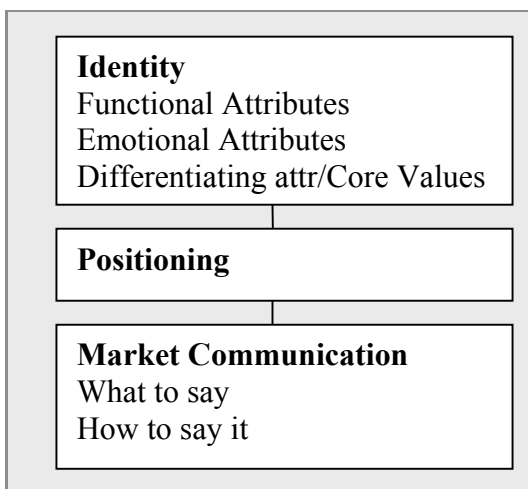
According to our respondents, Volvo Construction Equipment began formulating its brand management strategy in the year 2000. The company began by conducting research in Germany and the USA and used the information gathered as a platform from which to develop a global brand position. One of the main findings of their research was that awareness for the Volvo name was extremely high but awareness for Volvo CE was not. According to a respondent at Volvo CE, the rapid growth of the company after the disposal of the car division resulted in a perceptual gap in the minds of customers as to what Volvo CE represents and the scale of its business. As a result Volvo CE has engaged in an extremely active brand management strategy.

The company has formulated four brand objectives which include: to clearly position the brand; to drive brand preference, particularly among competitor's customers; to get Volvo on the shopping list for equipment purchases and rentals, and to increase market share (Volvo Internal document). In order to achieve these objectives Volvo CE has formulated a brand management strategy that addresses both functional and emotional issues. This brand management strategy is applied globally. According to one of our respondents at Volvo CE, there are common denominators in terms of basic consumer needs

in the construction equipment industry and therefore it is feasible to have a global brand position. Our respondent states,

*“Our industry is not susceptible to short term fashion trends and it is not that susceptible to culture because, at the end of the day, what our products do is they solve problems and that problem is the same in China as it is in the US. The cultural element doesn’t have an enormous impact.”*

According to our respondents what can vary from country to country is how best to reach people and how to execute the chosen position. It is possible to



have a global position but it is also necessary to be relevant locally. Therefore a company must execute their position in a way that fits the market and is meaningful to the particular culture in the market. In the following section, Volvo CE’s current brand management strategy will be described, and, in accordance with our theoretical framework (see figure on the left), the description will focus on the

company’s brand identity, positioning, and market communication.

### 4.1.1 Brand Identity

Volvo CE has developed a brand identity that provides both functional and emotional added value to customers. As part of formulating a brand identity, Volvo CE has identified certain attributes that characterise the brand and company. The company then divided these into what it refers to as focus areas. The first focus area is “*product excellence*” which concerns the functional aspects of the brand. It includes the following product attributes: safety, quality, environmental care, innovative solutions and service minded. Volvo CE has integrated these attributes and created one functional benefit for the brand and that is that Volvo CE equals the best equipment available (Volvo Internal document). According to our respondents this is differentiating because it is a superlative and no other company in the industry is claiming to offer the best equipment. Most other brands simply offer reason-why benefits,

which are based on technical details. This approach may help to sell individual products but it will not drive the brand.

Using the functional benefit of offering the best equipment as a promise to customers sets Volvo CE apart from competitors. Offering the best equipment is seen by Volvo CE as a functional benefit that is relevant to customers all over the world. This is because the assertion is on such a high level. There are a number of different reasons that can be given as to why it is the best equipment such as low fuel consumption, low noise emission, etc., and different reasons can be given depending on what is relevant to customers in that particular context.

The second focus area of Volvo CE's brand identity brings in the emotional aspects of the brand and is referred to simply as "*care*". The emotional attributes include aspects such as being approachable, passionate, professional, proactive, partner, market driven and constantly seeking to improve (Volvo internal document). The emotional aspects describe the organisation as a whole. According to one respondent, care is another driver that is not occupied in the construction equipment industry. Many brands in the industry still do not associate emotional attributes with their brands despite its growing importance in business-to-business markets.

Volvo CE has integrated the brand attributes in its two focus areas into one brand identity that consists of a core identity, customer benefits, and reasons why. The core identity consists of Volvo CE's values and includes attributes such as quality and approachability found in the company's two focus areas, care and product excellence. According to Volvo CE, this core identity provides certain benefits to customers, which include productivity and durability, high resale value, trustworthiness and the benefit of being business partners. These benefits in turn give customers reasons why they should choose Volvo CE over other construction equipment brands. Some of the 'reasons why' identified by Volvo CE, are the company's engineering heritage, its unique product features, financing support, service contracts, and parts and service guarantees (Volvo CE internal document).

Volvo CE is, through its brand identity, trying to provide a differentiating value to customers by giving them a feeling of pride. Volvo machines should be equipment that customers are “*proud to own*” (Volvo internal document). This added value allows the company to charge a higher price. According to one of our respondents, pride is important in the construction equipment industry, which is still rather antiquated. The overall image that Volvo CE wants customers to have about the brand is that the company adds value at every stage of the value chain.

### **4.1.2 Brand Positioning**

Volvo CE’s position on the market is articulated in its promise of “*More Care, Built in.*” As stated by one of our respondents this position is not just about product attributes but also about support for customers and care for people in the industry. It concerns human care in terms of how the equipment is designed, supported and serviced which adds up to a quality perception. According to Volvo CE this is a sound position because it is supported by hard evidence, it carves out ownable and differentiating territory for the company, and because customers around the world are united in their need for the best equipment and care (Volvo internal document). According to our respondents, Volvo CE considers its main competitors in the Chinese market to be Caterpillar and Hitachi and the company is consequently positioning itself primarily against these two firms.

### **4.1.3 Market Communication**

For Volvo CE the main role of its market communication is to convey to customers that a clear alternative to Caterpillar exists. The ultimate goal of the company is to get on the shopping list of customers for all of their products and services. In order to achieve this goal, Volvo CE uses a number of different marketing channels to promote its products. The company runs both global brand advertisements and product specific advertising. According to one of our respondents, Volvo CE’s advertising strategy is to take an issue that is of relevance to customers, and where the company is at an advantage, and then magnify it.

The company's advertising focuses on its own key strengths and key product attributes. A series of advertisements on Volvo CE's aptitude in the area of fuel consumption is an example of this. In terms of message design, the company is aiming to own the colour blue as Caterpillar has taken over the colour yellow in its advertising. In addition to advertising, Volvo CE also promotes products at trade fairs and exhibitions, conducts public relations campaigns, and has a 3-D film, which demonstrates the functions of different machines. In addition to this, the company also engages in event sponsorship, sponsoring golf in both China and Malaysia.

The dealers in each specific country also do much of the marketing for the brand. They are often in charge of sales and service and are actively seeking new customers. The dealers are extremely important, as they are the primary link between Volvo CE and customers. According to one of our respondents at Volvo CE, the dealers are currently not adequate in terms of the service they provide or their sales skills. Volvo CE is actively trying to transfer knowledge by providing training to both service providers and sales people. Sales staff from Volvo CE also has direct contact with customers and are involved in marketing the brand.

Volvo CE has set up certain conditions in order to ensure that its market communication is a success. The market communication must be relevant to the target group, it must be unique and memorable, it must be believable, and finally, it must be consistent (Volvo internal document). In April 2002, Volvo CE announced that it had appointed a company called Masius, which would assume the responsibility for co-ordinating all marketing communication and advertising. This will include ensuring that the brand message '*More Care, Built In*' is consistently communicated across corporate and product advertising as well as in local marketing campaigns (Precision Marketing, 2002). Masius is however not very active in China and consequently Volvo CE has, for the last two years, used a local PR agency (Shanghai based) and a local advertisement agency (Beijing Based) in China.

As Volvo CE has realised, the goal of getting on the customers' shopping list can not be attained if they do not know that the company offers a certain product and thus, the first task of communication is to overcome the obstacle of

low awareness of Volvo CE among customers. This will be achieved by running mostly product advertisements over the next year. In markets where resources are scarce, this will mean showing the whole range of products on the advertisements.

## ***4.2 Volvo's Brand Portfolio Strategy***

Volvo Construction Equipment is itself part of a much larger brand portfolio.

### **Brand Hierarchy**

- Levels
- Extensions

The company is a division of a larger corporation, Volvo Group. The individual brand management strategy of Volvo CE will be influenced by both the structure of the greater Volvo Group hierarchy, as well as by any brand extensions that have occurred.

The examination of Volvo's brand portfolio strategy will consequently, as illustrated in the figure above, focus on describing the different levels in the brand hierarchy, and on the extensions made under the Volvo brand.

### **4.2.1 Levels in the Hierarchy**

Volvo Group's brand hierarchy is fairly complex. Volvo Group consists of eight business areas; Volvo Truck, Mack Trucks, Renault Trucks, Volvo Buses, Volvo Penta, Volvo Aero, Volvo Financial Services and Volvo Construction Equipment. These divisions operate as fairly independent units and with the exception of Mack and Renault trucks they are all branded by the Volvo corporate name. Each division within Volvo Group has its own marketing and brand strategies and each division chooses its own advertising agencies to create and implement communication programs.

The Volvo corporate brand name also applies to a company, which is no longer part of the Volvo Group. In 1999, Volvo Group disposed of one of its divisions, Volvo Car Corporation. Volvo Cars was acquired by the American company Ford and has since become the strongest brand within Ford's premier automotive group (PAG), which, in addition to Volvo consists of Jaguar, Land Rover and Aston Martin (Wernle, 2002). Ford's \$2.5 billion acquisition of England's Jaguar Cars Ltd. a decade ago gave the automaker a template for how to handle the Volvo deal (Halliday, 1999).



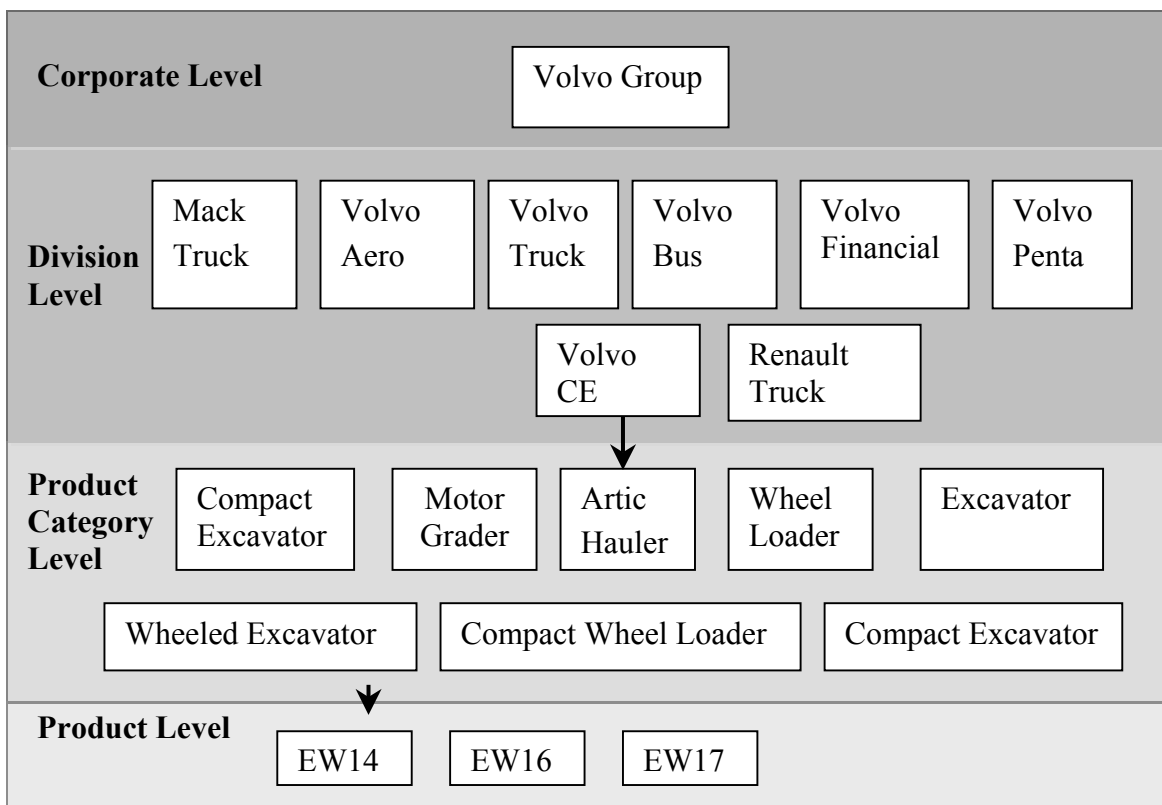
Ford's strategy has been to keep the Volvo brand name and integrate it into its own brand portfolio. Volvo is known to have one of the clearest, most defined images of any car in the world that sells in such low volumes. It is a premium brand, which has a unique appeal as it stands for safety, environmental responsibility and family values. Any company would want to secure the trademark image of the safest car in the world (Halliday, 1999). From Ford's perspective, the protection of the Volvo brand is vital. Ford has indicated that it is willing to go to great lengths to safeguard the Volvo brand name stating, for example, that it would consider buying the Volvo Truck division rather than allow the purchase to be made by another company who could potentially harm the brand (Global Automotive Report, 2002). In designing the new Volvo sports utility vehicle, a vehicle type that is often associated with high fuel consumption, an aggressive road presence and potential danger to other drivers, Volvo Cars was careful to create a vehicle that did not damage the core values of the Volvo brand (Wernle, 2002).

Under the ownership of Ford, Volvo Cars has maintained a fair amount of independence. As with all the other PAG members, Volvo Cars has individual product messages and communications, while Ford remains relatively hands-off (Burt, 2002). The company is presently pursuing a brand strategy that is very specific to their product category. The goal of the current brand strategy is to position Volvo as a premium brand. While still associating the brand with safety, they wish to portray an image of luxury. The company recently introduced new models with technologically advanced engines that allow the car to drive at high speeds (Burt, 2002). Each country or region where Volvo Cars is active uses its own advertising agency. Recent advertising in the UK portrayed Volvo as an exciting brand as opposed to a big, boxy family brand. The goal was to get customers to reassess the Volvo brand and target customers that never would have considered purchasing a Volvo before (Reynolds, 2000). This is part of a worldwide campaign, which is moving away from the traditional concepts of safety and reliability and instead portrays the Volvo car as a sporty and fast alternative.

In addition to the separate business areas, each division within the Volvo Group has its own hierarchy as each division has its own combination of products and product categories. Volvo CE has numerous product categories within its product line. As illustrated in figure 19 below, these categories are not branded

but simply designated by the product name. Volvo CE's product categories include the following: wheeled excavators, compact excavators, excavators, wheel loaders, compact wheel loaders, motor graders, and articulated haulers. In addition to this Volvo CE has recently integrated a number of acquired companies into its portfolio. These include Samsung, UpRight and Scat Trak. The long-term plan is to re-brand the machines produced by these companies and manufacture them under the Volvo brand name. They will in effect become new product categories in Volvo CE's hierarchy.

Finally there is the individual product level of the hierarchy. Each individual Volvo CE product offering within a category is given a name. Within the wheeled excavator product category, for example, Volvo CE has the following products: EW140 12.8-15.2 tons, EW160 13.8 – 16.4 tons, and EW170 16.0 – 18.1 tons. All individual products made by the company are labelled with both their individual product name and the corporate name Volvo (VCE web site). Even on the individual product level of the hierarchy the corporate brand name dominates. It is often featured in two places on each machine and is more noticeable and prominent than the individual product name. Below is an illustration of Volvo Group's brand hierarchy, with focus on Volvo CE.



**Figure 19:** Volvo Group's Brand Hierarchy, Authors' own

Thus Volvo Group's current brand portfolio strategy is to use the corporate level to brand a number of different product categories. The use of corporate name stretches from the very top level of the hierarchy, by branding the Volvo Group and its numerous divisions, to the very bottom level of the hierarchy by branding individual products within each division. Generally when the corporate name plays a dominant role in a brand strategy it is most likely that intangible attributes or attributes that span a wide range of product categories will be emphasised. In Volvo's case the core values of the company: safety, quality and environmental care are highlighted throughout the hierarchy.

According to one of our respondents at Volvo CE, sharing a name across companies requires that they be extremely cautious regarding many levels. The company must always respect the core values of Volvo. Each division of the Volvo Group is responsible not only for its own integrity but also for that of the company as a whole. Because the different business areas are linked by the Volvo name, what one division does will directly affect the others. If an accident occurred with a Volvo product and someone was killed it would affect the whole brand and all of the divisions. This means that when Volvo CE acquires new companies, for example, they must always ensure that the new products live up to the safety and environmental standards established by Volvo before they can be branded with the Volvo name. After acquiring Samsung in 1998, Volvo CE continued selling the South Korean made excavators with the Samsung name domestically. The company proceeded to label export models with the Volvo name only when the level of quality was considered high enough (Lee, 1999).

The extent to which the Volvo name is shared across companies and product categories has forced a certain amount of co-ordination between companies and divisions to be established. As a result a counsel, known as the Volvo Trademark Holding Committee has been established with representatives from both Volvo Group and Volvo Car Corporation. The counsel has set up strict rules as to how the Volvo brand can be used, what associations can be made with the brand, and restrictions regarding how the brand can be used in market communication. Volvo CE's own slogan "*More care, Built in,*" for example, must be placed at a certain distance from the Volvo name on all of its advertising. This is done so that Volvo CE's position will not be mistaken as

the positioning for the entire Volvo Group. As stated by one of our respondents this type of discipline is necessary in order to keep the brand simple and uncluttered and avoid customer confusion.

#### **4.2.2 Brand Extensions**

The Volvo brand name has penetrated the Chinese market through a stepwise extension. Volvo Car was the first product category to enter the country, which was followed by Volvo Truck and Volvo Buses thereafter. Volvo Construction Equipment entered the market after these divisions had already established their presence there.

##### **Volvo Car Corporation**

Volvo Car Corporation first began selling cars in China in the 1980s and was among the first western group of automotive companies to enter the country (Alestron, 1999). The company formally established an office in Beijing on January 24<sup>th</sup>, 1994 and with each year in the country, sales and brand recognition have increased steadily. In 2001, the company's sales volume topped 2000 units, an increase of 100 percent over the year 2000 (Alestron, 2002). Volvo Car represents one third of the sales of greater Volvo in China including Taiwan and Hong Kong and the company is considered to be one of the driving forces of the Volvo brand name in China (Volvo CE internal document).

In 2002, Volvo Cars announced its intentions to make Volvo the preferred luxury car brand in China (Economic Daily, 2002). The strategy, which focuses on Eastern China only, will require a sharp increase in sales volumes. Volvo Car has set a goal of selling 20,000 vehicles in China by the year 2010, which would make China the company's biggest car market. Volvo Car has divided China into 6 business regions. In each region, the company will carefully select a professional partner. All six regions will report directly to the Chinese headquarters. In the regions, local importing agents will be responsible for respective import strategies due to current license agency regulations (Economic Daily, 2002). The company has set up 22 franchised stores and 15 after-sale service stations around China and is continuing with efforts to strengthen sales channels and after sales service. At present Volvo Car has no

plans to invest in a manufacturing base in China as China's entry into the WTO is expected to increase the competitiveness of imported cars in the country (Canadian Driver, 2002). Instead Volvo Car is focusing on forging good relations with China and intensifying brand-building efforts in the country. However, the company does not dismiss the possibility of using Ford's manufacturing platform in China to produce vehicles in the future (Alestron, 2002). Since China's entry into the WTO, tariffs on imported cars have decreased from 70-80 percent to 43.8-50.7 percent. Under the WTO obligations, the tariffs will decline further to 25 percent by mid 2006, which will make imported cars much cheaper (China Peoples Daily, 2002). In addition to this, the opening up of China's finance market to foreign players will make the vehicles easier to finance.

Volvo Car is optimistic about their development in China. The Volvo car is seen as a desirable brand and customers are willing to pay a premium price for it. The amount of people who can afford to purchase a Volvo car is, and will likely remain, a small fraction of the population, however, with a population of 1.3 billion this fraction turns out to be a rather large number in real terms, and this fraction is where Volvo Car intends to find its buyers. Considering that Volvo Car's biggest seller in the Chinese market is the top of the line S80, this strategy seems to be working (Canadian Driver, 2002).

### **Volvo Truck Corporation**

Volvo Truck first entered the Chinese market 15 years ago and initially the company's operations were comprised of tender offers. Since then, the company's operations in China have expanded through the establishment of sales offices and service dealers. Currently, Volvo Truck's headquarters is situated in Beijing. By the year 2000, Volvo Truck had sold some 2,500 vehicles in China. By mid June 2002, the company had increased its sales volume to approximately 1,000 units in China, up from 800 units in 2001 and 300 in the year 2000 (China Economic Information Network, [CEI], 2002). Volvo Truck is presently the market leader in the import segment. However, they are the price leader and currently hold the number four brand-position in the Chinese market (Volvo internal document).

Volvo Truck began efforts to establish a manufacturing facility almost a decade ago, as local manufacturing would allow the company to decrease its price, thereby becoming a more competitive alternative to domestic producers. In 1994, Volvo Truck was chosen by the Chinese government to become one of three manufacturers of heavy-duty trucks in conjunction with a government appointed partner, the state-owned China National Heavy-duty Truck Corporation (CNHTC), which was the country's principle manufacturer of trucks at that time (CEI, 2002). The project has since been repeatedly delayed, the latest instance being a result of a financial crisis of CNHTC. Negotiations resumed in September of this year after CNHTC restructured its heavy debts and so far, a consensus has been reached on most aspects. The joint venture, valued at 200 million USD, will have an initial capacity of 2,000 heavy trucks a year, to be expanded to 5,000 within 10 years (CEI, 2002).

In 2000, Volvo Truck announced plans to set up over 60 service centres along the country's highways over the next several years (China Daily, 2000). In 2001, a Volvo Truck Customers Service Centre was established in Wuhan, Central China's Hubei Province, and plans were in place to establish service stations in Shanghai, Shenzhen, Chengdu, Yuannan and Nanning (China Automotive News, 2001). According to our sources, Volvo Truck's goal is to secure an average five percent market share in the Asian markets within a ten-year period. This means that by this point in time the company will be delivering some 15,000 to 20,000 vehicles per year to the Asian region.

China's heavy truck market has tremendous potential with the expansion of infrastructure and the rapid development of the nation's modern logistical sector. According to sources with the Ministry of Communications, during the next five years, the country's expressways are expected to be extended to more than 20,000 kilometres in total length (China Daily, 2001). The demand for heavy trucks in China is predicted to reach 200,000 units by 2010, up from the current level of more than 30,000 units (CEI, 2002).

In 1994, as part of an early effort to make the Volvo brand name known in China, Volvo Group, Volvo Car and Volvo Truck made the decision to sponsor the China tour and the China open golf tournaments from 1995-1999. The opportunity to support the development of golf in China was appealing as golf,

like Volvo, enjoyed a position of status and prestige in Asia. This could allow Volvo to firmly establish a link between the image and their company, throughout China (Volvo Car, 2002).

### **Volvo Bus Corporation**

Volvo Bus Corporation entered the Chinese market in 1994 through a joint venture with a Chinese company called Xi'an. The joint venture was called Silver Bus Corporation (Volvo internal document). Together the companies produce deluxe tour buses and inter-city long-distance buses. The company is the second largest manufacturer of heavy-duty buses in China. The products made under the joint venture are branded both by the Volvo name and the name Xi Wo (Volvo internal document). Since 1995, the company has produced more than 1,500 buses (Xi'an Silver Bus Corporation, 2002). The Volvo brand is extremely popular with long distance bus travellers who can choose the brand of bus they would like to travel on when purchasing tickets for their journey. Volvo's reputation for safety and comfort appeals to the travellers and those operators who use Volvo buses often see their buses full (Uhlin, 2002). Producing the Volvo bus in China is considered a long-term strategic investment by the company and is based on establishing permanent relationships with customers (Automotive Intelligence News, 2000).

After establishing itself in the long-distance bus segment, Volvo Bus Corporation began negotiations with the Chinese vehicle manufacturer Shanghai Automotive Industry Corporation (SAIC) regarding production of city buses. In the year 2000, Volvo Bus and SAIC, owned by the municipality of Shanghai, signed several agreements covering establishment in Shanghai of a joint-venture company called Sunwin Bus for the manufacture and sale of city and commuter buses. China is predicted to become the world's largest market for city buses and SAIC's existing production of about 2,500 buses per year was the base for the new joint-venture company's operations. The two companies invested over 97 million USD in the joint venture and established a factory, which has a capacity of over 2,000 buses per year. Vehicles made by the joint venture company will also be dually branded, carrying both the Volvo name and the name Sunwin (Volvo internal document). Currently Volvo Bus constitutes one third of Volvo sales in China including Taiwan and Hong Kong

and is considered a driver of the development of the Volvo brand in the country (Volvo internal document).

### **Volvo CE**

Volvo Construction Equipment is the fourth largest construction equipment manufacturer in the world and currently has 5 percent of the global market. Volvo CE officially entered the Chinese market in 1999 by establishing a representative office in Beijing, which later was moved to Shanghai. The company is relatively new on the market and sells approximately 100 machines per year. According to one of our respondents at Volvo CE, sales have more than doubled in the past year. Recently the company announced that, after reviewing global markets, China was the only market to maintain solid growth over the years and as a result the company plans to improve its global position by boosting its presence in China. Volvo CE set up its China operation in Shanghai earlier this year, obtaining 66,000 square meters of land for a plant in the Pudong New District. The company has also vowed to bring more state-of-the-art products and services to the Chinese market (Xinhua News Agency, 2002).

### ***4.3 External Environment***

<b>Economic Development</b>	<b>Industry Conditions:</b> <b>Customer Analysis</b> Wants and Needs Brand Sensitivity Involvement <b>Competitor Analysis</b> Brand Image Brand Position Mkt. Communication Strengths/Weaknesses
	<b>Mkt. Comm. Setting</b> Channel Options Media Structure
<b>Country Culture</b>	

The following description of the external environment in China will comprise four main parts, as illustrated in the figure on the left. The first part serves to give an overview of the current stage of the country's economic development, while the second part provides a description of the country culture. Following that, the conditions in the Chinese construction equipment industry will be examined, including an assessment of the competitive situation and the consumer

trends. Finally, the marketing communication setting will be described.



### **4.3.1 Economic Development**

China is one of the fastest growing economies in the world and this year the country surpassed USA as the number one destination of foreign direct investment. China began its policy of reform and opening up in the late 1970's. Since then the Chinese economy has grown at an average annual rate of 9 percent and the number of foreign companies with operations in China has grown exponentially. In 2001, the gross domestic product was 1.08 trillion USD, which when one takes into account the country's population of 1.3 billion does not signify a large amount of disposable income (USA Trade, 2002). Privatisation is increasing and the country's recent entry into the WTO is a huge step in its progression towards a market economy. The WTO entrance has increased investor confidence and many more foreign firms are now willing to enter the country by establishing green-field investments as opposed to the traditional means of setting up joint ventures.

In the year 2000, China's industrial sector, which is defined as manufacturing, construction and mining, was the primary driver of growth and accounted for half of GDP. China's State Owned Enterprises (SOEs), fuelled by a government fiscal stimulus program, recorded their best performance since 1994 with production increasing by 10.1 percent. Output of the heavy industry alone rose by 13 percent (USA Trade, 2002).

Despite this rapid growth, problems still exist in the country. According to our respondents one of the main problem areas in the Chinese economy is the large variation in wealth between regions. Disparities between the eastern and the western parts of the country are immense. In the year 2000, the average per capita disposable income of urban residents was 759 USD while rural per capita income was approximately 200 USD. The World Bank estimates that as many as 200 million Chinese live below the poverty line. In order to remedy this situation, the government has introduced what is known as the "Great Western Development Strategy" which includes policies aimed at attracting foreign investment to regions in the western part of the country. However, these policies have tended to emphasise land use and tax incentives without addressing more significant problems in the investment environment such as the weak legal structure and lengthy approval processes (USA Trade, 2002).

China has a growing labour surplus, which is not reflected in the official unemployment rate of 3.3 percent. The official data do not account for approximately 23 million people who are laid off temporarily in the state sector, nor for the 80-120 million surplus rural workers who make up a floating population that migrates between agriculture and construction jobs and that are at other times unemployed. A more accurate estimate of urban unemployment, cited by private researchers, would be 10-15 percent (USA Trade, 2002).

According to our respondents another issue of concern is the reform of SOEs, which have far too many workers and include large state owned banks with huge debts. These companies generally have no performance requirements put on them, and the employees, who are provided with food and housing, have little incentive to work hard. The government has recently renewed its efforts to downsize many SOEs, and this will mean that the Chinese people will have to take on more responsibilities such as housing, pensions, and insurance. However, investment in the state-owned sector accounted for most new investment in 1998 and 1999 implying that the government still has a strong role in the Chinese economy. The government, or more accurately the Chinese Communist Party, is the ultimate owner of the country's SOEs and therefore continues to control roughly two thirds of GDP and urban employment. The long-term plan is to sell the government share in all state owned corporations to the public, except for the ones in industries deemed essential to national security. However, the definition of national security is presently quite broad. It includes telecommunications, mass media, and other industries, which are not included in other countries (USA Trade, 2002).

According to our respondents, the environment is another problem in China. Economic development is currently taking precedence over the environment in China. Measures must be taken to ensure that sustainable development does not ruin the environment within the country.

### **4.3.2 Country Culture**

China has a unique set of cultural traits, shaped by traditions founded in a history of four thousand years. According to Ying Fan (2000), the

contemporary Chinese culture consists of three major elements: traditional culture, communist ideology and, more recently, western values.

The traditional Chinese culture encompasses numerous diverse belief systems including the main Chinese religions, Taoism and Buddhism, as well as Confucianism and a multitude of regional cultures. The heaviest influence is exerted by Confucianism, which still provides the basis for the norms of Chinese interpersonal behaviour. This philosophy spells out rules governing the entire range of human interactions in society, including human relationships, social structures, virtuous behaviour and work ethics (Fan, 2000). According to Confucianism, man exists, and is defined, by his relationship to others. These relationships are structured hierarchically, and social order is ensured through each party's honouring the requirements of the relationships. Confucius defined five basic human relations and principles for each relation, as is illustrated in the table below.

Basic Human Relations	Principles
Sovereign and subject (or master and follower)	Loyalty and duty
Father and son	Love and obedience, (filial piety)
Husband and wife	Obligation and submission
Elder and younger Brothers	Seniority and modelling subject
Friends	Trust

**Table 4:** *Five Basic Human Relations and Principles*, Source Fan, 2000

Among these five basic human relations, three are family relations, which is a clear indication of the importance of family in Chinese society. The relationship to the father is of special importance, as the traditional Chinese family is centered on the patriarch, who is considered to be omniscient and morally superior. This paternalistic characteristic is expressed in many ways in the Chinese society, such as the management style and the system of property inheritance (Fan, 2000).

Although the influence of traditional culture is still strong in China, the country and its culture have changed over the past 20 years and are still changing.

Economic reforms and opening doors to the west have reshaped the culture to be more and more influenced by western values. The degree of westernisation varies throughout the country, as the extent of western influence differs largely between regions, between companies, and between the old and the younger generation. The bulk of foreign investment has been allocated to the larger cities in the eastern part of China, and consequently the rural regions in the west have not had the same exposure to foreign cultural values. Regarding the discrepancies between companies, these depend both on where the firm is located as well as on whether it is a private firm or a state-owned enterprise. Many of the people in privately owned companies, at least of those at top management positions, have studied abroad and adopted a more western thought style in terms of doing business.

For the remaining part of this discussion of the Chinese culture the cross-cultural theories presented by Hofstede, Trompenaars and Hall will be applied.

Starting with Hofstede's uncertainty avoidance dimension, we have through our empirical study found that, in China, the degree of *uncertainty avoidance* is rather large. There are mainly two reasons for why the Chinese people are risk averse. The first one is the influence of the traditional Chinese culture. Confucianism teaches the virtues of moderation and following the middle way. It encourages people to avoid risk to the greatest extent possible, as chaos is something that must not happen. Instead people should strive for harmony and balance (Fan, 2000). The other reason is that the Chinese society does not encourage risk. It does not provide a good safety net in case a person fails and goes bankrupt and consequently the cost of risk in China is quite high. In the words of one of our respondents: "*If you loose you loose everything, the society cannot protect you.*" As a result, Chinese people are in general trying to avoid risk, especially when it comes to personal security.

Regarding Hofstede's short-term versus long-term dimension, our sources and previous studies conducted on the Chinese culture (i.e. Fan, 2000) agree that China can be characterized as a *past oriented* society, taking a *long-range view*. As such, the society prescribes to the values of long-term commitments, persistence and respect for tradition. There is however a movement in China towards a more future-oriented mindset. When it comes to for example the

WTO membership and bringing western norms and standards into the country, the government is to a large extent future oriented.

The long-term view does not either apply to all situations. Many of our respondents agreed that there are some contrasting elements in the Chinese society regarding this issue. In many cases people look for short-term profits disregarding the long-term effects. The environment is an example of this, as although there is a great problem with pollution in China, people still keep using cheap and hazardous alternatives to save money. This mindset is also reflected in the building of apartments and roads. The government often favours quantity over quality and as a result constant reparations are necessary.

Applying Trompenaars' model we have been able to discover that China can be characterized as a rather *particularistic* society. As explained in the theory chapter, this kind of society focus more on relationships and trust than on formal rules and procedures, allowing circumstances to dictate how ideas and practices should be applied. Personal relationships, networking, and trust are very important traits in the Chinese culture, and quite often people are willing to make exceptions to the rules in order to honor the relationship. To have good "guanxi" (connections or relationships) with the right people is considered a big advantage. The network of relationships is based on a reciprocal obligation and is commonly established through exchanging gifts and by favouring involved parties with the aim of obtaining mutual benefits (Leung & Wong, 2001). Companies in China focus a great deal of effort, in terms of time, money and other resources, in order to build and enhance these necessary social relationships before doing business.

A common way of befriending new business partners is by eating and drinking together. Firms often throw banquets for key customers, and the most important ones are sometimes invited to trips. As one of our respondents put it: "If you are friends the business will be easier and money will be less important." Gift giving is a very delicate issue in China, and some foreign companies are of the opinion that guanxi provide the platform for corruption. Almost all of our respondents brought up the fact that it is very common with money under the table and that the mentality of many purchasers in China is characterized by a "what is in it for me" thinking.

The society is however becoming more universalistic. Although the importance of relationships still prevail in the Chinese society, it is nowadays increasingly common with rational, professional arguments, and a more quick and direct down-to-business attitude. One of our respondents told us that when he first came to China 20 years ago, it was very common in a negotiation situation that the parties involved first sat down and drank tea together in order to get to know each other. Rushing in to business was considered rude. This is no longer the situation in his business; “*You might get a cup of tea, but they get right down to business.*” Particularly private customers are, according to our sources, increasingly more concerned about the products and its attributes and about the most efficient solution than they are about liking the salesperson.

Regarding the neutral versus emotional dimension, China can be characterized as a mixture between a *neutral* and *affective* society. Traditionally, Chinese people have been encouraged to keep their feelings to themselves, as showing emotions freely was regarded as a sign of immaturity and impulsiveness. People were taught to uphold composure and to avoid confrontation (Fan, 2000). Maintaining face is still something that is very important to Chinese people. Critique should be given individually and never in front of other people. The importance of hierarchy and respect for authority has further contributed to the custom of keeping emotions under the surface. There has however been a shift in the Chinese society also regarding this aspect, and the younger generation today is more inclined to express their emotions openly and directly.

China can further be categorized as a *diffuse* culture where the different aspects of society are regarded as interconnected. According to our respondents, there is for instance no clear separation of work and private life, and consequently business relationships often require personal liking. Authority is commonly diffused to other relationships beyond the environment in which it first was established. As a result, employees in China are usually not on a friendly, personal level with their boss.

Status in China is based both on *achievement and ascription*, that is, both on how well employees carry out their tasks, and on other aspects such as age, class, and social connections. In the traditional Chinese society, ascribed status was the norm, where authority and merit are tied to individuals and based on

moral worth. This means that merit was not easily transferable between people. Nowadays however, performance is becoming more and more important, as the country is moving closer to Western values.

As mentioned in the theory chapter, the focus of Hall's theory is on communication and language. We believe that China can be placed fairly high on Hall's contextual continuum. This is indicated by the fact that the decision-makers in Chinese firms rely to a great extent on information that is communicated through family, friends, trusted business contacts and networks rather than on public sources. According to our sources, customers in China are more inclined to try a new product or accept a new business partner if they are recommended by someone with which they have a good relationship. Another indication that China should be characterized as a *high context* culture is the fact that the Chinese people tend to be more sensitive to implicit and indirect communication. In China, consequently, the knowledge of the sender of the message and the contextual settings surrounding the message add extra meaning to the information.

### 4.3.3 Industry Conditions

#### Customer Setting

##### *Wants and Needs*

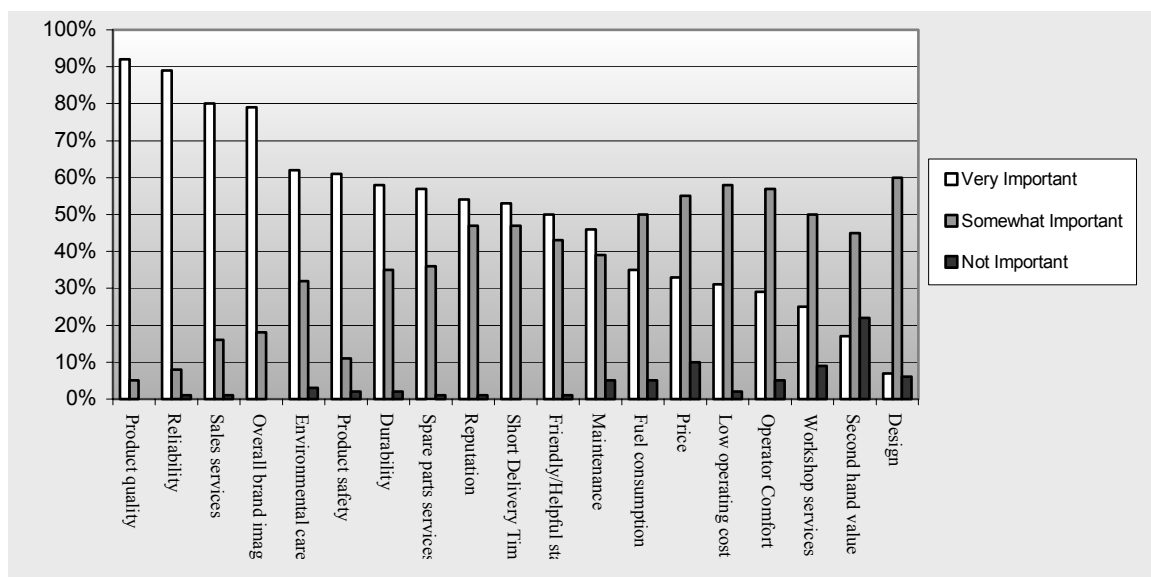
The wants and needs of Chinese CE customers are closely linked to the economic development and culture of the country. As the economy grows, customer needs generally evolve and become more sophisticated. However it is important to understand that wants and needs in China can vary across regions and according to ownership. The large economic disparities within China have resulted in varying needs across regions. In Shanghai, for example, which is a very westernised city, elements such as quality and reliability may be more important to customers, whereas in the more rural areas in the country, aspects such as price are more significant.

According to our respondents wants and needs also vary according to ownership. Privatisation has caused many Chinese firms to become more like foreign firms in terms of their wants and needs. However, the government still maintains a strong role in the Chinese economy and remains one of the principle customers of construction equipment. In cases where the government

is the customer, the wants and needs tend to be different and the process more complex.

According to a dealer for a large construction equipment manufacturer, private customers in China tend to want high quality, low price, and superior service while the large state owned enterprises require high quality but are also concerned with securing under-the-table benefits. For small projects where decisions are made on the highest level, construction equipment companies must often rely heavily on personal contacts and under-the-table dealings to secure a contract. According to one of our respondents, Chinese customers are rational in their buying process as long as no other considerations such as personal relationships or under-the-table activities are involved. When it comes to purchases involving large sums of money, under-the-table activity is very common. Often it is not the company with the lowest bid that wins a tender. Which manufacturer a company chooses to purchase from is often a question of what gifts the company receives.

Despite these variations, some general conclusions can be drawn as to what the most important considerations of construction equipment customers in China are. These conclusions are based on information gathered from our survey as well as from open-ended interviews. The graph below shows the results of our survey and identifies the most important customer considerations regarding the purchase of construction equipment.



**Graph 1:** Top considerations of Chinese CE customers, Authors’ own



According to the results of our survey the most important consideration when purchasing construction equipment was product quality. Of those who replied 92 percent of respondents felt that product quality was very important, while 5 percent felt that it was somewhat important. The next most important consideration was reliability with 89 percent citing this very important. Generally speaking, quality was thought to be the most important consideration by our interview subjects as well. As stated by one respondent the ratio of quality to price is what most customers consider when buying construction equipment. This can be largely attributed to the opening up of the economy. After enduring two generations of communism, the emerging Chinese middle class has proven to be particularly conscious of quality, value and trust. They read labels carefully and have been willing to pay premium prices for imported products, which they perceive as offering higher quality.

Although it is not included in the top ten considerations, price was identified by several respondents as an important issue. According to one respondent, there is currently extreme price pressure in the Chinese market, which causes customers to think in the short-term. Traditionally, Chinese companies have worked according to five-year plans and what was most important to them was to find a low priced product that would function for that period. In addition to this Chinese companies often have bonus systems for managers. This motivates managers to purchase low priced products in order to keep costs down in the short-term. Most domestic customers are not willing to pay the price for international standards and as a result, customers use older products which have low productivity and are not effective.

Furthermore, the abundance of cheap labour in China means that in some cases labourers are used instead of machines, as the cost is lower. Customers claim to be concerned with the machine breaking down but they are not willing to pay the price for a high quality product. According to one of our respondents who provides service to CE customers, many Chinese customers do not even buy genuine spare parts for their machines but instead look for less expensive alternatives. However, despite the fact that there clearly are some short-term elements in the Chinese society, it is still essential for foreign companies who wish to succeed in the Chinese market, to strongly commit to the market and show that they are there for the long-term.

This price pressure also affects foreign firms active in the Chinese market. The gradual opening up of the economy has resulted in an increased number of foreign contractors entering the market. These types of customers often have different wants and needs compared to domestic firms. They generally want to maintain international standards and therefore demand products of higher quality than those offered by domestic producers. This would be a logical target segment for VCE as they offer high quality products and are most likely already well known to foreign contractors. However, due to cost constraints, foreign contractors active in China cannot always afford to purchase high quality products. In order to compete they are often forced to prioritise and will as a result purchase foreign, high quality machines to perform those tasks that are key to the project, and use domestic machines for other less important tasks.

Another key consideration is service. According the results of our survey, sales service was the third most important consideration with 80 percent of those who replied citing it as very important. What is vital to customers in China is that the machine is running, and as a result fast and efficient service is crucial. According to one of our respondents, service is a relatively new concept to the Chinese people and therefore highly appreciated. Customers in China like to feel that the company cares about them. Asking about their wants and needs is very important to them. A crucial thing for a company operating in the Chinese market is consequently customer focus. It is necessary to keep customers constantly satisfied. According to a respondent in the customer support field, how to do this can vary from customer to customer and can include giving gifts or discounts, fast delivery etc. If customers do not receive the service they need they will purchase from a different company next time. A company that is enjoying much success in China is Volkswagen and this is largely due to its extensive service network.

Furthermore a company's reputation is very important. According to one respondent, it is vital that a company fills the concept of the brand with true meaning that the company can live up to. If a company cannot deliver what it has promised, then it will lose the respect of customers and its reputation will be damaged. Satisfied customers are the best advertisement in China. The interconnectedness between different aspects of Chinese society means that no interaction can be separated from previous contacts. As a result a company's

history and success in related business areas often influence the Chinese customer's purchase decision. This argument is reinforced by the results of our survey, where 79 percent of those who replied said the overall image of the brand was a very important consideration when purchasing equipment.

According to our sources, foreign companies generally have a better reputation in China. Chinese customers equate foreign brands with quality. They also assume that foreign products are superior in terms of environmental care and safety. They are further considered reliable. Chinese customers are generally very concerned with status and are willing to pay a higher price for products that project this image. Due to this high status ascribed to foreign firms, some Chinese manufacturers have adopted names that sound western in order to be perceived more favourably. However, the culture is evolving to one that is more achievement oriented and consequently performance is more and more becoming the basis for status. Foreign firms will consequently in a near future have to prove themselves to a greater extent and show that they can actually deliver the quality that is required by customers.

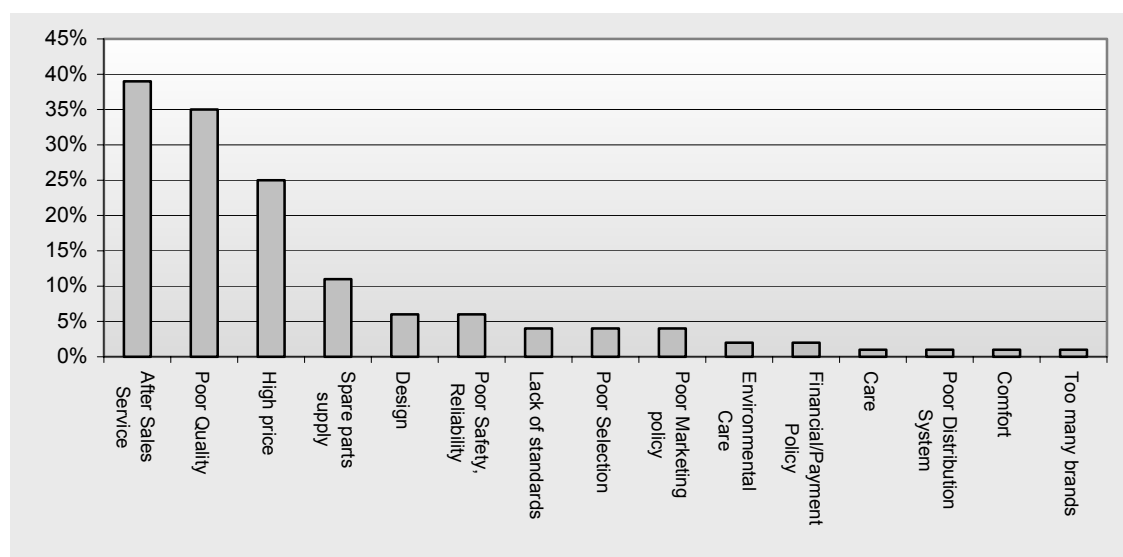
Aspects that are not presently of great concern to Chinese customers in the construction industry, involves driver comfort and fuel efficiency. According to our sources, driver comfort has no influence on customers' purchase decisions since, in the case of construction equipment, it is not the end users that make the purchase decisions and therefore their welfare is of little significance. Fuel is relatively inexpensive in China and therefore fuel efficiency is of not such a valid issue.

It was further generally agreed upon by our respondents that concern for the environment is not currently an influencing factor for Chinese purchasers, however this is changing gradually. According to one respondent, Chinese people are extremely concerned with ensuring that the environment directly surrounding them is safe however they have not yet linked their own safety to concerns for the greater environment. Awareness about the greater environment is growing overall, but it varies with different regions in the country.

In rural areas where poverty is high there is less concern for environmental issues. Environmental standards are given a lot of weight by the government and in the media but in practice the environmental requirements are fairly low.

Certain requirements may exist but these are seldom enforced. As stated by one of our respondents, *“In China an ISO certification can be purchased on the internet. This means that often customers do not understand the system and therefore do not work actively after it.”* However, the results of our survey are in sharp contrast to this. According to the survey environmental care was the fifth most important consideration with 62 percent of those who replied citing it as very important. This indicates that environmental care is at least an issue that customers are aware of.

The unmet needs in the market were also examined. The graph below illustrates the principal unmet needs in the Chinese market as determined by Chinese construction equipment customers.



**Graph 2:** *Unmet needs in the Chinese CE market, Authors’ own*

According to our survey, when asked what needs in the construction equipment market are not met by existing offers three answers received the majority of responses. The number one-problem customers cited was with after sales service. 39 percent of those who responded felt that after sales service was lacking in the market. The second was poor quality where 35 percent of those who responded felt that this was an issue, and the third highest response was high price where 25 percent of those who replied saw this as a problem in the Chinese market.

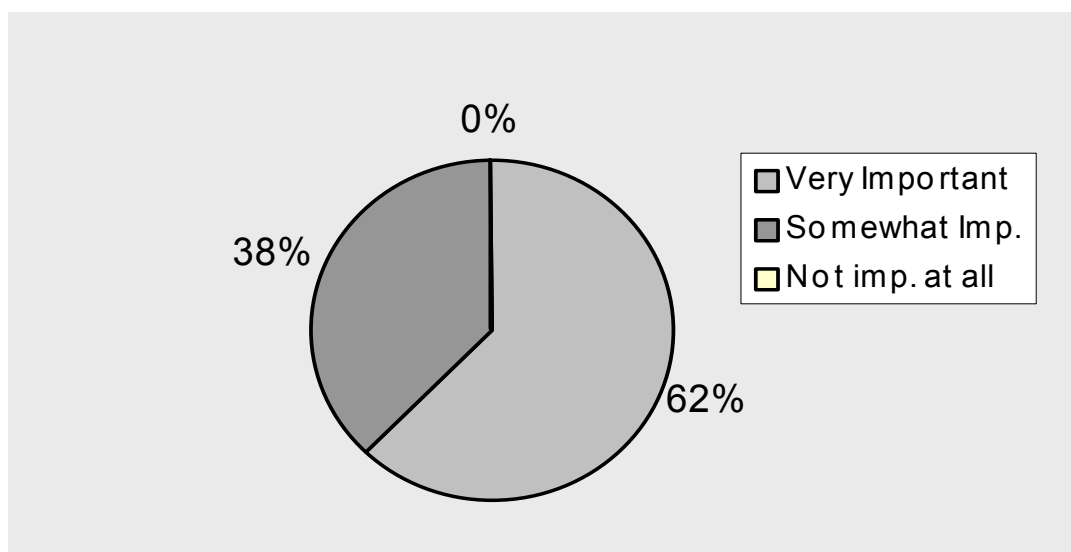
***Involvement***

As discussed previously, the degree of buyer involvement in the purchasing process is an important consideration in a brand management context, as it is a

prerequisite for brand building. In China, as in most markets, construction equipment is a high-involvement product category where the customers undertake complex buying behaviour. The products are typically expensive and bought infrequently, and consequently there is generally a high degree of risk associated with the purchase. Procuring construction equipment requires a good knowledge about the product category and the relative importance of the different attributes. As a result the buyers are highly involved in the evaluation of different brands. In the Chinese market, a high level of involvement is of even greater significance than in the western markets. This is due to the high degree of uncertainty avoidance that characterizes the Chinese society.

### ***Brand Sensitivity***

The general view among our respondents was that brand sensitivity is growing in the business-to-business market in China. However, the degree to which a Chinese company is brand sensitive generally depends on its financial resources. Some companies can afford to care about brands and others cannot. According to one respondent, Chinese customers know that there are high quality products available on the market but they are not willing to pay the price for them. Nevertheless brands are important in the Chinese market. The extent to which Chinese construction equipment customers are influenced by brands is illustrated by the figure at the left side. According to our survey when asked the question to what extent do brands influence your purchase decision, 62 percent of respondents replied very much and 38 percent replied somewhat. Not one respondent replied not at all.



**Graph 3:** *The importance of brands in the purchase of CE in China, Authors own*

Brands have even more importance in China than in the west according to one of our respondents. The rapid development of the market has resulted in a large amount of Chinese purchasers with relatively little experience. This means that they often have limited knowledge of the technical specifications of machines and will often purchase a brand that is known to them as a result. According to another respondent, brands are more important to buyers purchasing for larger projects as these imply a high degree of risk. Therefore, by using a well-known brand of machine for the project, the purchaser can effectively reduce his/her risk.

### **Competitive Setting**

The competitive situation in the Chinese construction equipment industry is to a large extent affected by the rapid growth of the economy. The gradual opening up of the economy has resulted in more foreign competitors trying to get a share of the flourishing construction equipment market. This has led to increased rivalry and higher market saturation. In addition to this, the influx of foreign firms has contributed to raising the standards in the market and has allowed domestic firms to gain knowledge. The government encouraged this knowledge transfer by requiring that foreign firms entering the market engage in joint ventures. Although this policy no longer exists, according to our respondents domestic firms have realised the advantages of co-operation and are eager to maintain close relations with foreign firms. In the following a presentation of the main competitors operating in the Chinese market will be provided.

### ***Caterpillar***

Caterpillar China Limited began operations in China in 1980, when foreign companies were first permitted to establish offices in the country. Twenty years later the company has built up an extensive operation and has annual sales of approximately 300 million USD or 1.5 percent of the company's global sales of 20 billion USD. Caterpillar's strategy is to target top-tier customers. As a result the company is currently placed fifth in terms of sales, behind lower-priced Japanese and South Korean joint ventures (South China Morning Post, 2002). Caterpillar is currently headquartered in Hong Kong SAR and has offices in Beijing and Shanghai. The company has product support facilities, manufacturing facilities, training centres and Caterpillar dealers located

throughout Greater China. They supply and support over 300 products in industries such as road building, general construction, gas and oil extraction, power generation, mining, quarrying, forestry and waste management (Caterpillar, 2002).

Caterpillar's strategy in China has been to focus on the production and sale of hydraulic excavators as opposed to wheel loaders, which represent the most active sector of the market. This is because locally produced wheel loaders sell for one third to one fifth of the price of imports (South China Morning Post, 2002). Since Caterpillar began investing in manufacturing facilities in 1994 its sales have increased five to six times. However according to one market participant the company's high priced machines and reputation for service appeal to less than 5 percent of the Chinese market and are used mostly for large infrastructure projects with international funding (South China Morning Post, 2002).

### *Brand Image*

As stated by one of our respondents, Caterpillar's brand image in China is of a company that produces high quality products and has the best service and parts supply. Due to their quality, Caterpillar products are associated with a higher price category. The company portrays itself as a caring company that is committed to growth in China and providing the best customer value (Caterpillar, 2002).

### *Brand Position*

Caterpillar's mission is to be the global leader in customer value (Caterpillar, 2002). In order to achieve this the company places a high value on localising products by locating manufacturing in China. The company has over the last five years invested in five local joint venture manufacturing facilities which make a variety of products including hydraulic excavators, construction machinery components, diesel engines, moving undercarriage and castings (Caterpillar, 2002). According to one of our respondents, the culture of the country is an important consideration and one, which can make it difficult for a foreign firm to properly assess customer needs. Therefore a local presence is key to success within a country. Consequently Caterpillar is positioning itself as a local company that has the best quality and service. The slogan of the

company is “*Global industry leader, local service excellence.*” Caterpillar classifies its biggest competitors in the Chinese market in terms of product. For wheel loaders the company considers domestic firms to be its biggest competitors and for excavators, Komatsu and Hitachi are deemed the biggest competitors.

As stated by one of our respondents, Caterpillar has four independent local dealers in China, which sell only Cat products. Caterpillar believes in establishing local dealers, as customers like to deal with people they know and trust. Almost all Caterpillar dealerships are independent and locally owned. Caterpillar’s dealers in China have over 1000 employees combined. Caterpillar and dealer product support centres are located throughout the country in all major cities and in strategic locations such as the Antaibao surface mine, the Junggar coal mine, and the Three Gorges site. Parts are available in Beijing, at dealer branches and at key job sites supported by Caterpillar’s world-wide distribution network. Emergency parts are shipped within 24 hours of order receipt (Caterpillar, 2002). According to our respondents, Caterpillar strongly supports its dealers and feels that they are doing a good job for them in China.

#### *Market Communication*

As stated by our respondents, Caterpillar’s market communication in China consists primarily of promoting products at trade fairs and exhibitions. The company also does some advertising but it is mostly executed through the dealers. Caterpillar’s strategy is to provide good support for the dealers, who then market and promote their products.

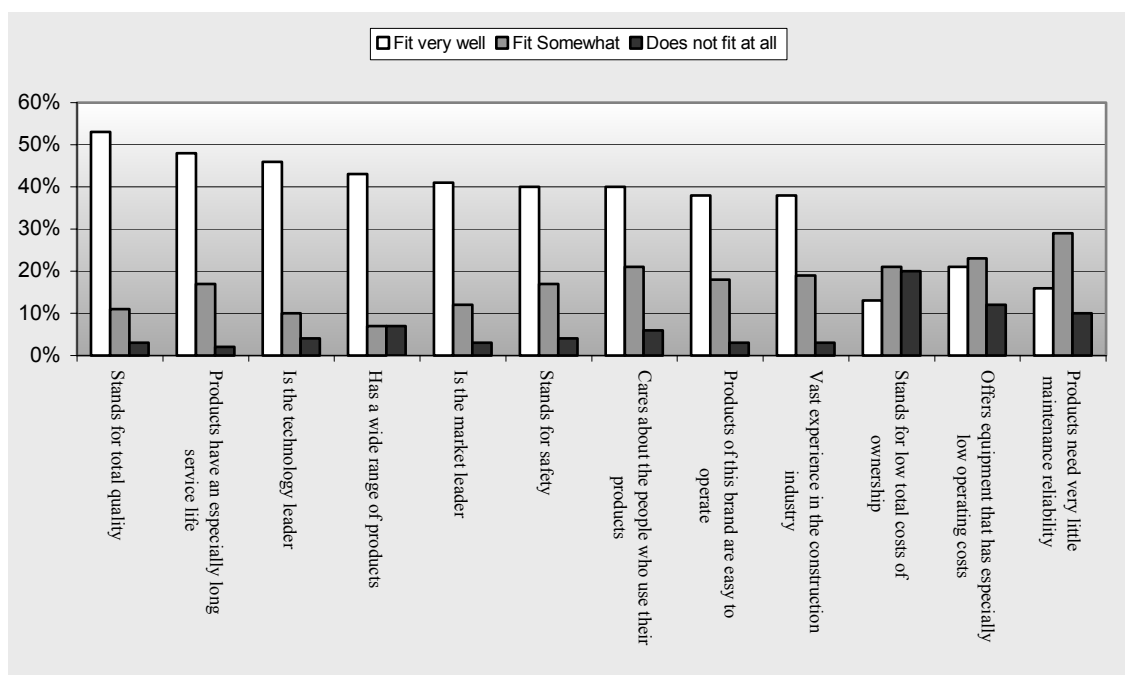
#### *Strengths/Weaknesses*

Caterpillar is the world leader in manufacturing of construction equipment and has a strong and well-known brand name. Caterpillar is a financially strong company. In the first half of 2002, Caterpillar posted sales and revenues of 9.70 billion USD and profit of 280 million USD, or 81 cents per share. More than half of all sales were to customers outside of the United States, maintaining Caterpillar’s position as a global supplier and leading U.S. exporter. This allows the company to invest in many strategic growth opportunities. Currently Caterpillar is funding product programs for future customer needs and provides financing for dealers and customers.



Caterpillar's global dealer network provides the company with an important competitive edge. Caterpillar's dealers serve equipment, service and financing needs for customers in more than 200 countries, and rental services are offered through more than 1,200 outlets world-wide (Caterpillar, 2002). After sales service and delivery time are vital to customers and Caterpillar's highly developed network is a key strength of the company. Awareness of the brand is high and the company's products tend to be associated with positive elements such as quality. This gives the company an undeniable strength when moving into a new market. Caterpillar has the advantage of having high recall in the Chinese construction equipment market. When asked to name three brands in the construction equipment industry, Caterpillar was the number one answer with 41 percent of respondents recalling the company.

The associations that customers in the industry currently make with the brand can also provide insightful information as to the strengths and weaknesses of the company in the specific market. As part of our survey, Chinese construction equipment customers were given a list of statements about Caterpillar and asked to indicate whether the statement fit well with the company, fit somewhat or did not fit at all. The graph below illustrates the strongest associations that Chinese construction equipment customers made with the brand as well as those associations where the response was not favourable.



**Graph 4:** Statements associated with the Caterpillar brand, Authors' own

The results were generally very positive towards Caterpillar. The most favourable association was that Caterpillar stands for total quality and just over 40 percent of respondents agreed with the statement, '*Caterpillar is the market leader.*' Caterpillar's weaknesses can be assessed by examining the least favourable customer responses. The three least favourable responses were to statements regarding low total cost of ownership, low operating costs, and maintenance.

### ***Komatsu***

Komatsu Ltd was established in Japan in 1921. The company is a diversified provider of industrial products and services and is currently one of the largest global players in terms of market share, second only to Caterpillar. The growth strategy for the company's construction equipment business involves four major initiatives. These include: strengthening sales by focusing on markets in the USA and Europe; engaging in product differentiation through aggressive R&D; expansion of businesses in environment-related fields, and; developing solution based services using IT (Komatsu, 2002). In the year 2001, Komatsu announced plans to establish a subsidiary in Shanghai in order to promote sales in the Chinese market. The subsidiary is expected to be used as an export base for the rest of South East Asia, Russia, and China's neighbouring countries in the future and the company anticipates sales of approximately 104 million USD in the first year of operation (American Metal Market, 2001).

### ***Brand Image***

According to our respondents, Komatsu wishes to portray the image of a quality-oriented manufacturer to Chinese customers. Komatsu is a recognised brand in China. The company's excavator called the PC is so well known that Chinese customers often refer to the machine as a PC instead of an excavator. This awareness is due largely to the company's early presence on the market selling used equipment. Komatsu is also trying to promote its image as a service provider and currently the company has 27 dealers in China, all of which provide service to customers.

### ***Brand Position***

According to our respondents, Komatsu positions itself with respect to its competitors in the Chinese market as a company that has better quality, better service and a lower price. Komatsu's slogan is "*Quality you can rely on*" and is

used in all of the markets in which it is active. Komatsu is committed to quality and reliability, which involves delivering safe and innovative products and services to customers (Komatsu, 2002). According to our respondents, Komatsu has adjusted somewhat to the Chinese market. In China, the company offers standard products with less technical specifications compared to those offered in Europe or the USA. This strategy allows Komatsu to lower the price of its products, which it feels is a key consideration of Chinese customers. Komatsu considers its main competitors on the Chinese market to be Caterpillar, Hitachi, Daewoo and Hyundai.

### *Market Communication*

In order to reach customers in China, Komatsu advertises in trade magazines and promotes its products at dealer exhibitions. According to our respondents, the company attends approximately 100 exhibitions per year on a regional basis.

### *Strengths and Weaknesses*

Komatsu is a large company with a long history in the construction equipment market. The Komatsu group consists of Komatsu Ltd and 163 other companies, which together employ over 35,000 people. In the year 2001, the company had sales of over 10 million USD (Komatsu, 2002). According to one of our respondents, the company's Japanese roots can be seen as an advantage when entering the Chinese market, as Chinese customers tend to think positively about Japanese brands. Komatsu enjoys relatively high recall for its brand name in the Chinese market. When asked to name three brands in the construction equipment industry in China 37 percent of respondents named Komatsu, placing the company second only to Caterpillar in terms of brand recall.

### ***Hitachi***

Hitachi Construction Machinery Co. is based in Japan and produces construction equipment and mining products. The company is a division of Hitachi Ltd, which manufactures a wide range of goods including computers, semiconductors and consumer goods. Recently Hitachi Construction Machinery and Deere & Company integrated their marketing and support functions in North, South and Central America in an effort to strengthen their

respective brands. In the integrated organisation, the companies will use common parts distribution, information systems, and training and support programs, in an effort to provide more value to customers (Hitachi, 2002).

### *Brand Image*

According to our respondents, Hitachi wishes to portray an image of quality with a focus on after sales service to customers. The company has 36 dealers in the country, all of which provide service. Hitachi has designed and branded an application deemed *Customer Personal Service* created to provide information to customers with regards to machines and service (Hitachi, 2002). According to our respondents, the company also pushes its Japanese roots as it feels that Chinese customers make positive associations with companies from Japan.

In an effort to establish an image of technological superiority, Hitachi has grouped its construction equipment product offerings by industry. For the mining industry the company offers include hydraulic excavators, shovels and rigid haul trucks. In the earthmoving excavator segment, excavators ranging from 1.7 to 80 metric tons are offered and for the forestry industry machines are purpose built and range to 55 metric tons. The company has also introduced and branded a new line of excavators known as *Zaxis* excavators. The series of machines is purported to have the power, speed and finesse to accomplish just about any job and has a number of design enhancements that sets it apart from its predecessors (Hitachi, 2002).

### *Brand Position*

According to our respondents, Hitachi's position with respects to competitors on the Chinese market is as a company with the same level of quality but with a lower price. It considers Caterpillar and Komatsu to be its biggest competitors in the market. Domestic firms are not considered a threat, as they do not provide the same level of quality. Hitachi's slogan, "*Inspire the next*" is applied to its global operations.

### *Market Communication*

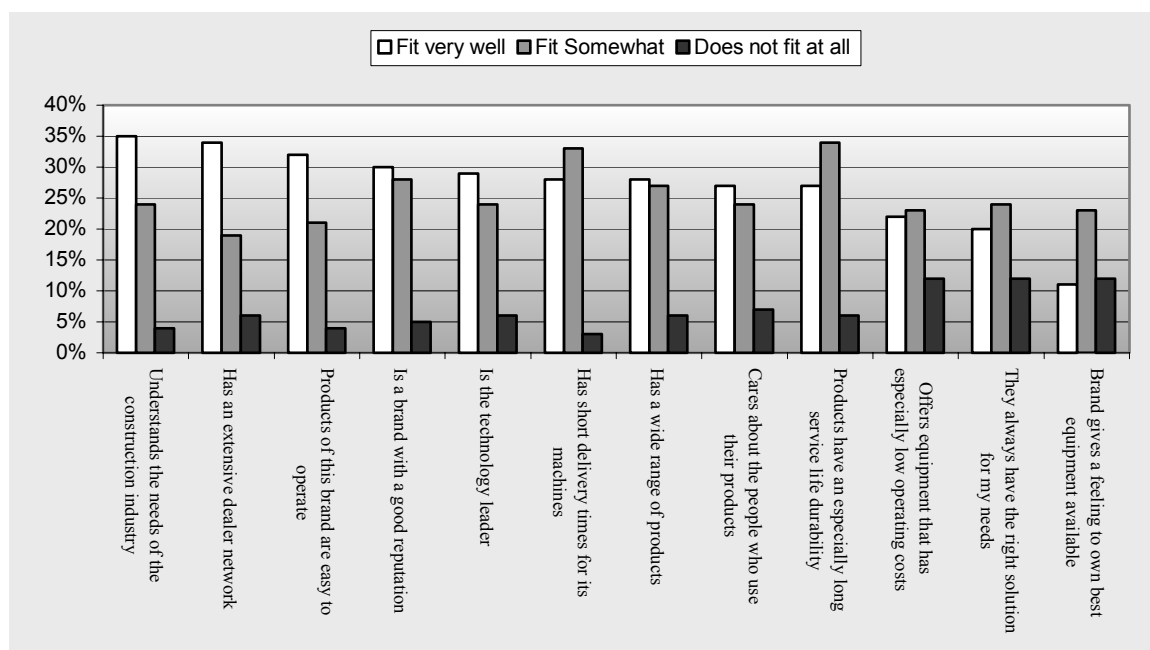
As stated by one of our respondents, Hitachi is prepared to invest a lot of money to promote its products in the Chinese market. The most effective way to reach Chinese customers is through trade fairs and exhibitions and through dealers. Hitachi displays its products at numerous exhibitions both large and

small in size and provides live demonstrations of its machines for customers. The company also advertises in trade magazines. The dealers are responsible for sales and establishing contacts with customers.

### *Strengths and Weaknesses*

Hitachi's size and its Japanese heritage are advantages in the Chinese market. Hitachi Ltd is investing heavily in China, specifically in the country's western region. The company, which has 21 investment companies in China, is currently negotiating with Chinese counterparts on energy resources and environmental protection projects in the western regions (Asia Pulse News, 2000). Hitachi enjoys relatively high brand recall in the Chinese market. When asked to name three brands in the construction equipment industry in China 27 percent of respondents recalled the Hitachi brand. The associations that customers in the industry currently make with the brand can also provide insightful information as to the strengths and weaknesses of the company in the specific market.

As part of our survey, Chinese construction equipment customers were given a list of statements about Hitachi and asked to indicate whether the statement fit well with the company, fit somewhat or did not fit at all. The graph below illustrates the strongest associations that Chinese construction equipment customers made with the brand as well as those associations where the response was not favourable.



**Graph 5:** *Statements associated with the Hitachi brand, Authors' own*

Hitachi's main strengths, according to customer responses to the survey, were in regards to its understanding of customer needs, its dealer network, and ease of operation. Hitachi's weaknesses in the minds of customers were in the areas of low operating costs, providing the right solution and giving customers a feeling of owning the best equipment.

***Liebherr***

Liebherr is a group of companies with activities throughout the world. The company's program of construction machinery includes full-line offerings for construction cranes, mobile and crawler cranes, hydraulic excavators, mining trucks, hydraulic rope excavators, wheeled loaders, crawler tractors and loaders, pipe layers, concrete mixing plants, and truck mixers.

***Brand Image***

According to our respondents, Liebherr wishes to portray the same image of high quality and advanced technology in China as it does in all other countries that it is active in. The company has not considered adapting this strategy to the Chinese market.

***Brand Position***

Liebherr is positioning itself as a company that provides high quality products with advanced technology and a high price. The company aims to be in the same category as Caterpillar. The Liebherr brand has been present on the Chinese market for 30 years and the company is well known for producing cranes, a market in which it has a 50 percent market share in China. Liebherr considers its main competitors in the earth moving division to be Caterpillar and Komatsu. According to the marketing director at Liebherr, cultural differences in China do not apply to the purchase or sale of earth moving machines as many customers have studied abroad and have a more western approach to doing business. Therefore only small details in advertising may need to be adjusted when entering the country.

***Market Communication***

In terms of market communication in China, Liebherr promotes its products at trade fairs and exhibitions. Personal contact with customers is also emphasized

as a way of marketing the equipment. It is important to speak directly with customers about the products.

### *Strengths and Weaknesses*

According to our respondents, Liebherr had established a strong position and a good reputation in China before it introduced its earth moving equipment into the market. The company's 50 percent market share in the crane market has created a strong awareness of the brand. Liebherr has leveraged this position by introducing a new product category, thereby giving its earth moving division a strong advantage when entering the Chinese market. According to the results of our survey, Liebherr placed sixth in terms of brand recall. When respondents were asked to recall three brands in the construction equipment industry, a total of 16 percent named Liebherr.

Liebherr is a large company with over 20,000 employees and performance across a wide range of technologies. In 2001, the company had sales of 4.129 million Euros and capital spending of 200 million Euros. The Group is comprised of a number of clearly defined corporate units, each with autonomous operations. This in order to ensure that the company stays close to its customers while maintaining flexibility to meet market demands and global competition (Liebherr, 2002).

### *Domestic Competitors*

Three companies are examined in the category of domestic competitors: Xugong, the largest Chinese producer of construction equipment in China; Liugong, a smaller company with a limited product range but well-known brand name, and; Cheng Gong, which is a Chinese brand brought about by a joint venture with the Japanese company Kobelco.

### *Brand Image*

According to our respondents, all three domestic companies wish to portray an image of high quality as they feel that this is an important consideration for Chinese customers.

### *Brand Position*

In terms of positioning, all three companies position themselves as low priced options to foreign machines. Cheng Gong claims to have a better price to

quality ratio while Liu Gong positions itself as a high quality alternative to other domestic companies and a low priced alternative to foreign machines. Liu Gong considers Chinese manufacturer Xu Gong to be its main competitors in the market. Xu Gong, as the largest manufacturer in China does not consider domestic competitors a threat nor does it consider itself on the same quality level as Caterpillar or Komatsu. According to our respondents, domestic manufacturers see the benefits of studying and co-operating with foreign companies, as this is a means to improve the quality of their machines and their operations.

#### *Market Communication*

According to our respondents, generally, domestic manufacturers emphasise personal contacts in marketing. Word-of-mouth is key, as is maintaining a good reputation for the brand. According to one of our respondents the most effective way to introduce products in the Chinese market is through friends. Relationships are important and good references from satisfied customers are the best marketing.

#### *Strengths and Weaknesses*

Domestic producers have an advantage, as they are familiar with the Chinese market and how to do business there. In terms of recall, Xu Gong placed fourth in our survey with 19.7 percent of respondents naming the brand when asked to recall brands of construction equipment. Cheng Gong, with 6 percent, and Liu Gong, with 4 percent, placed eighth and tenth respectively. Their main weakness is their lack of technology, which leads to low-quality products.

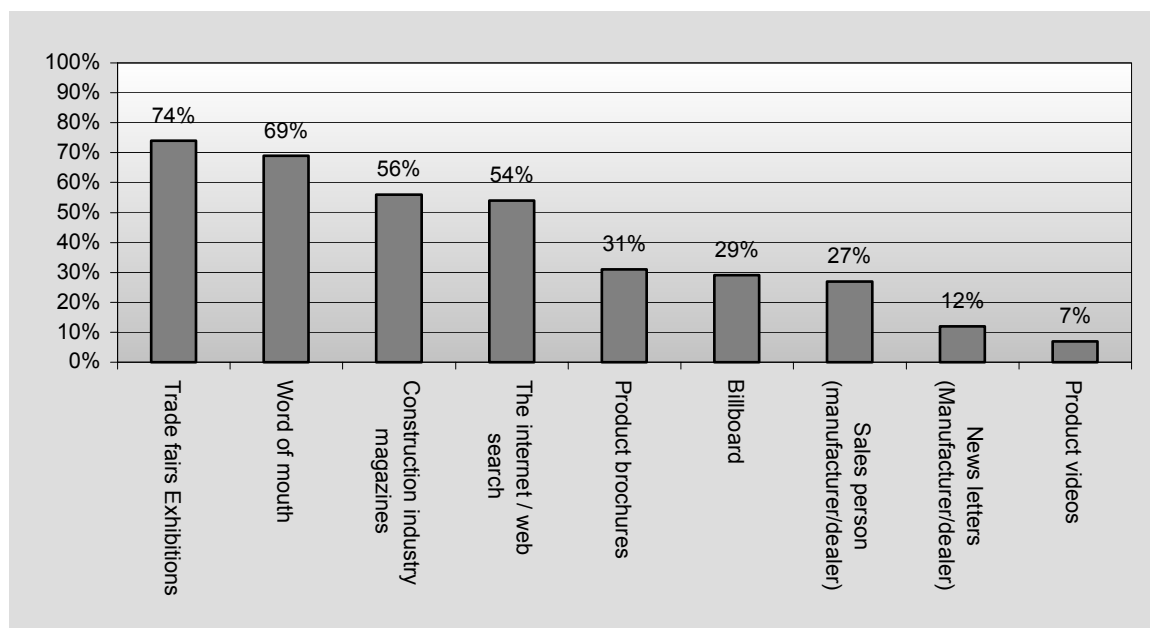
### **4.3.4 Marketing Communication Setting**

The number of available marketing channels through which to reach customers has grown extensively in China in the past two decades. For decades prior to the introduction of the open-door policy in 1978, advertising was viewed as a capitalistic evil and was banned in China because of politics. Since then, the country has undergone dramatic economic development and change, and the Chinese advertising industry is now one of the largest in Asia (Liu, 2002). The total expenditure on advertising in the Chinese mainland rose to 3.2 billion USD in the first quarter of this year, a 32 percent increase compared to the same period last year (Nielsen Media Research, 2002). According to our



sources, there are presently no specific differences between China and the fully developed countries in the west regarding the available marketing channels.

The available non-personal communication channels include the usual print media (newspapers, magazines, direct mail), broadcast media (radio, television), and display media (billboards, signs, posters). They also include events, such as press conferences, shows, seminars, trade fairs and exhibitions, as well as sponsorships. According to our survey, and to the open-ended interviews, the most effective communication channel in China, with regards to the construction equipment industry, is events. As seen in the graph below, 74 percent of the construction companies participating in the survey stated that trade fairs and exhibitions are the sources of information that they prefer when they want to know more about different construction equipment manufacturers and their products. China is presently one of the countries with the highest number of fairs and exhibitions in the world, which is an indication that these kinds of events are very important in China. One of our respondents even referred to China as “the country of exhibitions.”



**Graph 6:** *The main sources of information to Chinese CE customers, Authors own*

Trade fairs and exhibitions can enable companies to, within a short period of time, reach a large number of potential customers at a reasonable cost per contact. They provide an excellent environment for networking and relationship building, which as already established is very important when conducting business in China. Companies get a good opportunity to forge

direct contact with the persons in charge of the final decision, something that often can be quite difficult in China. Events are also effective in gathering marketing intelligence and encouraging product trials. Construction equipment is the type of product that is difficult to market without providing the customer prospects with an opportunity to examine the products and see them in action. Smaller shows, such as dealer exhibitions, where customers can try the machines are therefore, according to our sources, also effective.

What is probably the main benefit of using events as a marketing communication channel, however, is that they constitute an effective long-term brand-building tool. According to a survey by Fan and Pfitzenmaier (2002), which involved foreign companies operating in China, the two most important objectives with regards to event marketing are enhancing brand awareness and reinforcing brand image. As mentioned previously, 62 percent of the CE customers in China taking part in our survey, stated that brands have a very strong influence in their purchase decision (see section on brand sensitivity above). Consequently, since events give the customers a good opportunity to get to know the brand, companies who are looking for a long-term involvement in the market may find it highly worthwhile to participate, despite the somewhat high cost in terms of time and administrative effort.

According to Fan and Pfitzenmaier, event marketing is most effective in strengthening the corporate image when integrated into the marketing mix by combining it with other communication channels such as PR. In China, newspapers constitute a valuable PR tool, as the Chinese people believe in the press very much. In addition to creating great credibility, newspaper articles allow for longer and more complex messages than for example advertisements. According to our sources, it is relatively easy to get magazines and newspapers to write about products and it is considered a highly effective way of marketing. In their experience, building a long-term local media presence in China requires good relations with local journalists and an “ear to the ground” in order to make sure that the message conveyed is interesting to the Chinese audience and that the published article contribute to the company image in a positive way.

Advertising in special trade magazines is another effective way of reaching customers in China. In our survey, construction industry magazines were

mentioned as the third most important communication channel. According to Liu (2002), print media are the second most popular ad vehicles in China, after TV, and although advertising in China still reflects the immaturity of the field, it is developing rapidly. Chinese print media are improving their printing quality, adding more colour pages and spaces in order to attract more customers and advertisers. Chinese advertising is also becoming more western. For example, some advertisements in China's mass media have been showing an increasing use of English words.

Due to the size of the country there are numerous trade magazine in China; already in 1996 there were over 8,000 types of different magazines (Liu, 2002). For most industries there are several special trade magazines, and many provinces have their own magazines. This might initially provide some problems for foreign firms in choosing the most suitable magazine, with the best reach and with the greatest influence on potential customers. Consequently it could be wise to seek assistance from local persons with a good knowledge of the Chinese media structure. Providing that this knowledge exists, special trade magazines constitute a good way of reaching a finely targeted audience with a specific interest in the particular subject area of the magazine.

Many of the respondents to our survey also stated that the Internet was an important source of information. According to an article in People's Daily (April 23, 2002), there is a trend of strong growth in Internet use in China, which presently has the second largest number of users in the world, after the United States. In the first quarter of 2002, there were 56.6 million Internet users in the country, which marks a remarkable 252 percent rise over January last year. The average Chinese Internet user spends eight hours and 20 minutes online each week and most of the users rely on narrowband, dial-up access.

In the construction equipment industry in China, personal communication channels, such as personal selling and word-of-mouth, from for example colleagues, friends, and other construction companies, are very important. According to our survey (see graph above), word-of-mouth from other construction companies and friends was the second most important source of information to CE customers in China. This could be explained by the fact that the Chinese society belongs to the higher end of Hall's contextual continuum,

and that consequently, Chinese firms rely more on information that is communicated through family, friends, trusted business contacts and networks, rather than on public sources. Personal influence carries particularly great weight for products that are expensive, risky or highly visible.

Also, due to the fact that the Chinese value system places emphasis on uncertainty avoidance, any uncertain, ambiguous or risky situation is viewed as threatening to Chinese customers and must therefore be avoided. As a result, an effective way of working with personal communication channels in China is to devote extra effort to selling the products to well-known companies who will function as opinion leaders and in turn influence other customers to buy (Fan & Pfitzenmaier, 2002). The opinion leader takes over the social and financial risk in trying new products, and other customers can subsequently make use of the reference of the opinion leader. As a result, the perceived risk for other customers diminishes. Our sources confirm that good references from customers, and being able to refer to previous success in the country is very important for foreign firms, and it is believed to influence the Chinese customer's purchase decision to a great extent. Some companies are therefore prepared not to make any money in the initial stage of the market establishment in order to be able to refer to previous business and satisfied customers.

Personal selling is a personal communication channel necessary in most business-to-business marketing. In the Chinese market however, a good relationship between the sales staff and the customers is of particular importance, as business relationships in China often require personal liking. Consequently, wining and dining is an essential part of the sales person's job. According to our respondents it is often better to have a Chinese sales staff, since they are more familiar with this method of doing business and consequently the risk of cultural misunderstandings will be reduced.

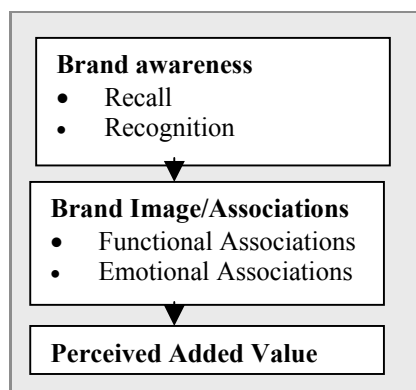
In addition to these issues regarding the channels of communication, there are several particularities specific to the Chinese market that should be taken into consideration when forming the brand message. Certain cultural differences need to be considered. For instance, due to the high degree of interconnectedness between different aspects of the Chinese society, the social importance and previous knowledge of the message sender can influence how

the brand message is perceived by Chinese customers. Companies could therefore benefit from putting forward evidence of how many years the firm has been in the business, and maybe of additional product areas and countries that the firm is involved in.

Furthermore, protecting one's face and avoiding embarrassment and ridicule in social situations are regarded as a very serious matters in China. Consequently, the use of humour to communicate a message, especially at the expense of another person, can upset or offend a Chinese audience. Generally, Chinese customers respond better to subtle and humble messages that show respect for the audience as well as competitors. If the message is too blunt or eager, it can do great harm to how a company's brand is perceived (Drobis, 1996).

Another issue that according to our sources should be considered regarding the brand message is the fact that Chinese customers generally prefer advertisements that show people of Asian descent in an Asian setting to advertisements that involves foreign people. This as it makes it easier for the customers to relate to the message. There are additional aspects, such as the meaning of different colours and the existence of regional language differences, which have been brought up as important concerns in a marketing context by previous studies (Drober, 1996, and Jacobs, Keown, Worthley, Ghymn, 1991). However, according the respondents that we interviewed with experience of the Chinese marketing scenery, these are no longer such important considerations.

#### ***4.4 Customer Perceptions of the Volvo Brand in China***

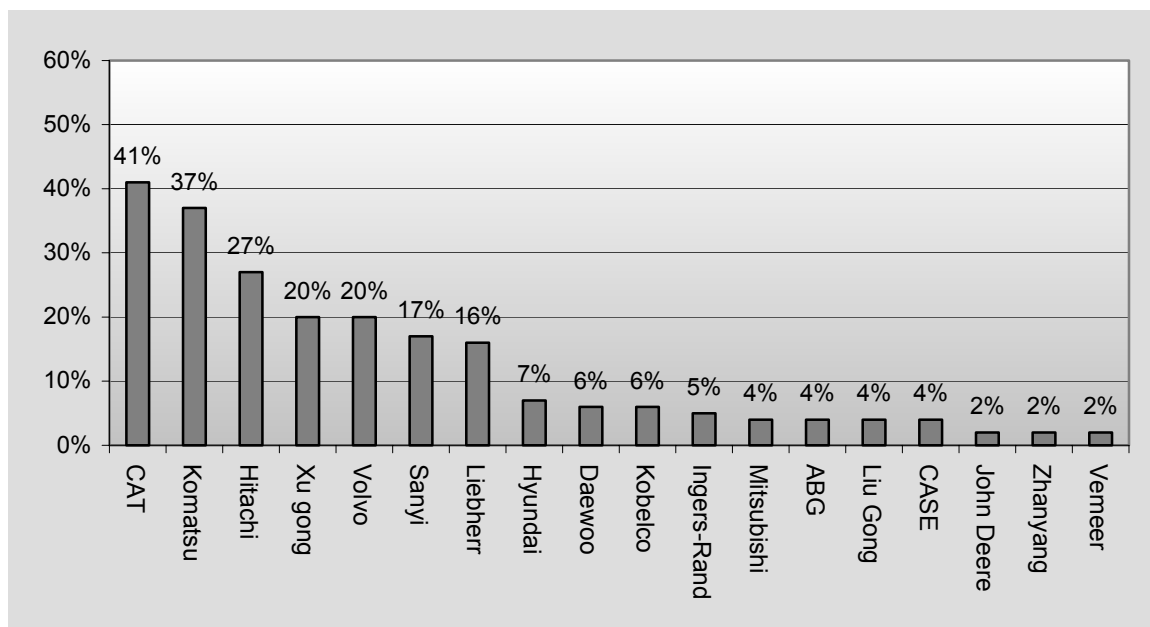


This section will provide an overview of the current consumer perceptions of the Volvo brand in China. The empirical data regarding this issue were, as mentioned earlier, gathered through 133 interviews conducted with Chinese construction equipment customers. The results will, in accordance with our theoretical framework (see figure on the left), be discussed in terms of brand awareness, brand image/associations, and perceived added value.

### 4.4.1 Brand Awareness

As defined previously, in the theory chapter, brand awareness represents the strength of a brand's presence in a customer's mind, and as indicated in the figure above, there are two factors that constitute brand awareness: *recognition*, which refers to whether the customer knows that the brand exists; and *recall*, which involves linking the brand with the correct product class. In order to get the most accurate result regarding these aspects, the customers that we interviewed were approached at the entrance of the fair grounds, where they could not see the stands of the participating brands, as this could have affected their response.

A brand is said to have *recall* if it comes to the customers' minds when the specific product category that the company is involved in is mentioned. The graph below illustrates the brands that according to our survey have the highest recall in the Chinese construction equipment market.

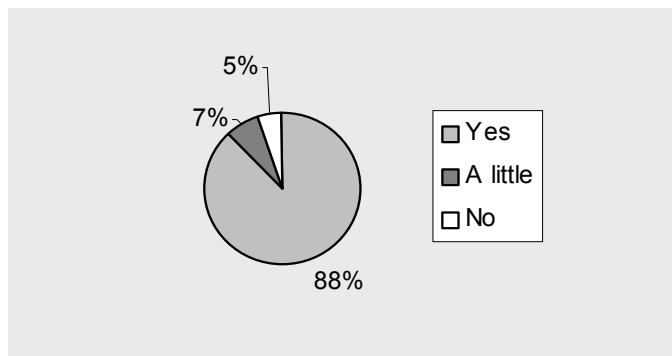


**Graph 7:** Brands with the highest recall in the Chinese CE market, Authors own

When asked to name the brands that came to mind when thinking about construction equipment, about 20 percent of the buyers who participated in our survey mentioned the Volvo brand. This might initially not seem that high, but compared to the other brands in the market it is a fairly good result. In fact, as indicated in the graph below, it places VCE on the fourth place regarding brand recall in the Chinese CE market. The company shares this position with Xu

Gong, which is the biggest construction equipment firm among the domestic companies in China. The brand that has the greatest recall, according to our survey, is Caterpillar, which was mentioned by around 41 percent of the respondents.

In order to determine the Volvo brand's *recognition* (also referred to as aided recall), we asked the participants whether they had previously heard of the Volvo brand, and as illustrated in graph 8 below, they were given three options;



**Graph 8:** Recognition of the Volvo brand, Authors own

'yes', 'a little', and 'no'. Of the total number of interviewees, 16 percent refrained from answering the question, and of the remaining group, 95 percent replied that they were familiar with the brand to some extent. Only 5 percent of the respondents stated that they had

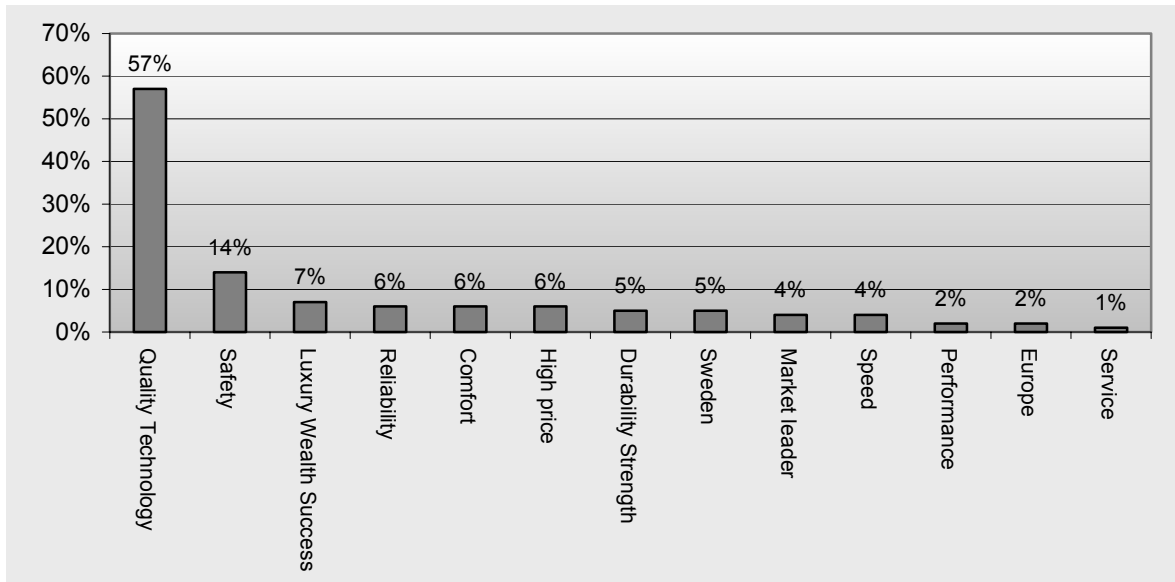
never previously heard of the Volvo brand. However, of the respondents that replied 'yes', or 'a little', merely 51 percent were aware that Volvo makes construction equipment, while another 8 percent stated that they were aware of this only to a small degree. This indicates that the recognition for Volvo CE is not yet very high in the Chinese market.

#### 4.4.2 Brand Image

The image of a brand involves the associations that the buyers link a brand to in their minds. As discussed earlier in the study, the brand image or associations are created and influenced by specific attributes in the brand identity, and consequently they can be based on functional and emotional attributes.

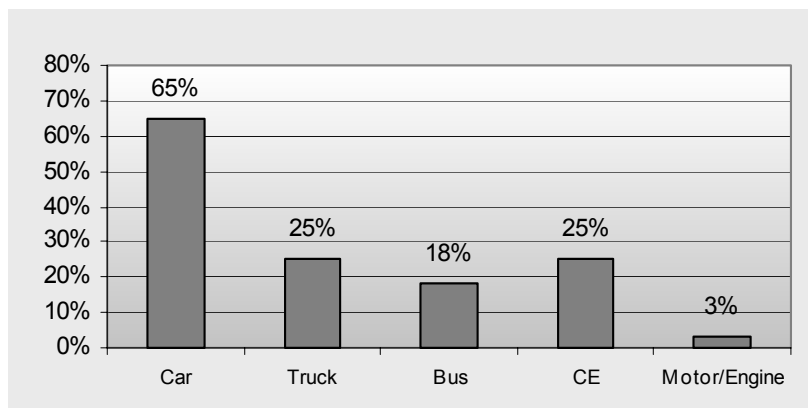
In order to establish what the Volvo brand is known for to construction equipment buyers in the Chinese market, we measured both the associations that derived from free association, and those that derived from having the buyers link the Volvo brand to certain pre-determined statements. Regarding the free associations, we asked the respondents what the Volvo brand stands for in their mind. As seen in the table below, the majority of the associations are

based on functional features. The associations that the Volvo brand was linked to most often were high quality/technology (57 percent) and safety (14 percent). Of the emotional features that were mentioned, the main part (7 percent) was related to success, wealth, and luxury.



**Graph 9:** Associations linked to the Volvo brand derived from free associations, Authors' own.

We also asked specifically what products the buyers associate the Volvo brand with. Car was the product mentioned most often, as indicated in the graph on the left.



**Graph 10:** Products most often associated with the Volvo brand, Authors'

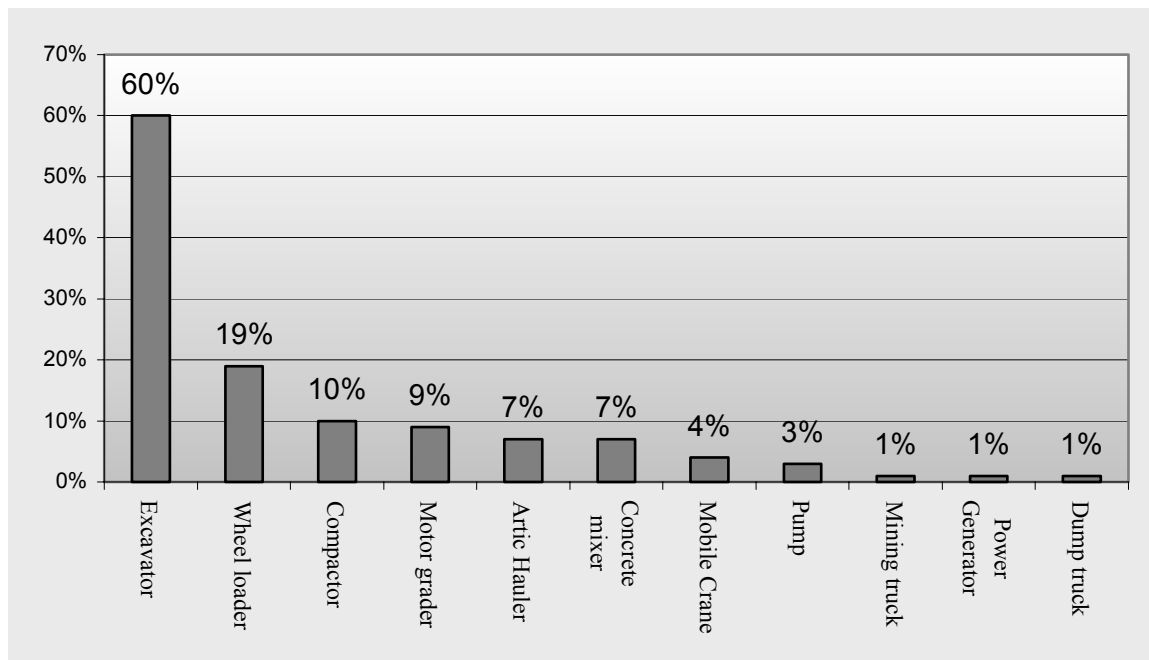
Of the 70 percent that replied to the question, a clear majority (65 percent) stated that they associate the Volvo brand primarily with cars. Merely one fourth of the interviewees mentioned construction

equipment products and equally many mentioned trucks.

The group of respondents that were aware of the fact that Volvo makes construction equipment products, were asked to specify what construction equipment products they associate the brand with. As illustrated below,



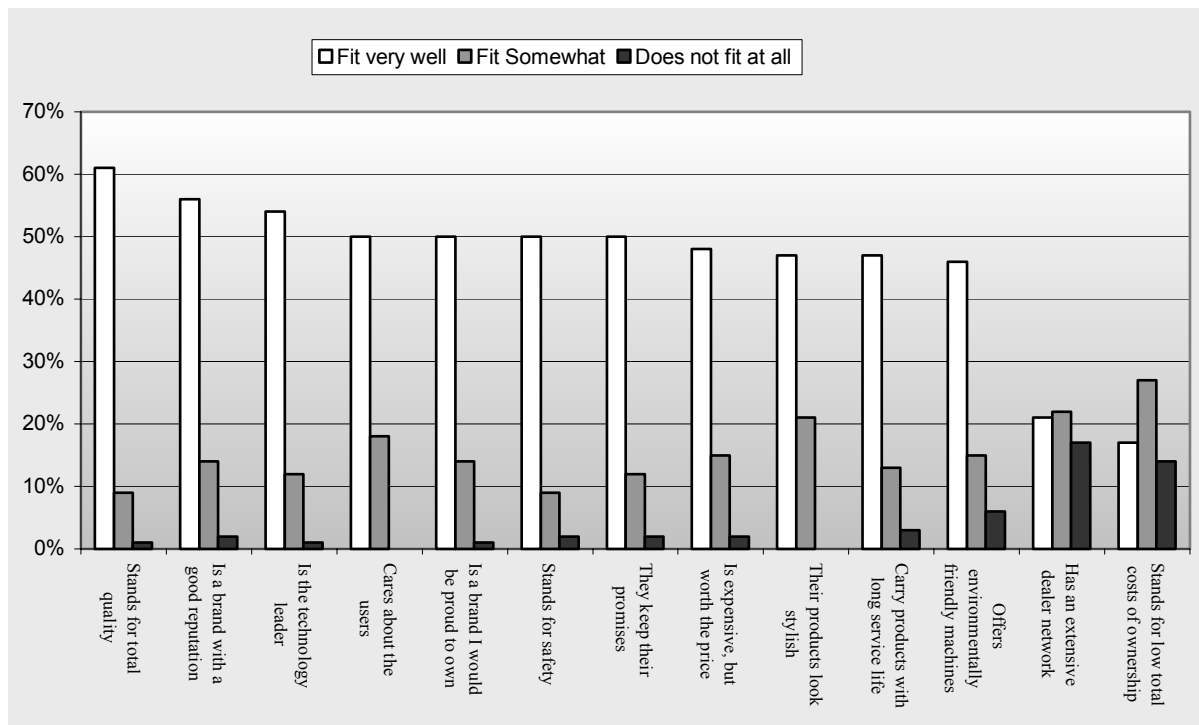
excavator was the product class mentioned most often, followed by wheel loader, and articulated hauler.



**Graph 11:** Construction equipment most often associated with the Volvo brand, Authors' own

In addition to these free associations, the buyers were given a list of statements and asked to convey to what extent these statements fit the image that they had of the Volvo brand. The respondents had three options regarding each statement: 'fit very well,' 'fit somewhat,' and 'does not fit at all.' As the list of statements is quite extensive, only some of them will be presented here, including the statements that a large number of respondents believed fit very well with the Volvo brand, and the statements that were regarded to fit the least. The results for the entire list of statements can be found in appendix 2.

As seen in the graph on the next page, seven of the top eleven statements, that according to the respondents fit very well with the Volvo brand, involved functional associations based on the product, and the features of quality and technology were again among the top associations. Four of the top statements involved emotional associations, including reputability, care, trustworthiness, and pride. Only a few of the respondents associated the brand with an extensive dealer network and with low total cost of ownership, and out of the whole list of statements, these two were considered to fit the least with the buyers' image of the brand



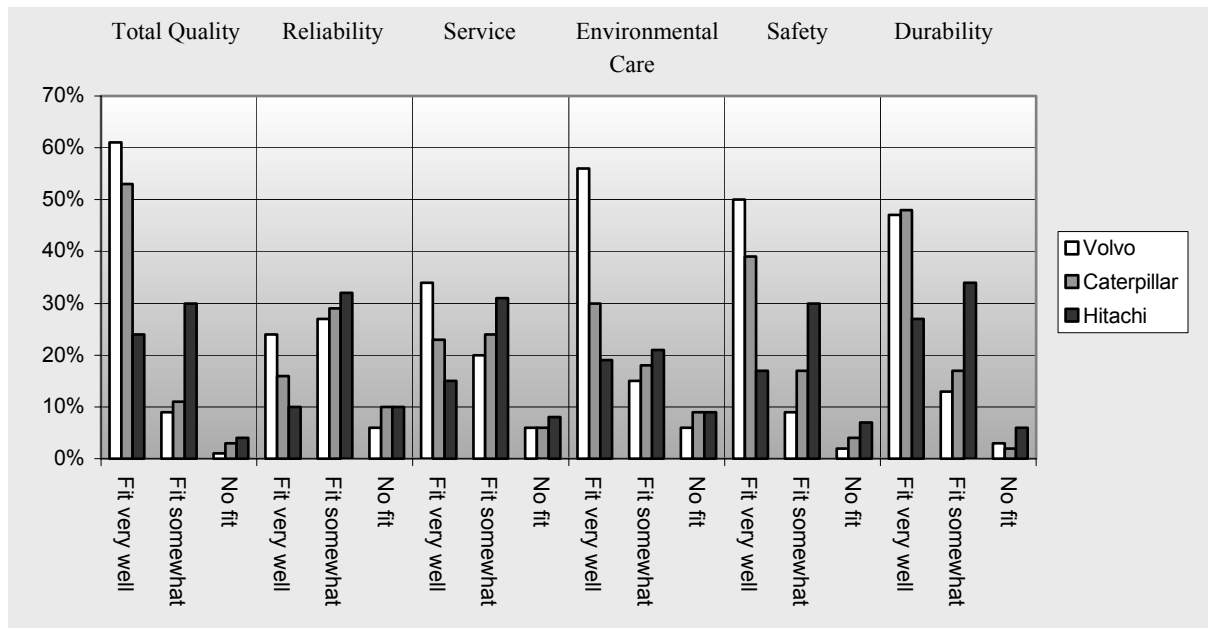
**Graph 12:** Statements associated with the Volvo brand, Authors’ own

### 4.4.3 Perceived Added Value

As stated earlier, the objective is that the brand image will produce an added value in the minds of the buyers that will persuade them to choose the brand owner’s products over competitors. In order to get an idea of the perceived added value produced by the Volvo brand in the minds of the Chinese construction equipment buyers, the results regarding the image of the Volvo brand will be cross-referenced with the aspects that have been identified as the buyers’ top considerations when buying construction equipment products, as well as with the image portrayed by competing brands.

As previously stated, the top five considerations, which are regarded as very important to the buyers in the Chinese construction equipment market include quality, reliability, service, the overall image of the brand, and environmental care. The aspects that were considered the least important were second hand value and the design of the equipment.

In the chart below, the buyers’ image of the Volvo brand, regarding the most important aspects, is compared to their image of Volvo’s main competitors in the Chinese market, Caterpillar and Hitachi.



Graph 13: Brand Comparison, Authors' own

As can be seen in the graph, the majority of the respondents perceived the Volvo brand to be superior to the competing brands regarding all factors with the exception of durability, where Caterpillar was perceived to be better. These results might however not give a just picture of the real situation in the market. This is due to the fact that at least some of the respondents were under the impression that we were Volvo employees, an aspect that may have affected their reply since Chinese people generally do not want to give critique face to face. However, should these results give an accurate depiction of the circumstances prevailing in the Chinese construction equipment industry, it seems that the added value perceived by the buyers that know that the Volvo brand exists and produces construction equipment, is fairly high.



## 5 Analysis

*The following chapter will serve to analyse how Volvo CE's global brand management strategy is affected by the external and internal factors identified in the theoretical framework. In accordance with our research questions, the chapter begins by examining the effect of the specific conditions in China's external environment on the strategy. In the section that follows we investigate the influence exerted by the company's current brand portfolio strategy. In the subsequent, and final, section we look into what aspects of Volvo CE's current brand management strategy, if any, need revising as a result of the current perceptions held by the Chinese customers.*

### **5.1 Brand Portfolio Strategy**

The following section will present the effects of the brand portfolio on the brand management strategy of Volvo CE. The current brand portfolio strategy of the Volvo Group is to use the corporate name to brand a number of different business areas. This situation is further complicated by the continued use of the Volvo brand name by Volvo Car Corporation despite the change of ownership from Volvo AB to Ford. The complex brand hierarchy, which Volvo CE is a part of, affects its brand management strategy in two ways. First, the brand portfolio strategy of corporate name dominance chosen by the Volvo Group means that a number of different companies and products share the Volvo brand name. This can offer both benefits and disadvantages to the parties involved.

The situation could be beneficial as the companies can achieve marketing synergies by coordinating their brand strategies, thereby creating a consistent brand image. Each company's brand building efforts will, in this case, be reinforced by the actions taken by the other company. On the other hand, although each party may be concerned with maintaining a strong brand, they may have conflicting brand strategies, which could result in damage to the overall brand equity. Volvo Cars promotion of the new sportier and faster Volvo vehicle can be seen as an example of this. To avoid the appearance of conflicting brand messages, which can create confusion and damage the Volvo brand, the Volvo Group has designed certain rules to ensure that all companies, which use the name, portray an image that is consistent with the overall image

of the company. This affects the brand management strategy of Volvo CE directly by placing certain restrictions on the company with regards to its brand strategy. Volvo CE's chosen brand management strategy is subject to approval by a committee and must comply with the overall image of the company. Thus Volvo CE is not free to formulate just any brand strategy. What aspects the strategy can involve, what symbols it can use, and what aspects of the strategy can be changed are dictated by the Volvo Group. This limits flexibility and reduces the options available to the company when formulating an identity, choosing a position and executing market communication.

However, despite the limitations that it can present to the individual divisions, the corporate dominant portfolio strategy has also been beneficial to Volvo CE. The use of the corporate name to brand different product categories has increased the extension potential of the Volvo group and thus facilitated the introduction of the Volvo name on the Chinese market, which occurred through a stepwise extension. According to Melin, the extension potential is dependent on the possibilities of identity transfer from the original product to other types of products. The choice of brand identity is, therefore, an issue of great concern for the Volvo Group. The Volvo group has used certain uniform aspects such as the Volvo name and the core values to establish a group wide umbrella identity. This facilitates extensions, as the identity is easily conveyable to other divisions. It also means that certain aspects of Volvo CE's brand identity are shaped by the group identity and must remain consistent with it at all times.

The benefits of this extension potential can be witnessed in Volvo CE's entrance into the Chinese market. Volvo CE entered long after other divisions within the brand portfolio, such as Volvo Car, VTC, and Volvo Bus, had already established the Volvo name in the minds of Chinese customers. The activities of these divisions have provided a platform from which Volvo CE can build its strategy on. The early choice by the Volvo group and Volvo Car to begin sponsoring golf in the country, for example, has linked the Volvo name to high status since its initial appearance in the country. Volvo CE has been able to capitalise on positive associations such as these, which are already linked to the corporate name. A more detailed examination of how existing consumer perceptions effect Volvo CE's brand management strategy will be given in the customer perceptions section.

## ***5.2 External Environment***

In the following section the focus will be on how industry conditions and the marketing communication setting affect the brand management strategy of Volvo CE. As the economic development and country culture affect Volvo CE's brand management strategy indirectly they will be discussed in the context of how they influence the industry conditions.

### **5.2.1 Economic Development**

The level of economic development that a country has reached influences a company's brand management strategy indirectly by shaping the wants and needs and the competitive situation in a country. The influence of China's economic development on the industry conditions within the country was discussed in the empirical chapter and a short summary of the main points will be given in this section.

The large disparities in wealth across the regions in China are a major economic issue at present. The majority of commercial activity takes place in the eastern provinces of the country while the western region is plagued by poverty. This implies that customers wants and needs vary across the country. In poorer regions customers tend to care only about price while in more prosperous regions, customers are generally more concerned with aspects such as quality and reliability. The progression of wants and needs in the east, can largely be attributed to the opening up of the economy. There are more private owners and they tend to be more effected by western influences. However despite the movement towards a market economy, the government still has a strong influence over many industries including the construction equipment industry. The wants and needs of the government-run enterprises have not progressed to the same level as those of private firms and they are still very much concerned with securing under-the-table benefits.

The Chinese economy is growing rapidly and is expected to have a strong growth rate for many years to come. The sheer size of the market and the opportunities that have arisen since China's entrance to the WTO, have lured many foreign actors to the country. Growth in the economy is dominated by the industry sector. Infrastructure projects are underway throughout the country

and many more are planned for the future. The inflow of foreign firms includes both foreign contractors and foreign manufacturers and therefore affects both customer wants and needs and the competitive situation. Foreign contractors are more inclined to demand international standards and generally wish to use products of the same quality as in the West. However these firms are often constrained by the cost structure in the market, and must adjust their wants and needs accordingly.

The influx of foreign manufacturers has changed the dynamics of the competitive situation in the country. Foreign firms generally have more advanced technology than their domestic counterparts and bring a whole new category of machine to customers in the country. The upsurge of joint ventures between foreign firms and domestic manufacturers has enabled technology transfer to occur and domestic firms are improving their quality. At present the competitive situation is less intense than in mature markets where margins are decreasing and firms are struggling to increase market share. China is still an emerging economy and consequently there is still room for firms to expand in the market, but not at the expense of each other. However as the market continues to develop, the number of foreign firms will continue to grow and the gap between foreign and domestic firms will be reduced. As domestic firms continue to gain knowledge, their products will eventually evolve to the same level of quality.

### **5.2.2 Culture**

As stated in the previous chapter, the Chinese culture is evolving in response to the country's rapid economic development. Due to the large number of foreign firms taking an interest in the market, the influence of western values on the contemporary Chinese culture is growing. This westernisation has effected the country's business environment to a great extent which is manifested in, for example, an increased down-to-business thinking in Chinese firms, and in a swifter decision making process. Still however, there are numerous culture specifics that need to be taken into consideration when designing a brand management strategy.



After evaluating the empirical results it is clear that one of the most significant cultural traits in Chinese society is the importance of personal relationships, also referred to as *guanxi*. In a business context this means that personal preference is often an influencing factor driving the purchase behaviour of Chinese customers. As a result, deals are not always made based solely on the best product or price, but also on the company or person regarded as the most trustworthy. Sometimes, a person that is not really that good of a businessman can have great success because he is good at building relationships and is well liked by customers. Therefore, *guanxi*, networking and trust are issues of great concern for companies wishing to succeed in the Chinese market.

The importance of personal relationships, or *guanxi*, does not only affect the wants and needs in the Chinese market but also the competitive situation. Domestic firms have an advantage over foreign firms with regards to this aspect, as they are generally already part of established networks. These networks can be difficult for companies that are new to the Chinese market to break into, particularly since it frequently requires offering gifts and money under the table, which is against company policy in many foreign firms. However, Chinese customers tend to trust foreign firms to a greater extent than they do domestic companies and they equate them with higher quality. This is something that could be taken advantage of by foreign firms like Volvo CE when it comes to their brand strategy.

A related issue is the significance of ascribed status in the Chinese society. This is an important consideration as it affects the Chinese customers' perception of different brands. Currently in China, customers ascribe higher status to foreign brands. However, performance is becoming more and more important as a basis for status in the country. In the future an increasing number of domestic firms will be able to offer products of equal quality and foreign firms will no longer be able to rely on the status ascribed to them.

Another cultural trait in the Chinese society, which should be considered in a brand management context, is the high degree of uncertainty avoidance. This means that Chinese customers are more risk averse than those in the west are. As a result, the degree of customer involvement in the purchasing process is generally higher. This is especially true for products such as construction

equipment, which are associated with a high degree of risk. The high level of involvement, in turn, is a contributing factor to making Chinese customers more brand-sensitive, as buying a well-known brand diminishes the perceived uncertainty linked to the purchase situation.

Due to the fact that China is a diffuse culture, Chinese customers tend to regard different aspects in society as interconnected. This is also an important concern with regards to brand management, as it means that the customers' perceptions of a brand might be influenced by a company's achievements in related business areas. This underlines the importance of paying careful attention to the other product categories in the brand hierarchy when formulating the strategy.

The importance of maintaining face in China is a cultural trait that primarily affects the marketing communication aspect of the brand strategy. To avoid offending or upsetting Chinese customers, companies should communicate the brand message in a humble way that shows respect for the audience as well as competitors.

Another cultural characteristic that influences the brand strategy in terms of how to most effectively communicate the brand to the Chinese consumers is the fact that China is a high context culture. As stated in the previous chapter, Chinese customers rely to a great extent on information that is communicated through family, friends, trusted business contacts and networks rather than on public sources. This means that having a good reputation spread through word-of-mouth is a highly effective way of marketing and reaching new consumers in China, a factor that again underlines the importance of establishing good *guanxi*.

Furthermore, in a high-context culture such as China, the social importance and previous knowledge of the message sender can influence how customers perceive the brand message. As a result, establishing a well-known brand and informing customers of the company heritage and country of origin become important considerations for foreign firms conducting business in China. Also, as members of a high context society, Chinese people tend to be more sensitive to implicit and indirect communication. As a result, Chinese consumers respond better to subtle messages.

### 5.2.3 Industry Conditions

In this section we will examine how the industry conditions in the Chinese market affect the brand management strategy of Volvo CE. We intend to do this by comparing Volvo CE's current global brand management strategy with the conditions specific to the Chinese market and assess which aspects have a suitable fit. Those aspects that do not fit will need to be adapted. We will outline how they should be adapted when we give recommendations in the final section of this report.

#### Customer Analysis

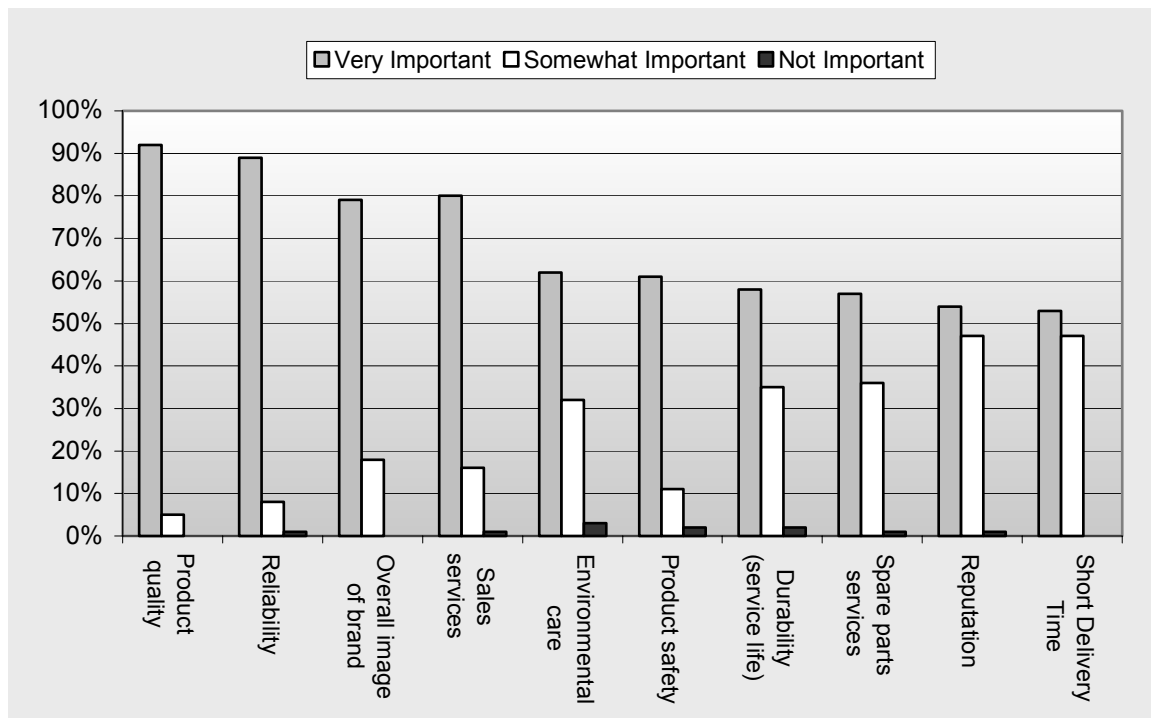
This section will evaluate how well Volvo CE's global brand management strategy corresponds to the wants and needs of Chinese construction equipment customers, as well as what the effect on the strategy will be in the event of a non-fit. Generally a company creates a brand identity that is based on certain attributes and that corresponds with the wants and needs of customers in the market. The purpose of the identity is to create a positive image of the brand in the minds of customers. According to Melin's model the *Competition Stairs*, the attributes that constitute the brand identity must be valuable and communicable to the target market in order for the brand strategy to establish a competitive advantage. In order to determine to what extent Volvo CE's global brand management strategy meets this requirement in the Chinese market, we will compare the wants and needs of the Chinese construction equipment customers, with the brand identity chosen by the company.

As the Chinese market is evolving rapidly, we will also evaluate how Volvo CE's brand strategy corresponds to how the wants and need are likely to develop in a near future. Examining the market trends will help us to ascertain whether a current fit between certain factors can be maintained in the future, or, if there is no fit at present, whether it is likely that there will be one in the future. In addition to this, the company's brand identity will be compared to the unmet needs in the market in order to determine whether any aspects need to be added to the identity, or whether some aspects in the identity should be emphasised or communicated more clearly.

The empirical results regarding the wants and needs of the Chinese construction equipment customers appear to be somewhat conflicting. Many of

our respondents had different opinions regarding what were the most important considerations of construction equipment purchasers. According to some of our sources, the main differences between the wants and needs in the Chinese market and those in the west are price sensitivity, less concern for the end user, less care for the environment and less concern for long-term costs. However, according to our survey, environmental care is an important consideration to Chinese construction equipment customers, and price is not a key concern.

These conflicting results are most likely a sign of the rapid economic development in the country, which has resulted in the existence of varying needs across regions and customers. For the purpose of comparing the wants and needs to Volvo CE’s identity, the focus will be on the results gathered from the survey. This since we believe that those results are an indication of the direction in which the needs will evolve in the future. In the graph below, the top ten considerations as stated by CE customers in China are illustrated.



If we compare these main considerations to the attributes included in the two focus areas of Volvo CE’s brand identity, as illustrated in the figure below, we find that there is a reasonably good fit between the two.

The main factors within the focus areas correspond well with what customers in China feel are important considerations. Quality, safety and environmental care are the Volvo group's, and therefore Volvo CE's core values, and they are as such required components

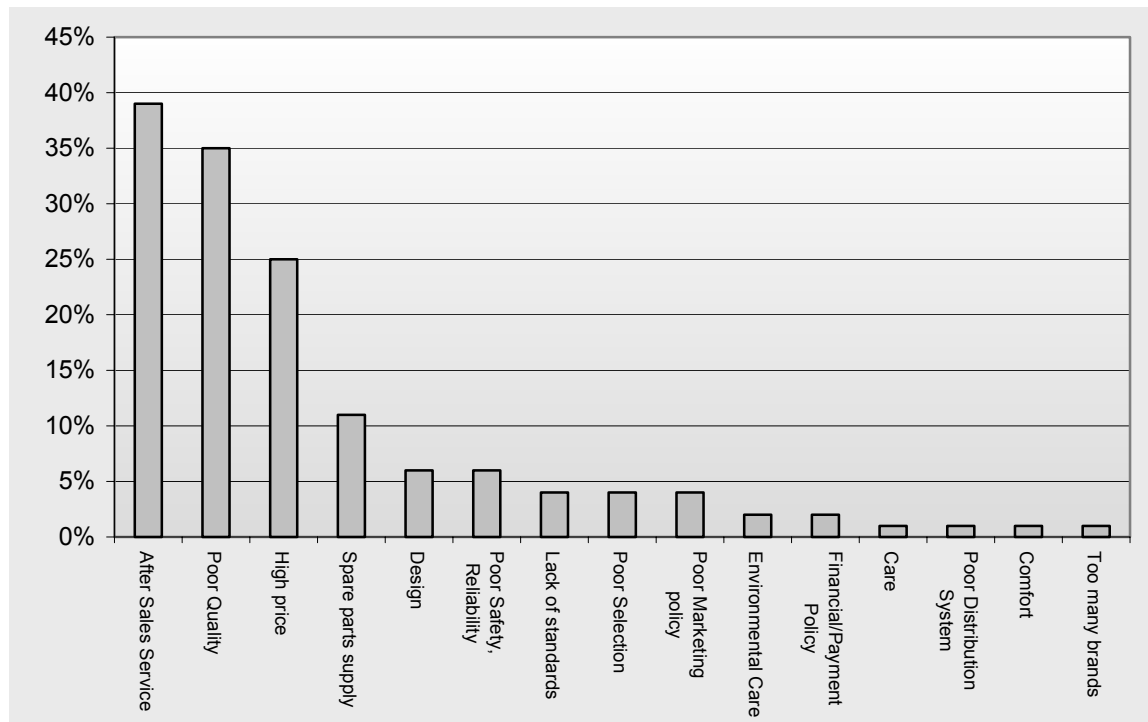
Focus area "Care"	Focus Area "Product Excellence"
Approachable	Safety
Passionate	Quality
Professional	Environmental Care
Proactive	Innovative Solutions
Partner	Service Minded
Market Driven	
Constantly seeking to improve	

of the identity. The concept of service is also an important part of Volvo CE's identity and is pushed in a functional as well as an emotional context. The overall image of the brand is something that Volvo CE takes seriously and treats as an important strategic issue. The company is working to establish a good reputation among customers in China based on a strong and positive brand image.

Regarding the remaining important considerations, they are not specified as separate elements of Volvo CE's identity. However, they can be regarded as being included in the concepts of quality and service. If we look at quality, for example, it could be said to incorporate the concepts of durability and reliability. Since durability, or the service life of a machine, was one of the top ten considerations, it is clearly something that Chinese customers value highly. However, although Volvo CE considers this feature to be one of their key strengths, they do not emphasise it separately, but integrate it under the broader functional benefit of quality in the focus area of best equipment.

The concept of reliability, the second most important consideration of Chinese construction equipment customers, has also been incorporated into the concept of quality. This since product quality involves the assumption that machines can be relied upon to not break down. The two final considerations that were deemed most important are spare parts services and short delivery time. These can be grouped under the concept of service.

In addition to the wants and needs, it is also important to relate any unmet needs existing in the market to Volvo CE's brand identity. The unmet needs in the Chinese construction equipment market identified in our survey are illustrated in the graph below.



The four principal unmet needs are after sales service, poor quality, high price and spare parts supply. In the survey, no distinction was made between domestic and foreign firms, and the results therefore reflect the overall picture that customers have of the market. If a distinction had been made, however, we believe, based on information from our other interviews, that concern about high price is mainly related to foreign firms while the concern about poor quality is mainly related to domestic firms. Consequently, although poor quality was the second most important concern of customers in China, we do not believe that Volvo CE needs to put greater emphasis on the high quality of their products.

Considering that Volvo CE has the highest price in the market it would be difficult for them to satisfy customers' needs with regards to price. The company is aware of this and is actively pushing other aspects such as focusing on long-term costs instead of price. This in order to emphasise the value that customers get from purchasing a Volvo CE machine. After sales service and spare parts supply, however, constitute aspects that Volvo CE are not currently pushing. Although service mindedness is currently incorporated in its identity, Volvo CE does not focus specifically on these factors.

There are some aspects of Volvo CE's brand identity, which, at present, are not deemed very important to consumers in China, such as fuel consumption and operator comfort. However as the country develops, consumer wants and needs will evolve. Some will decrease in importance while others will increase.

Operator comfort is currently not an issue of great importance to construction equipment customers in China. As mentioned in the previous chapter, the welfare of the operators is of little significance as the persons working the machines are not the ones making the purchase decisions. We believe that this is an aspect that will change in the future. As the economy develops, there will be more private owners in the market and these firms will have more incentive to do a good job. In our opinion, this will lead to a greater concern for the well being of the operators as a content operator equals better performance. A related issue is that of safety. Product safety has become more important in recent years and we believe that this trend will continue. Private owners will be more concerned with avoiding accidents and maintaining their reputation.

Another trend in the Chinese construction equipment industry is the increased concern with the environment. This awareness is in the early stages and the progression towards the standards that exist in the west will take time. Although presently, customers seem to be aware of the importance of environmental care, they do not apply this thinking in practice. We believe that, in the future, customers will become more concerned with the long-term environmental consequences and not only the short-term costs. This long-term thinking might make them more concerned with issues such as fuel consumption.

The Chinese construction equipment industry is developing, and customer needs are evolving. Chinese construction equipment customers are starting to attach greater value to emotional features of the brand. The emotional aspect constitutes an important part of Volvo CE's brand identity. The company wishes to have its brand associated with issues such as care and approachability. However, these aspects may be more difficult to communicate as they are relatively new concepts in China and, as they are intangible in nature, they are harder to demonstrate.

The penchant for brands in general is another trend evident in the Chinese construction equipment industry. Brand sensitivity is high. One of the reasons for this is that construction equipment is a high involvement product that is associated with a high degree of risk. Buying a famous brand decreases this risk somewhat as well-known brands are often considered a guarantee of high quality. Consequently it is important to have a clear and communicable brand identity that is simple and distinguishable from other brands.

### **Competitor Analysis**

This section will serve to evaluate the effect of the competitive situation on Volvo CE's brand management strategy. It is the positioning part of the brand management strategy that is influenced by competitive situation and therefore we will focus on this aspect, more specifically whether the global position chosen by Volvo CE can be applied in the Chinese market considering the competitive situation. The purpose of the external positioning is to establish a strong mental position in the consumer mind based on the brand's identity. Melin claims that in order for a position to be successful it must generate a tactical and strategic competitive advantage. To achieve this the position must be unique in some aspect, and hard for competitors to imitate.

When evaluating the competitive situation in a market, Aaker suggest grouping competitors according to their positions. There are often limited positioning strategies in an industry and identifying these will give a company insight into, which is the most effective position to adopt.

The competition in China can be divided into three basic tiers. The first tier includes companies such as Caterpillar and Liebherr who emphasise high quality and have a high price. These companies base their position on functional attributes, Liebherr on advanced technology and Caterpillar on service. Caterpillar is the clear market leader. The company emphasises its extensive dealer network and has a lock on its position as a superior service provider. The second tier is comprised of companies that position themselves as companies with high quality at a lower price. The two Japanese firms, Hitachi and Komatsu, belong to this group. Komatsu is presently the second largest company in terms of global market share. The third tier consists of companies that position themselves as low priced alternatives. Companies belonging to



this group include mainly domestic companies and the number of competitors is large. Domestic firms recognise that they are not yet in a position where they can compete with foreign firms on quality and therefore they see positioning themselves on price as their only option.

Volvo CE currently believes its main competitors to be Caterpillar and Hitachi and is as a result positioning itself against two separate groups of competitors. However, we believe that Volvo Construction Equipment is on the same level as firms in the first category, as the company offers high quality and technologically advanced products, and is also the market leader in price.

As mentioned earlier both Liebherr and Caterpillar focus on high quality, a feature that Volvo CE could easily compete on. However, as Caterpillar is clearly the dominant competitor in the group and has a fairly secure lock on the position as a service provider, Volvo CE would be taking a risk if they chose to join the position. Instead Volvo CE has managed to come up with an innovative concept while maintaining its image as a high quality, construction equipment provider. The company has understood that pushing only functional attributes does not provide them with a position that is unique. The company has therefore tried to set itself apart by pushing emotional attributes, specifically care and pride, which is effectively communicated by the company's slogan "More care, Built in." Generally competitors do not associate emotional attributes with their brands and therefore this strategy provides a solid tactical competitive advantage. The use of emotional attributes also provides a sound strategic competitive advantage, as these aspects are harder to imitate than functional aspects. It is easy for competitors to copy specific product features but it is much more difficult for them to try to duplicate a feeling that a certain brand gives to customers.

#### **5.2.4 Marketing Communication Setting**

The marketing communication setting in China affects Volvo CE's brand management strategy in terms of how the company communicates its chosen position to customers. As is evident from the empirical chapter there are no real differences regarding the available marketing channels in China. The following section will compare the sources of information preferred by Chinese

construction equipment customers to the channels currently used by Volvo CE. In doing so we can determine whether there is a fit or whether it needs to be adapted.

As mentioned previously, the four most preferred sources of information among Chinese construction equipment customers are trade fairs and exhibitions, word of mouth, construction equipment industry magazines and the Internet. This corresponds relatively well with Volvo CE's market communication strategy as they do engage in event marketing, public relations in industry magazines and have a comprehensive web site. However, the company does not seem to put great emphasis on word-of-mouth as a method of communicating to customers.

Communicating the chosen position to customers also involves designing an appropriate message. In China the context adds meaning to the message. As a result, providing more information, such as informing the consumers of for example the company's heritage and country of origin can be helpful to firms. Volvo CE attempts, in some of its global brand advertising, to demonstrate to customers its technological tradition and how it has revolutionised the industry by inventing certain features. This will be useful to the company in China considering the great value placed on heritage and previous successes. Volvo CE's country of origin, Sweden, is not overly stressed by the company in its advertising. By emphasising this factor Volvo CE can broaden Chinese customers' perspectives regarding the brand. As mentioned in the previous chapter, Chinese consumers respond better to subtle and humble messages that show respect for the audience as well as competitors. It is evident from its advertising that Volvo CE does not try to promote itself at the expense of competitors. The company's advertisements focus on its key strengths such as innovation and environmental care as well as key product attributes.

There are also practical details to consider in terms of how best to convey a message in China. If advertisements are to show people then they must be of Asian descent and it must be in an Asian setting. The use of the colour blue, which Volvo CE intends to "own" in its advertising, would not traditionally be thought to work in China where the colour is associated with death. However, with the increased westernization in the country it is no longer such an

important issue. The reality is that increased western influences in China are making it easier for companies to bring their message into the country without having to adapt it a great deal. However if Volvo CE is aware of what is the most effective way to convey the message in China, and uses this information to improve their market communication strategy, they can potentially increase customer awareness.

### 5.3 Customer Perceptions

This section serves to evaluate to what extent the existing customer perceptions of the Volvo brand corresponds with the image that Volvo CE wishes to portray. In doing so we will be able to determine how the company's current standing in the market will influence the effectiveness of future strategies. The section will begin by examining what effect the current strength of the Volvo brand's presence in the minds of the Chinese customers will have on Volvo CE's brand management strategy. This will be followed by a comparison between the associations linked by the customers to the brand, and the attributes that Volvo CE has chosen to emphasise in the brand identity. Finally, the perceived added value of the Volvo brand among Chinese construction equipment customers will be analysed.

#### 5.3.1 Brand Awareness

Based on our empirical findings, we can conclude that the breadth of the Volvo brand's awareness in the minds of the Chinese construction equipment customers is rather high, while the depth, or recall, is still quite low. This is illustrated in the graveyard model below where the Volvo brand, with regards

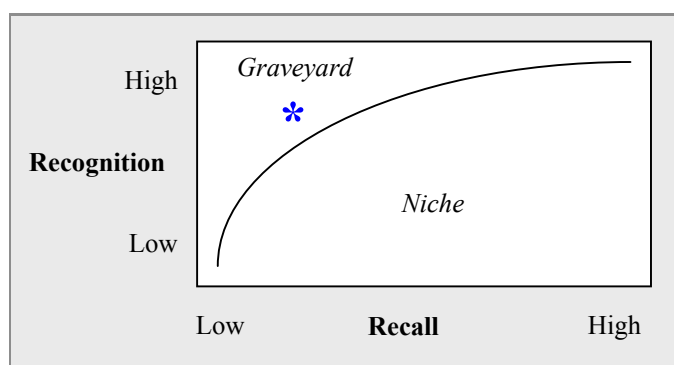


Figure 20: *The Graveyard Model*, source Aaker, 1996

to construction equipment, is situated in the graveyard, which, as stated in the theory chapter, is populated by brands with high recognition but low recall. This means that even though most of the Chinese construction equipment customers know about the Volvo brand, they do not necessarily think of Volvo CE when contemplating a purchase. This is a

not necessarily think of Volvo CE when contemplating a purchase. This is a

result of the presence, in the Chinese market, of other product categories within the Volvo brand portfolio, particularly the car, and the fact that Volvo CE is relatively new to the market.

According to Aaker, there are potential dangers associated with this situation. Attempts to increase brand recall could be hampered by high recognition. This is because if the brand recognition is high, customers may not be interested in new information about the brand. Also, if a brand that offers several product categories is highly recognised for one specific category, then customers of the other product categories might not pay attention to when the brand is mentioned as they presume it is of no relevance to them. This could pose a real problem to Volvo CE in China, and consequently it is essential that the company put great effort into increasing the brand recall among Chinese customers. Attempts at getting the customers to associate the Volvo brand with construction equipment are already under way, as Volvo CE is planning to focus mainly on product advertising in the coming year.

There are also benefits to the perceptions in the Chinese market created primarily by Volvo cars, as it is generally thought to be easier to promote a new product category under an established brand name than it is to introduce an entirely new brand. This of course depends on what associations exist in the market as these can influence the success of the new extension.

### **5.3.2 Brand Image**

For brand management to be a success, it is essential to examine the fit between the brand image held by customers and the company's brand identity. If the existing associations do not fit with the identity chosen by the company, then associations may need to be added or restrictive perceptions softened. If on the other hand the associations made with the brand fit with the identity, they may simply need to be reinforced. Finally, if the brand image involves associations that the company does not want to have linked to the brand, then those may need to be diffused.

As mentioned in the previous chapter, the Volvo brand is primarily associated with the following aspects: quality, technology, safety, luxury, reliability,

comfort and high price. Regarding quality, technology and safety, which were the associations made most often, they all correspond well with Volvo CE's identity, and therefore the company could benefit from capitalising on this fit by reinforcing these associations. Luxury, however, is not an attribute that Volvo CE includes in its brand identity. This association is derived from the identity pushed by the car division who wants to position itself as a premium brand. Luxury is generally not the type of association that fits very well with construction equipment and is not an important consideration of construction equipment customers in China.

Although high price was mentioned, surprisingly few participants associated this feature with the Volvo brand considering that Volvo has the highest price in the market. However, it was mentioned spontaneously by some customers and is therefore an issue of concern. This is because, even though it might be an indicator of high quality to some customers, it is generally not a positive association and it is not a key point in Volvo CE's identity.

Reliability is a positive association and one that is highly relevant to construction equipment consumers in China. The fact that the Volvo brand is already spontaneously associated with reliability gives the company an advantage.

To examine more thoroughly how the existing image of the Volvo brand affects Volvo CE's brand management strategy, we will look at how well the company's current brand identity corresponds with the associations gathered from customers' responses to a list of statements concerning construction equipment. According to the results, which were presented in the previous chapter, the features of quality and technology were among the top associations. As these features are key components of Volvo CE's identity, these associations correspond very well with the company's strategy. The brand was also associated with reputability, care, trustworthiness, and pride, which all are elements included in the Volvo CE identity. Based on these results there seem to be a very good overall fit between the image of the Volvo brand held by construction equipment customers in the Chinese market, and the identity chosen by Volvo CE. As it is believed that the greater the number of core brand associations, the higher the brand equity, the company appears to be in a very

favourable position. This since care, pride, and best equipment, which are the aspects that constitute Volvo CE's core identity, are all part of the image.

By examining in further detail the associations made by Chinese CE customers with the Volvo brand, Volvo CE can identify ways to strengthen its image and perhaps even improve its position on the Chinese market. By examining customer responses made to statements regarding the Volvo brand and comparing it with research into the most important considerations of Chinese construction equipment customers, we can determine which aspects are important to customers and are part of Volvo CE's identity but for some reason are not part of the brand image. These include the following statements; *Volvo has a lot of experience in the CE industry* and *Volvo stands for low total costs of ownership*. We know from our research that due to cultural influences, heritage is an important consideration of Chinese customers. We also know that Volvo CE has a long history in the construction equipment industry and that the company emphasises its engineering heritage. However this feature is obviously not well known to customers, as it was not strongly associated with the Volvo brand.

The statement *Volvo stands for low total costs of ownership* was another relatively weak association in customers' minds. This in spite of the fact that an overwhelming majority of customers agreed with the statement: *Volvo products have a long service life*. According to the company Volvo CE machines save money in the long run as they break down less, have less cost per load and have less fuel consumption. Cost efficiency in terms of durability and productivity is a feature that Volvo CE includes in its identity and yet this is a relatively weak association among customers.

### **5.3.3 Perceived Added Value**

According to our empirical study regarding the Chinese customers' perception of the Volvo brand, it seems that the overall image of the Volvo brand in China is strong and positive, and includes factors that are of importance to Chinese construction equipment customers. It also appears that this image creates a competitive advantage since, when compared to competing brands, customers deemed the Volvo brand superior. Consequently, the image of the Volvo brand

seems to produce a perceived added value in the minds of the construction equipment customers in China.

However, as pointed out in the previous chapter, this conclusion is based on responses gathered from customers that were aware of the fact that Volvo produces construction equipment. We can therefore determine that the current strategy creates perceived added value for customers who are familiar with Volvo CE. However, these customers constitute a relatively small group, and this illuminates the fact that creating higher recall among the target segment, not changing the brand identity, is the main strategic concern for Volvo CE in the Chinese market.





## 6 Conclusions and Recommendations

*In this chapter we conclude our findings and provide the answer to our main problem as well as to our research questions. In order to provide a clear overview of the results, they will be highlighted in our research model. Based on our findings we also offer recommendations as to how Volvo CE should proceed with adapting its brand management strategy to the Chinese market. Our hope is that our suggestions will help the company improve its position in China and achieve its goal of increased market share.*

### **Research Question 1:**

How is the company's global brand management strategy formulated?

Volvo Construction Equipment has formulated a brand management strategy based both on functional and emotional attributes, which the company believes can be applied globally. The company's identity is comprised of two focus areas: *best equipment*, which represents the functional benefits provided by the brand to customers, and *care*, which represents the emotional benefits. Volvo CE pushes these broad assertions as it considers these benefits to be relevant to customers world-wide. The use of care as a brand driver differentiates Volvo CE from other competitors in the Chinese market and it is an association that the company hopes to own in the future. Volvo Construction Equipment's position on the global market, including China, is articulated in its promise of "*More Care, Built in.*"

The company uses a number of different market channels to communicate its position. These include both global and local advertising, event sponsorship and public relations campaigns. The company has also hired an advertising company called Masius whose task it will be to co-ordinate Volvo CE's marketing communication and advertising around the world.

### **Research Question 2:**

How does the current brand portfolio strategy affect the MNC's brand management strategy?

Volvo CE is a part of a larger, more complex, brand hierarchy, which is dominated by the Volvo Group. The brand portfolio strategy chosen by the Volvo Group is of great consequence to Volvo CE's brand management strategy. The Volvo Group has chosen a corporate dominant brand portfolio strategy. This means that the corporate brand name, Volvo, is employed on all levels in the hierarchy, the only exception being for certain acquisitions made by the company. The result is a situation where a number of different products in different product categories use the Volvo brand name.

To ensure that the brand is not damaged certain rules regarding the brand have been established. This affects the brand management strategy of Volvo CE directly by placing restrictions on it. These restrictions must be considered in the event of adaptation to an emerging market. The corporate dominant strategy has, at the same time, facilitated Volvo CE's entrance into China. This is due to the fact that the Volvo brand was gradually extended to the market. Volvo CE entered China after the Volvo brand had been established by other divisions and has been able to capitalise on the positive associations that have previously been established in Chinese customers' minds.

**Research Question 3:**

How do aspects in an emerging market's external environment influence the MNC's brand management strategy?

In addition to the influence exerted by the internal environment, a company's brand management is also affected by external factors. We have identified the main influencing factors, in this context, to be the emerging market's economic development, culture, industry conditions, and marketing communication setting.

***Economic Development***

China's communistic traditions, and the fact that the country has relatively recently opened up the economy, signifies that it has not reached the same level of development as the west. Regional economic disparities and the government's prevailing role in the economy are still issues of concern. Despite this, the market is growing rapidly and foreign companies are pouring in, spreading their knowledge and changing the dynamics of the market. The cost structure in the country, however, constrains foreign companies from operating

entirely as they would in a western market. Still, their investments are contributing to the rapid expansion of the market and to the fact that customer wants and needs are becoming more sophisticated.

### ***Culture***

Foreign companies have brought with them western values, which have influenced the Chinese culture. Increased individualism and a shift towards more capitalistic thinking are a result of this. Values such as success, money and competition are gradually starting to become driving forces for customers particularly for private owners. However, personal relationships, or *guanxi*, still play an important role and can affect customers' brand choices.

Despite the high degree of influence from the west, Chinese people are still fairly risk averse and therefore highly brand sensitive. For companies operating in the Chinese market, this underlines the importance of having a solid brand management strategy and of maintaining a good reputation. The interconnectedness in the Chinese society means that not only is reputation important, but also the history of the company in the country and the actions of any related product categories in the brand portfolio. Maintaining face is very important to Chinese people. This is an issue, which is important to consider when designing the market communication strategy.

### ***Industry Conditions***

#### ***Customer Setting***

We believe that Volvo CE's identity corresponds fairly well with what customers in China stated that they wanted. The company's current identity uses fairly broad assertions, which can be seen to encompass many different features. As a result the broad umbrella concepts in Volvo CE's identity include most of the major considerations identified by customers.

The high degree of brand sensitivity in China underlines the importance of having a clear brand management strategy. If brand sensitivity were low there would be no reason to place so much emphasis on the brand. Given that brands are so important, if Volvo CE is to succeed in the market it must have a clear and communicable brand identity that is simple and distinguishable from other brands. The high degree of involvement in the purchase process underlines the

importance of putting a greater effort into understanding how Chinese customers gather information about the products and how they evaluate products. This, in order to ensure that customers have easy access to information about the Volvo brand.

### *Competitive Setting*

The construction equipment market in China is still growing. Rivalry has not yet reached the same stage as in mature markets. Therefore there is currently not such a strong need to differentiate especially since the products themselves are quite similar. However, as the economy continues to develop, the competition will intensify. As a result it is better to establish a differentiated position in the market now rather than later. The current competitive situation does not put any real stress on Volvo CE's brand strategy but it is important for the company to have a long-term perspective and work to differentiate itself now in preparation for when the competition becomes more ruthless.

Three tiers of competition currently exist in the Chinese market, each of which has a different positioning strategy. The main difference between the groups is with the level of quality they provide. We believe that Volvo CE belongs to the first tier and the company's current position works well in accordance with the current competitive situation in the market. The position is differentiating and unique and fulfils a need that is not satisfied by existing offers. However there are means by which Volvo CE can further strengthen its position in the market. These will be discussed in detail in the recommendations.

Chinese customers currently ascribe higher status to foreign firms. This is largely due to the fact that currently foreign firms are known to have higher quality than domestic firms do in the market. However this quality based gap between competitors will close in the future as domestic customers improve their technology and their standards. If this occurs, Chinese customers, who may have better relationships with domestic firms, will no longer be prevented from buying from them due to their poor quality. For foreign firms active in China, this underlines the importance of establishing *guanxi* and personal relationships.

### ***Market Communication Setting***

In China the use of personal communication channels to convey a message is of great importance. Word of mouth is key to success. In addition to this, the more customers in China know about the company communicating the message the more meaning will be attached to the message.

#### **Research Question 4:**

How do the existing consumer perceptions of the brand in the market affect the MNC's brand management strategy?

Based on our evaluation of the existing consumer perceptions of the Volvo brand in the Chinese market, we can conclude that there is presently a good fit between the image of the Volvo brand, held by construction equipment customers in the Chinese market, and the identity chosen by Volvo CE. Among those customers who are familiar with Volvo CE, the current brand image is strong, positive and competitively advantageous and consequently the brand is producing a perceived added value in the minds of these customers. However some aspects, which are prevalent in Volvo CE's identity and are important considerations among customers, did not figure prominently in the brand image.

We can further conclude that the Volvo brand enjoys high recognition among the Chinese construction equipment customers, an outcome that primarily is derived from strategic undertakings of the other product categories that share the Volvo brand name, and that also are active in the Chinese market. According to our empirical study it seems that the main strategic concern for Volvo CE in China, with regards to the existing perceptions of the brand, is the low degree of brand recall among Chinese consumers.

Our findings are illustrated in the figure below. This figure does not present the relevant factors in each category but instead aims to demonstrate the effects of both the internal and external aspects on the global brand management strategy. This gives an overview of the circumstances that Volvo CE currently finds itself in. Recommendations as to how the company should react to this situation

by adapting its global brand management strategy are given in the following section.

**External Environment Analysis**

**Economic Development**  
Increased sophistication of wants and needs  
Increased international competition

**Culture**  
Leads to capitalistic motivations  
Guanxi affects competition  
Risk aversiveness leads to high brand sensitivity  
Interconnectedness  
Importance of face affects message

**Industry Conditions:**

**Customer Analysis**  
Reasonably good fit between wants and needs and the Volvo CE identity  
Certain aspects that are important to customers not emphasised individually in the identity  
High brand sensitivity reinforces need for Brand strategy

**Competitor Analysis**  
Competitors grouped into three tiers - Volvo CE's position fits well with first tier  
Quality based gap between foreign and domestic firms diminishing  
Weaknesses of competitors in the Chinese market can be identified

**Market Comm. Setting**  
Strong emphasis on personal communication channels  
Customers add meaning to message

**Brand Building Strategy**

**Identity**

**Positioning**

**Market Communication**

**Brand Portfolio Strategy**

**Brand Hierarchy**  
Restrictions placed on the strategy particularly on the market comm.  
Maintaining extension potential constrains the identity  
Stepwise extension into China has created a platform of positive associations to build strategy on

**Consumer Perceptions**

**Brand Awareness**  
High recognition created by car division  
Low recall is a major strategic concern

**Brand Image/Associations**  
Image has a good overall fit with identity  
Some associations derived from car division  
Some aspects in the identity are not prevalent in the image

**Perceived Added Value**  
High perceived added value for small group of CE customers aware of Volvo CE

**Main Problem:**

How should a multi-national corporation adapt its brand management strategy to the specific environment of an emerging market?

The answer to this question will be provided in the form of recommendations as to how Volvo Construction Equipment should adapt its brand management strategy to the specific conditions prevalent in the Chinese market. In order to present the recommendations in a clear structure, we will separate the brand management strategy into what according to our theoretical framework are its main constituents: *brand identity*, *brand position*, and *marketing communication*.

**Brand Identity**

According to this study, no major adaptations of Volvo CE's brand identity to the Chinese market are required. However, some adjustments to further improve the fit could be advised. We believe the current brand management strategy can be made even more effective by shaping and tailoring the identity. Certain aspects that were not explicitly accentuated in Volvo CE's global identity but fit with customers wants and needs could be accentuated in China. Volvo CE's strategy of using broad concepts in the identity is an attempt by the company to appeal to customers world-wide. However, the use of broader concepts may make it difficult for consumers to see any clear benefits in purchasing Volvo over other brands. Furthermore it may prevent more in depth associations from being made with the brand. Quality, for example, is an attribute emphasised by many competitors, and consequently it can be difficult for customers to differentiate between quality provided by Volvo CE and the quality provided by competitors. Emphasising the broader concept of quality is therefore not the best approach to driving purchase decisions.

It is essential that the company attach meaning to these broad concepts, in order to increase their relevance to the target market in each country. In light of this, Volvo CE needs to look closer at what actually constitutes quality in Chinese customers' minds and customise the identity by emphasising those aspects. The company should put forward more specific evidence as to how they can

provide quality, and the same should be done with the concept of service. This evidence should be specific to the Chinese market.

- **Based on this we believe that Volvo CE should consider expanding on the concepts within its focus areas by making the aspects that were identified as the most important considerations of construction equipment customers in China more distinct parts of the identity.**

Through this, the concepts of quality and service will each be given a clearer meaning and one that corresponds to customers wants and needs. If possible, particular emphasis should be placed on the wants and needs that the Chinese customers feel are not completely satisfied by existing offers. Reliability, for example, is an important consideration of construction equipment customers in China and it is currently spontaneously associated with the Volvo brand.

- **Consequently, we feel that the company could benefit from emphasising the concept of reliability in its identity.**

Emphasising reliability does not imply changing the identity since it is already included in the broader concept of quality, but simply highlighting it independently in Volvo CE's market communication in the country. The company can accomplish this by for example creating a series of advertisements, which promote this aspect, or stressing specifically the reliability of Volvo CE products in its PR campaigns.

- **We also believe that, total cost of ownership should be accentuated in the Volvo CE identity.**

The low long-term cost of owning a Volvo CE machine is not currently a strong association made with the Volvo brand in China. It is however a part of the company's identity under the best equipment concept and Volvo CE is in a better position with regards to this feature than competitors. Furthermore, considering that Volvo CE offers the most expensive equipment in the market, this can be a way for the company to soften the restrictive association with high price.



- **The current identity could also be improved by further stressing the company's heritage.**

This was shown to be a relatively weak association in customers' minds and is an important cultural consideration. In China, customers' perceptions of a brand are strongly influenced by its previous success in the market as well as in other countries. Achievements such as when the company's new articulated hauler series won the German Red Dot prize for best design should be highlighted in China.

- **Volvo CE should also consider placing greater emphasis on the country of origin as part of the brand identity.**

This could be beneficial since Chinese customers ascribe high status to Swedish firms with regards to quality and technology. This is a way for Volvo CE to increase customers' overall familiarity with the company, which adds further meaning to the message communicated by the brand in the minds of the customers. Furthermore, placing greater emphasis on these emotional attributes will give customers the feeling that they have a personal relationship with the brand and consequently enhance Volvo CE's *guanxi* in the Chinese market

- **As the service concept is of such importance in China, Volvo CE should ensure that any future plans to improve service by for example adding new dealers or enhancing after sales service are actively communicated to customers.**

This can be done through public relations campaigns. Volvo CE could even consider branding its service offerings and giving Volvo service a distinct identity in the same way that Hitachi has. What is vital is that customers are aware of any improvements, as it will encourage them to attach more value to the brand. These actions also serve to demonstrate Volvo CE's long-term commitment to the country, which has proven to be important to customers as well.

Finally, due to the rapid development of the Chinese economy the business environment is changing continuously. Volvo CE must therefore pay close

attention to the progression of the customers' wants and needs and to the existing unmet needs in the market. It is important to examine the trends in the market in order to assess to what extent Volvo CE's brand identity will fit in the future.

- **In light of the inevitable sophistication of customer wants and needs in the market we believe that operator comfort and safety should remain key strengths within Volvo CE's identity.**

In our opinion these factors will become more important to Chinese customers in the future and Volvo CE is acting wisely by highlighting them now.

- **Furthermore, as environmental awareness is gathering momentum in China, environmental care is an aspect that should continue to be emphasised by Volvo CE in the country.**

The company should encourage the development of environmental conscientiousness by actively educating customers in environmental care. The current reality is that Chinese people still think primarily about the environment immediately surrounding them as opposed to considering the environmental well being of the country or the world. Therefore Volvo CE's discussion should link the benefits of owning an environmentally friendly machine directly back to customers and show how this can enhance their individual well being.

In China, the Volvo brand is currently strongly associated with luxury, an attribute that is not part of Volvo CE's identity. The lack of fit regarding this aspect does not necessarily indicate a problem for Volvo CE. This since, despite the fact that luxury generally is not the type of association that fits very well with construction equipment, it could be beneficial to have the brand associated with an attribute that indicates high status.

- **Consequently we believe that Volvo CE does not need to take any active measures to diffuse the association with luxury, nor do they need to reinforce it.**

### **Brand Position**

Volvo CE's choice of brand position works well considering the current competitive situation in the Chinese market. However the company is currently positioning itself against two groups of competitors. Our findings, after grouping competitor positions in the market and examining consumer perceptions, indicate that Volvo CE and Caterpillar belong in the same category. Hitachi, however, which Volvo CE considers to be one of its main competitors, does not have the same position or the same standards as Volvo CE.

- **Therefore instead of potentially causing confusion among customers Volvo CE should in the future position itself principally against the first group of competitors, as this position corresponds with the image that Volvo CE is trying to portray to customers.**

Volvo CE would not profit from positioning themselves against the two lower tiers as the low price positions adopted by these two do not fit with the company's identity. In addition to this the individual competitors in the second group, Komatsu and Hitachi, are strong and the number of competitors in the third group is too large to compete against. Although positioning themselves against the first tier is not ideal considering that Caterpillar, the market leader, is part of this group, Volvo CE has no other option, as the positions in this group correspond with its identity.

However, by using a different approach and basing their position on emotional attributes, Volvo CE has captured an area that has not been taken advantage of. If the company can own this feature in the Chinese market it would give them an advantage over competitors.

Furthermore, positioning themselves based on emotional attributes is beneficial to Volvo CE because it is differentiating, and since it provides the company with a means of establishing good *guanxi* with the Chinese customers. This is important since, although foreign firms at present are known to have higher quality than domestic firms, the quality-based gap is expected to close in the future as domestic customers improve their technology and their standards.

We feel that Volvo CE can further develop and strengthen its position in China by examining the weaknesses of competitors in the country. In our empirical chapter we identified some areas where customers considered Caterpillar and Hitachi to be weak. When compared with Volvo CE's results, one area in particular can be identified where Volvo CE was strong relative to competitors. This was the area of reliability. The statement, *Products of this brand need very little maintenance*, generated a rather weak response for both Caterpillar and Hitachi and a stronger one for Volvo CE.

- **Volvo CE's superior position in customers' minds regarding reliability will make it easier for the company to try to own this association in the future and it should therefore be exploited.**

### **Market Communication**

Volvo CE's main strategic concern in the Chinese market is low brand recall. Consequently, great effort must be put on linking the Volvo brand to construction equipment so that Volvo CE will come to customers' minds when they are considering purchasing a machine. This means that designing a market communication strategy that effectively reaches the desired target segment should be a priority. The company is currently focusing mainly on product advertising as means to increase recall in China. However as mentioned previously it is also beneficial to include extra information about the company in advertising as this encourages customers to attach more meaning to the brand.

Given that all the same marketing channels exist in China as in the west, Volvo CE will not be required to adapt this aspect of its strategy. The company may however need to modify the channels that it uses to correspond better with the channels that are most often used by customers in their information gathering process.

- **Based on this, we suggest that Volvo CE put greater emphasis on word-of-mouth as a method of reaching Chinese customers, as this personal communication channel constitutes a highly valuable source of information in China.**

In order to accomplish this, the company should devote extra effort to selling the products to well-known companies as these can function as opinion leaders and in turn influence other customers to buy.

It is of great significance, particularly at this initial stage of the market establishment, that Volvo CE is able to refer to previous business and satisfied customers in the Chinese market. Promoting successes achieved by related product categories could be beneficial to the company.

- **Consequently we believe that being more clearly associated with the other product categories under the Volvo brand name would be beneficial for Volvo CE.**

In fact we believe that all business areas within the Volvo group would benefit if some sort of group-wide advertising were established in China, as positive associations made with one product category can be more easily transferred to the others if customers are aware that they all are interconnected.

- **We further suggest that Volvo CE should put greater effort into facilitating the establishment of good relationships between the customers and its dealers.**

Personal relationships are still of great significance to Chinese customers and as the dealers constitute the link between Volvo CE and its customers, the company must make sure that their actions are causing no harm to the brand, but instead adds extra value to the customers' brand image.

- **Furthermore, in order for Volvo CE to achieve successful marketing communication we believe that continued cooperation with a domestic agency would be beneficial.**

These firms have more insight into the general marketing environment in China, which can help in assessing language and interpretation issues, identifying appropriate communications vehicles and securing strong *quanxi* or connections. They can also provide valuable information as to how the message should be developed so that it is not perceived as offensive to the Chinese

customers. The company should keep in mind that subtle and humble messages are generally the best approach.

## 7 Theoretical Contributions

*In this section, we highlight our theoretical conclusions and present the theoretical contributions that are the outcome of this research. In addition we give suggestions regarding opportunities for further research.*

### *7.1 Theoretical Contributions*

The viewpoint taken in this study has been that previous research on brand management does not offer sufficient guidelines as to how a company should proceed when adapting its brand management strategy to an emerging market. In our literature review, we did encounter studies covering some of the separate elements included in our problem area. However, we did not find any theories that we felt could provide a wide enough perspective to incorporate all of the aspects that, in our opinion, must be considered in order to provide a satisfactory answer to our main problem. Consequently the theoretical objective of this thesis has been to further develop the existing theories and to establish a framework that extends the current focus and provides a broader view of the brand building process.

Our framework has been based on certain fundamental presumptions. These include the belief that disparities exist between fully developed countries and emerging markets and that these differences require that a firm, wishing to extend its brand into an emerging market, adapt its brand management strategy in order to achieve equity for the brand in that particular market. We further presuppose that successful adaptation of the strategy requires an in-depth analysis of three key factors: the *external environment*, the company's *brand portfolio strategy*, and the existing *consumers' perceptions of the brand*. The outcome of our reasoning is a framework that includes elements from established brand building theories as well as from institutional and cultural theories.

The starting point for our framework is the company's global brand management strategy. Theorists generally agree that three aspects make up the brand management strategy: *brand identity*, *brand position*, and *market communication*. Once the global strategy has been defined it is necessary to assess the key influencing factors in the emerging market.

Our framework identifies four institutions in the external environment of an emerging market that are of particular significance in a brand management context. These include two macro institutions as well as two meso institutions. The macro institutions include the *economic development* of the country and the *country culture*. These two factors are important to consider as they can vary enormously between countries, particularly between emerging markets and western countries. These factors can have important implications for brand strategy as they exert an indirect influence on the product market in the country.

The institutions on the meso level that require examination include the *product market* and the *marketing communication setting*. Investigating the product market involves analysing both customers and the competitive situation, while important aspects to look into in the market communication setting include available channels and the message particulars. Information regarding these factors can help to determine which aspects of the company's brand management strategy fit with the environment and which should be adapted.

In addition to the influence exerted by the external environment, a company's brand management strategy is also affected by internal factors within the company. We have identified the main influencing factor, in this context, to be the *company's current brand portfolio strategy*. This can affect the brand management strategy directly as well as indirectly by shaping customer perceptions. How the current *brand hierarchy* is designed and what levels are used in the branding process affects the strategy while earlier extensions of the brand can create associations with the brand in a market before it is actually introduced there.

*Existing consumer perceptions of the brand* constitutes our final influencing factor. These can have an impact on the effectiveness of any future brand management strategies presented by the company. A company can use perceptions about the brand to strengthen its position in the market. Positive associations that exist when the company enters the market can be capitalised on and this can help the company attain brand equity. Consumer perceptions include *awareness* of the brand, *associations* or customer image of the brand and *perceived added value* that customers get from the brand.



These four factors and the theories used to study them were combined into our research model, which is the theoretical contribution of this thesis. The model was the basis for our empirical study. By using it as a guideline we were able to assess the fit between the company's global brand management strategy and the specific environment of the emerging market and provide recommendations as to how it should be adapted. This is something we feel we would not have been able to accomplish using only existing theories. We feel that applying this framework has enabled us to reach a deep understanding of the important concepts to consider in extending a brand to an emerging market.

## ***7.2 Suggestions for Further Research***

This study represents a first attempt at applying our integrated framework, and as such it possesses several opportunities for further research. First, as the research was limited to only examining the construction equipment industry in China, the findings may not be generalised to other product categories and other markets. We therefore feel that it could be interesting to explore the impact on other product categories by conducting a similar study to ours in China but for a different industry. It would be useful to know whether this would confirm the results of our study. Also, conducting a similar study but in another emerging market could be an exciting area and one that is potentially of use to companies. It could also be interesting to examine in more detail how the large regional disparities prevalent within China affect the brand management strategy of the firm and how a firm should best deal with this problem.

Regarding brand management in general, it is a relatively new concept to many companies especially those in business-to-business markets. As a result there are a great number of exciting areas to explore. After completing our research for this thesis we have been able to identify several areas that we feel could benefit from further research. For instance, the issues of brand portfolios and subsequent brand extensions are discussed widely in theory. But this applies more to practical issues such as how to extend a brand and when it is most preferred. An interesting area could therefore be to investigate in more detail the effects of extensions within a portfolio, which has a corporate dominant strategy such as Volvo. For example, how they affect consumer perceptions, whether this always facilitates brand equity and what happens if one product category is dominant. The existence of both consumer and industrial product

categories sharing a brand name and the effect on brand equity could also be an area of interest.

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# Appendix

## Appendix 1. Customer Survey

1. To what degree are the following considerations important to you when buying construction equipment?

	Very important	Somewhat important	Not important
Overall image of the brand			
Product quality			
Reliability (few faults & little downtime)			
Product safety			
Low operating costs			
Fuel consumption			
Design/Style of its Equipment			
Environmental care			
Sales services			
Workshop services			
Spare parts services			
Price			
Overall package			
Second hand value			
Durability (service life)			
Operator Comfort			
Friendly and helpful staff			
Reputation			
Short Delivery Time			
Amount of Maintenance			

2. In your opinion, what needs in the Chinese CE market are not satisfied by the existing offers?

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3. To what extent do brands influence your purchase decision?

Very much
  Somewhat
  Not at all

4. Name three brands that come to mind when you think of construction equipment:

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5. Which are the sources of information that you use when you want to know more about different construction equipment manufacturers and their products?

Word of mouth form other construction companies / friends/ colleagues	
Trade fair /exhibition/ shows	
Product videos	
Product brochures	
Construction industry magazines	
The internet / web search	
Sales person (manufacturer/dealer)	
News letters (Manufacturer/dealer)	
Billboard	
Others (specify)	

6. Have you heard of the Volvo brand?

Yes       A little       No

7. What products do you associate with the Volvo brand?

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8. What do you think the Volvo brand stands for?

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9. Are you aware that Volvo makes construction equipment?

Yes       To a small degree       No

10. To your knowledge, what products does VCE offer?

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11. Please state how well these statements fit or does not fit your image of Caterpillar, Hitachi, and Volvo. Use the scale below:

1 = Fits very well,

2 = Fits somewhat,

3 = Does not fit at all

Statement	Caterpillar			Hitachi			Volvo		
	1	2	3	1	2	3	1	2	3
Is a brand that cares about the people who use their products	1	2	3	1	2	3	1	2	3
This brand understands the needs of the construction industry	1	2	3	1	2	3	1	2	3
Will be the future leader for construction equipment	1	2	3	1	2	3	1	2	3
Has short delivery times for its machines	1	2	3	1	2	3	1	2	3
Products of this brand need very little maintenance	1	2	3	1	2	3	1	2	3
Offers environmentally friendly machines	1	2	3	1	2	3	1	2	3
Offers equipment that has especially low operating costs	1	2	3	1	2	3	1	2	3
Products of this brand have an especially long service life	1	2	3	1	2	3	1	2	3
Is better than other brands for construction equipment	1	2	3	1	2	3	1	2	3
Stands for safety	1	2	3	1	2	3	1	2	3
They keep their promises	1	2	3	1	2	3	1	2	3
Is the technology leader	1	2	3	1	2	3	1	2	3
Stands for low total costs of ownership	1	2	3	1	2	3	1	2	3
Has a quick and reliable spare parts service	1	2	3	1	2	3	1	2	3
Stands for total quality	1	2	3	1	2	3	1	2	3
Products of this brand are easy to operate	1	2	3	1	2	3	1	2	3
Their products look stylish	1	2	3	1	2	3	1	2	3
Truly is a service-oriented company	1	2	3	1	2	3	1	2	3
They always have the right solution for my needs	1	2	3	1	2	3	1	2	3
Offers good service contracts	1	2	3	1	2	3	1	2	3
This brand gives you the feeling that you own best equipment available	1	2	3	1	2	3	1	2	3
Stands for operator comfort	1	2	3	1	2	3	1	2	3
Is a brand I would be proud to own	1	2	3	1	2	3	1	2	3
Has a lot of experience in the construction industry	1	2	3	1	2	3	1	2	3
Has a wide range of products	1	2	3	1	2	3	1	2	3
They have friendly and helpful staff	1	2	3	1	2	3	1	2	3
Is a brand with a good reputation	1	2	3	1	2	3	1	2	3
Is a brand that has clearly changed for the better in recent years	1	2	3	1	2	3	1	2	3
Is expensive, but worth the price	1	2	3	1	2	3	1	2	3
Has an extensive dealer network	1	2	3	1	2	3	1	2	3
Is the market leader	1	2	3	1	2	3	1	2	3

**Appendix 2:**

Fit very well  Fit somewhat  Does not fit at all

Statement	Caterpillar			Hitachi			Volvo		
Is a brand that cares about the people who use their products	39%	21%	6%	27%	24%	7%	50%	18%	0%
This brand understands the needs of the construction industry	30%	28%	3%	35%	24%	4%	34%	26%	3%
Will be the future leader for construction equipment	31%	15%	6%	10%	23%	7%	36%	19%	3%
Has short delivery times for its machines	27%	21%	6%	28%	33%	3%	26%	33%	7%
Products of this brand need very little maintenance reliability	16%	29%	10%	10%	32%	10%	24%	27%	6%
Offers environmentally friendly machines	30%	18%	9%	19%	21%	9%	46%	15%	6%
Offers equipment that has especially low operating costs	21%	23%	12%	22%	23%	12%	27%	29%	7%
Products of this brand have an especially long service life	48%	17%	2%	27%	34%	6%	47%	13%	3%
Is better than other brands for construction equipment	37%	16%	7%	19%	24%	9%	37%	24%	3%
Stands for safety	39%	17%	4%	17%	30%	7%	50%	9%	2%
They keep their promises	35%	19%	4%	17%	26%	5%	50%	12%	2%
Is the technology leader	46%	10%	4%	29%	24%	6%	54%	12%	1%
Stands for low total costs of ownership	13%	21%	20%	16%	30%	11%	17%	27%	14%
Has a quick and reliable spare parts service	26%	26%	8%	22%	31%	6%	24%	26%	6%
Stands for total quality	53%	11%	3%	24%	30%	4%	61%	9%	1%
Products of this brand are easy to operate	38%	18%	3%	31%	21%	4%	45%	21%	1%
Their products look stylish	36%	17%	6%	26%	28%	5%	47%	21%	0%
Truly is a service-oriented company	23%	24%	6%	15%	31%	8%	34%	20%	6%
They always have the right solution for my needs	18%	30%	7%	20%	24%	12%	28%	28%	6%
Offers good service contracts	17%	22%	9%	21%	26%	7%	35%	22%	5%
Gives me the feeling that I own best equipment available	29%	32%	2%	11%	23%	12%	42%	15%	2%
Stands for operator comfort	29%	26%	2%	22%	28%	5%	43%	18%	1%
Is a brand I would be proud to own	33%	19%	3%	15%	32%	4%	50%	14%	1%
Has a lot of experience in the construction industry	38%	19%	3%	26%	27%	6%	34%	20%	5%
Has a wide range of products	43%	7%	7%	28%	27%	6%	40%	17%	6%
They have friendly and helpful staff	26%	24%	7%	20%	31%	8%	37%	21%	3%
Is a brand with a good reputation	37%	20%	6%	30%	28%	5%	56%	14%	2%
Is a brand that has clearly changed for the better in recent years	32%	17%	5%	23%	22%	7%	44%	14%	1%
Is expensive, but worth the price	30%	22%	5%	17%	27%	9%	48%	15%	2%
Has an extensive dealer network	31%	19%	6%	34%	19%	6%	21%	22%	17%
Is the market leader	41%	12%	3%	20%	21%	10%	37%	22%	5%