

Winning Back American Consumers

By

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The year 2007 was not a good year for the exporting of Chinese goods to the United States. To briefly recap what has occurred in the past few months:

- Millions of toys manufactured in the PRC have been recalled in the US because of their use of lead paint, which can be hazardous to the health of children.
- Many brands of pet food products packaged in the PRC had to be removed from US shelves because of toxins.
- There have been similar recalls in tires, toy ovens, computer batteries, fans, infant swings, cribs, and baby carriages manufactured in China.

According to news reports within China and elsewhere, some (but not all) of these problems have allegedly been caused by a combination of factors, including inconsistent quality control, corruption, and bureaucratic mistakes. Such missteps and malfeasance are nothing new, and certainly not confined to any one country or region. However, when a nation's commerce is growing as rapidly as China's, such problems can quickly result in massive loss of credibility and, ultimately, customer trust. That is also the case even if many of the allegations are exaggerated or untrue because, in business, perception is often reality.

To be sure, the credibility crisis that China faces is not a unilateral problem. For example, in September of 2007, the Mattel toy company apologized to China's industries for blaming them for manufacturing flaws that were, in fact, design flaws. Nevertheless, as recently as December 2007, more than 8 out of 10 American respondents in a consumer survey indicated that they were

concerned about toys manufactured in China.¹ At those levels, it really doesn't matter who is at fault; the important fact is that action must be taken quickly to rectify these attitudes.

My expertise is strategic brand marketing, not international relations, but it is clear that China has encountered a significant nation brand challenge. It is within that context that I add my thoughts to those of others who have provided their views on this sensitive subject.

Brands and Promise-keeping

The growing concern – and even antipathy – within the US toward Chinese-manufactured goods originated with product issues, but has become much larger than that alone. As US Treasury Secretary Henry Paulson has pointed out in October of last year, "Recent and repeated reports of tainted food and product imports are causing fear and uncertainty in American consumers and harming the 'Made in China' brand here in the United States."²

Strong product and service brands throughout the world are created and sustained on a mutual understanding: sellers offer products and services that will deliver what is promised in performance and reliability, and buyers will respond by loyally purchasing those branded products and services based on that premise. There are no guarantees that either party will deliver on its promises, but it is certain that a strong brand is not viable if such promises are not kept.

Companies and countries that have mastered relentless promise-keeping are always at an advantage, in good times or bad.

In the late 1950s, the Tokyo Tsushin Kogyo company became Sony Corp., partly because that name change distanced the company from the cheap, low-value image of Japanese products at that time. "Made in Japan" was a term of derision in the minds of many Americans at that time. But when Sony distributed a transistor radio of authentic quality, followed by a stream of innovations of similar caliber, they began to erase the identity that equated Japanese products with substandard value.

Three decades later Japan had gained an advantage, not just in electronics, but in other industries, such as the fast-growing motorcycle market, and it was an American company that was not delivering on its promises. Back then, the Harley-Davidson company was on the brink of being sold for scrap. Most of their classic “choppers” seized up and left an oil stain wherever they were parked.³ In contrast, products from Harley’s Japanese competitors were cheaper, more reliable, and just as fast (or even faster) around a curve. By 1985, the company was literally within days of bankruptcy when it was saved by a corporate angel and a company-wide commitment was made to superior product quality.

In one year, between 1985 and 1986, Harley dramatically increased its share of heavy-duty motorcycles from 16% to 25%. Of relevance to the China experience, their Phoenix-like resurgence in the US marketplace was greatly aided by two key factors: Americans’ perennial preference to buy from US-based companies (all other things being equal), and by a punitive tariff directed specifically at Harley’s Japanese rivals in the mid-1980s.

Today, Harley-Davidson is a \$6+ billion global brand with more than 1,000 HOGs (Harley Owner Groups) clubs worldwide with 350,000 members. Improved products have attracted new customers to the brand, but it was the brand’s credibility, along with socio-political events, that rebuilt the company. As pointed out by Kent Grayson, associate professor at Northwestern University's Kellogg School of Management: "It's more than a brand. It's a culture."⁴

Harley-Davidson’s consistent delivery of what was promised, along with similar consistency from many other US-based firms such as IBM, Nike, Coca-Cola, and McDonald’s, has created untold brand equity for US brands – and the US nation brand – in overseas markets.

Brand Integrity and Net Brand Equity

Integrity for brands is very similar to personal integrity. It is about standing for something real and authentic in the eyes of customers and prospects, no matter what might happen within the marketplace. Such integrity can become truly disruptive to the competition, especially if it is an industry that may have had in the past one or more competitors that did not always take the high

road. This is the opportunity open to Chinese companies, whether they are providing only to OEM customers, or are building global B2B or consumer brands.

That said, arguably the most fundamental danger that lurks beneath the recalls and banner headlines is the erosion of trust in a nation brand before that brand can fully mature. China is in the enviable position of becoming the leading economic force on the planet, not just because of its size and scope, but because its economic momentum can become market makers virtually overnight. Yet, that powerful force, as formidable as it may be, can be undermined and eroded almost as fast if the world believes that China's raw manufacturing power is too raw to be trusted just yet.

The shining opportunity for China is to build world-class global brands of everything from toys to pet food to consumer and business services. She has made a good start with quality companies and brands that are becoming relied upon by the world, including Lenovo, Air China, Bank of China, and a good many others. What these brands and the China nation brand should be concentrating on is what I refer to as "net brand equity", which is the value of a brand after significant developments impact it positively or negatively (See Figure 1). China's nation brand is now experiencing a negative net brand equity dynamic due to the recalls and ongoing unpleasant discoveries about product quality.

For many years, Samsung Electronics was a poorly marketed brand that had virtually guaranteed its bottom-rung profitability by creating generations of poor products, supported by minimal and/or mediocre marketing support with poor strategic focus. But in 1997, then-CEO Yun Jong Yong abruptly changed business strategies by declaring, "Our future will depend on our brand equity."⁵ Hundreds of millions were invested in R&D, manufacturing, design, marketing, and sales development until Samsung created a superior global brand with the products and infrastructure to support it. Samsung's product line was gradually upgraded until it was every bit as innovative and reliable as Sony's, the industry standard for mass audience electronics.

The result is that Samsung Electronics moved from marketing a brand with negative net brand equity to a positive position in the minds of current and prospective customers. Samsung is now the fastest growing brand of its kind, buoyed by a new product integrity that has cut a swath through the industry. The company is consistently profitable, with revenue exceeding \$80 billion US, and now boasts a brand that is valued at nearly \$17 billion, compared to \$13 billion for the Sony brand.⁶

Necessary Actions

China's has responded promptly to these problems, including the better-late-than-never step of creating the General Administration of Quality Supervision, Inspection, and Quarantine to handle full domestic recalls when product problems are detected. But this is a reactive measure, albeit one that is sorely needed.

If the American consumer is to regain confidence in Chinese goods, they must see several sets of proactive moves by government and industry, which might include:

1. *Relentless, Demonstrable Oversight* – Within the PRC, officials must continue at a unyielding pace to expand efforts to oversee and sanction manufacturing, whether the plants are owned by domestic or foreign corporations. Hopefully, China will learn from the other nations in the past that simply creating multiple bureaucracies do not necessarily solve any problems and may cause more. Whether it is a single, all-encompassing quality control agency or a matrix of interlocked oversight organizations, China has an opportunity to establish a state-of-the-art filter to help stop and correct faulty products.
2. *Continue An Ongoing US Information Campaign, But Cautiously* – China has mounted a significant information campaign to explain what Chinese officials have done and are doing to control these problems, including press tours and associated publicity efforts. However, this should not be an effort that could be seen as a high-gloss, superficial public relations program to sway US citizens, but as a sincere effort on the part of the people of China to delineate the many changes they are making to rectify those mistakes.

Here again, it may also be helpful to look at the actions of the Sony co-founder, Akia Morita. In the 1980s, when many Americans were openly criticizing Japanese companies for aggressive tactics, Morita established the Council for Better Corporate Citizenship to encourage more sensitivity on the part of Japanese managements. He also built joint ventures with US companies and traveled throughout the US to lobby for Sony's business interests, meeting with President Reagan and many other politicians. Mr. Morita's style was not always to act humble, but his business links and lobbying were effective nonetheless.⁷

3. *Create Systemic Integrity* – Even such actions as those discussed above will only be effective for the short-term. Most advanced economic systems create incentives for marketers to sell, but not necessarily to sell honestly. The stakes are so high in this relationship between China and the United States that there will always be the temptation to reduce costs that can threaten product safety, to soften quality controls, and to produce and sell goods and services in questionable ways.

For China – or any country – to address this temptation for the indefinite future, there must be an integrated set of values and actions that are adopted at the manufacturer/marketer level if superior quality is to become the norm. It is in this last arena that the problems are the most difficult to solve, and yet provide multiple benefits for both buyer and seller, once they have been solved.

An Opportunity for Integrity Management

I recently published a book entitled *Truth: The New Rules of Marketing for a Skeptical World* (Amacom, 2007). In that book and subsequent articles, I have argued that advanced economies are increasingly populated by what I call “informed skeptics.” That is, more and more consumers are aware that far too many marketers promise more than they can deliver, and those consumers are less sanguine than in the past about tolerating such poor business tactics. I have suggested that marketers and their companies could take some specific actions to rectify this problem that can be endemic to an organization.

But these recommendations are not just for marketers, they are also for companies and nations that offer goods and services of any kind under a brand that is to be trusted for consistent performance. I commend these recommendations to industries in the PRC in the hope that they can be helpful in this crisis of customer trust:

- 1. Make Products Personal** – Product integrity starts with the manufacturer – and often the individual worker – considering the product to be a symbol of his personal reputation. If you would sell a product to the public, would you also be proud of that work if it were used by fellow workers? By your family?

It starts with how each and every worker looks at what he or she is creating as if it is being sold under their personal brand. This concept of “owning” what you make is essentially what W. Edwards Deming first introduced to Japanese workers after World War II, which was a seminal step in the rebuilding of Japanese product and brand reputations, and trust among world consumers for Japanese brands. As Deming once wrote, “the first step (toward more productive change) is transformation of the individual.”⁸

Amidst share of market declines brought on by Japanese imports in the 1990s, General Motors announced that one of their US plants was going to be closed in three years due to waning sales. That decision, the plant workers were told, was final. Despite this dire warning, the workers at that plant decided that they were going to build cars so well that dealers would begin asking for cars specifically made by that plant. Three years later, when the time came for the plant to be closed, management reversed their decision. The willingness of those workers to take their manufacturing job as a personal mission of quality changed the inevitable, and was one small step toward improving GM’s overall product quality reputation.⁹

Would this approach be workable in China today? If so, what specific steps could individual plant managers and government oversees take to motivate workers to operate with such a personal commitment to quality? Even if it is already happening, is it impacting only a

fraction of China's vast industrial network? Suffice to say, if it was possible for Japan, it is possible for China, despite the obvious differences in scope and complexity.

- 2. Encourage Flaw Detection** – All companies want workers who are enthusiastic about what they are producing. But it is equally important that such workers be uncompromisingly candid with one another about problems and potential flaws.

One possible action to help motivate workers is a “flaw audit”, above and beyond standard quality control measures. A product flaw audit can involve a meticulous examination of 1) how well the product or service performs according to empirical measurements; 2) how the product is perceived by the customers and prospects you care about and how those views may veer from the empirical findings; 3) what product or service actions must be taken to rectify perceptions; and 4) how the resulting changes can best be marketed to customers. Special emphasis can be placed on those components or other elements that are contributing most to existing doubt and purchase resistance.

In the late 1990s, the absence of candid flaw detection cost two major corporations an enormous amount in corporation reputation, brand equity, and profitable revenue. Over a series of years, several Firestone tire models that were original equipment on Ford Explorers had been linked to 125 deaths and 250 injuries worldwide. The scandal was made worse by very public feuding and accusations between Ford, the maker of the Explorer that carried most of the original equipment tires involved in the scandal, and Firestone, owned by Bridgestone in Japan.

The impact of the subsequent worldwide tire recalls was devastating. Following an embarrassing series of revelations in the press, Ford and Firestone sales plummeted and trust levels in the two brands fell between 14-48% in major countries around the world. Business historians now believe that the scandal cost Ford 15-20% of its Explorer sales that year, and Firestone a one-time charge of \$750 million. Within a year of the full recall, the CEOs of Ford, Bridgestone-US, and Bridgestone Corp. all resigned or were fired. Largely because of

the scandal, Ford lost one-third of its estimated brand value between 2001 and 2002.¹⁰ And, since that time, the Ford brand has fallen precipitously in value, a decline that was triggered initially by the Explorer/Firestone debacle.

Had a full flaw audit been conducted by both companies and acted upon by their managements, history would have recorded a vastly different result.

- 3. Assess quality against the ideal, not the adequate** – Frequently, there is a temptation to do what is necessary, without considering the normative. Companies with strong product integrity compare their performance to the ideal, not to the common denominator.

Toyota, Honda and other Japanese companies have made enormous inroads into the US marketplace by doing their homework. They studied and borrowed from the styling and performance characteristics of the best selling European makes. Eventually, they surpassed some of their target companies have consistently out-performed American made brands in all key performance and style criteria. Today, Toyota is the largest selling automobile brand in the world, and much of the credit for their success can be attributed to an uncompromising delivery of quality that is benchmarked against the ideal as much as the competition.

IKEA is a \$27 billion global business whose quality products – which are specifically designed not to last forever – are an enormous success throughout the world. This, despite the fact that IKEA does not spend a great deal of money on marketing communications, and they actually lower prices each year on some of their items. IKEA has demonstrated to the world that furniture can be useful and maintain an integrity, without promising indefinite product life.

In the online space, Google has built a company with a capitalized value of \$160 billion US without any significant marketing support. The company has completed this feat by essentially creating and continuously refining their products in order to make them indispensable tools for the lives of millions of users. Their core product's reliability is not just a product attribute; it is a reflection of a company's commitment to product integrity.

These and many other companies have created their profitable enterprises on the superior quality their goods – often far in advance of their competition – and they enjoy enormous word-of-mouth support as a result. They are, in other words, proving the theory every day that quality sells, and often without many of the costs of promotion associated with less esteemed brands.

- 4. Establish a Brand Integrity Protocol¹¹** – Credibility, whether it originates with a genuine heritage or must rely on other sources for its authenticity, can be built methodically with an inviolable protocol. For example, Herman Miller, a leading US-based manufacturer of upscale furniture and living systems, operates under a marketing code established by previous CEO, George Nelson. Back in the 1980s, Nelson was reviewing a pending marketing campaign that used some overzealous claims. He rejected the effort to stretch the facts, saying, “The truth is good enough,” which became the operating principle for all company promotional efforts, including sales programs.

There is also an opportunity for a company or nation to become the revered leader in their industry in self-policing. That could include proposing self-regulatory guidelines through industry associations establishing state-of-the-art self-policing programs within model organizations, then methodically sharing lessons learned with companies throughout the nation. This, of course, is a method that is rapidly expanding within China, but it is likely that it has not incorporated the majority of companies as yet.

Finally, in these times of informed skeptics, it is important to validate your credibility with maximum transparency. Transparency in all things sends several messages: to your customers, it communicates that you have nothing to hide, which means that they have nothing to fear. To your own people, transparency is both a reminder of the need for their diligence, and a reinforcement of the integrity you want them to live by. And, for the management of the company, transparency is a continuous symbol of the standards that they should profess and live.

There are many examples of high-integrity companies that provide models for other organizations, as well as nations. Johnson & Johnson literally “lives” their famous “Credo” by requiring all senior executives to undergo annual training centered on the Credo’s principles of honesty and social responsibility. Infosys, the fast-rising India-based IT services firm, operates on the principle that “the softest pillow is a clear conscience.” Japan-based Toyota is often cited as one of the most trusted brands in the world because of their unflinching commitment to honestly delivering what they promise in their vehicles. That includes ordering voluntary recalls and slowing production to ensure that product issues are corrected before they damage the brand.

Many companies talk about ethical behavior, but standout companies make it a part of what they do, not just what they say they will do. I outlined a protocol for marketing integrity in my recent book (See Figure 2), and some variations on that construct may be helpful for Chinese manufacturers to keep in mind:

- *Build equitable partnerships with customers, fused with integrity.* What buyers want from marketers is what marketers should seek from buyers – a partnership that delivers fairly earned and fairly received benefits to both parties. When that partnership is based on a practical integrity protocol, then the opportunities for customer loyalty and business growth are unlimited.
- *Look beyond competitive products as a standard and focus on superior quality in the absolute.* As we discussed above, concentrate on products that perform at quality levels that are unprecedented for your industry, not simply matching what competitor can achieve.
- *Market with honest, not just legal, messaging.* Marketing communications and other promotional efforts that are less than honest – even if they are lawful – will inevitably destroy trust. If government agencies or watchdog groups are noting flaws in a company’s marketing, it’s already too late to stop eroding net brand equity.
- *Build awareness without being invasive.* Smart marketers do not always use every tool they may have, especially those that invade consumer privacy. Buyers want

something that is relevant to them wrapped in a message that does not bludgeon them with relentless selling. The more often their personal space is invaded by a marketer, the more they will resist all offerings by that marketer.

- *Create value propositions that emphasize quality and deemphasize price.* Part of being a high-integrity marketer is offering customers the greatest possible quality, regardless of the price charged. How that value may be defined or delivered, and what pricing may accompany it, will depend on market circumstances. But while some marketers will persist in offering less value for higher prices, they risk destroying whatever goodwill exists when they do so. China, like other offshore outsourcers to the US, is continually at risk of having their products portrayed as compromised in quality in order to keep costs as low as possible. It is an insidious cycle that can undermine the equity even the best of corporate and nation brands.

If these strategies form the underpinnings of a company's or nation's brand marketing efforts, they will help in creating greater competitive advantage and customer loyalty in global marketplaces.

A Powerful Partnership and a Bright Future

To ensure that China's brands grow in stature as fast as the nation's economy expands, Chinese commercial and political leaders will need to systemically integrate integrity into the operations of its marketing – including product development – in the same way that it must reengineer its manufacturing and quality control.

Peter J. Williamson, noted author and INSEAD professor, provided a helpful perspective on the credibility issues faced by China's industries when he wrote: “. . .we still need to resist the urge to damn all Chinese manufacturers for the faults of a few. . .Thus, the first lesson here: Don't panic over a few high-profile blunders by Chinese sourcing partners -- as damaging as they may have been. With smart management, there remains enormous opportunity for profitable relationships.”¹²

One of the PRC’s most helpful efforts toward reconciliation was to reach agreement with the US at the end of 2007 to enable the US to have more control over the screening of products imported to the US from China. There has also been an agreement between US and Chinese officials on a system to track food and drug exports as part of a robust registration and certification process to help ensure that all Chinese goods heading to the US are of the highest possible quality.¹³ But these steps are no doubt only the first ones in the proverbial thousand-mile journey.

As this journey continues, the world looks forward to China’s efforts to operate with unquestioned integrity in all its commercial actions so that its nation may enjoy all the benefits of expanding economic leadership.

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Figure 1

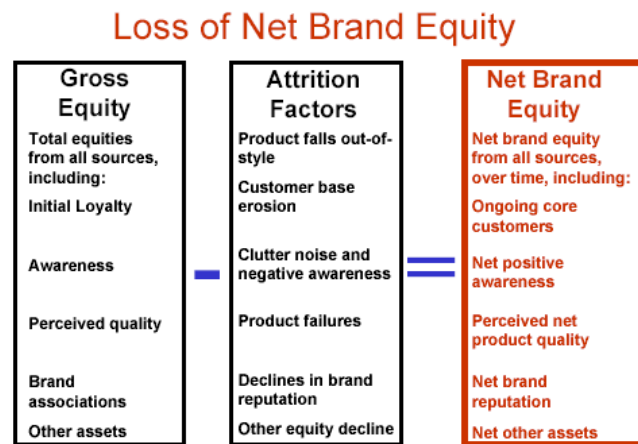
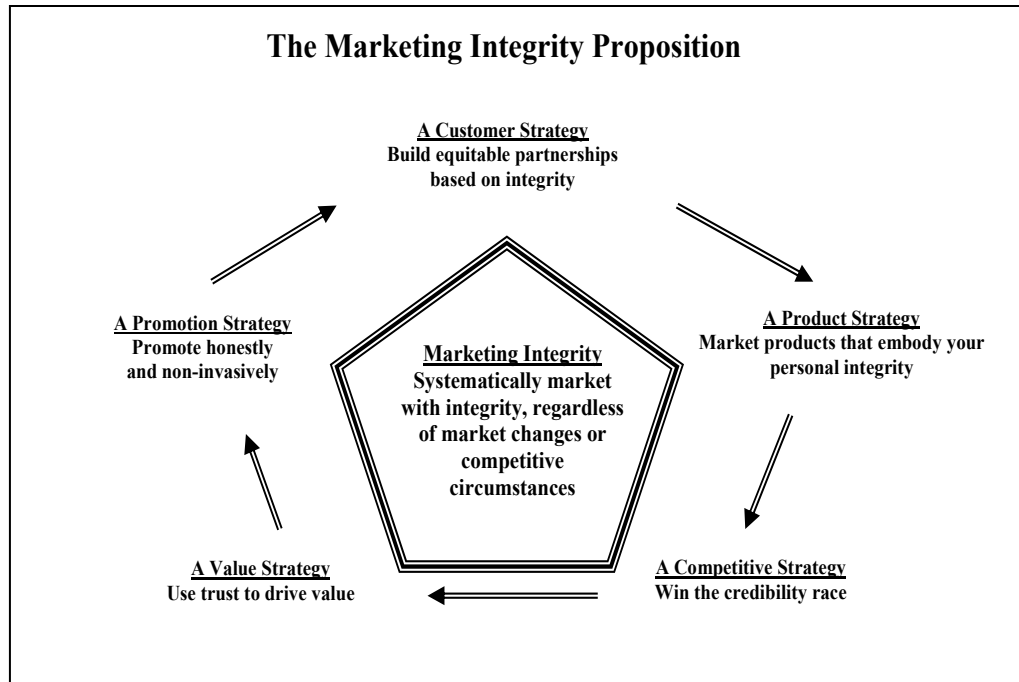


Figure 2



¹ _____, "Americans worry Chinese-made Toys Unsafe: Poll," *Reuters*, December 17, 2007.

² From a speech by Secretary Paulson at the George H.W. Bush China-U.S. Relations Conference, October 23, 2007, as reported by *CBS News Online*, October 23, 2007.

³ The term "Chopper" was derived from the post-World War II era when Harleys that did not run all that well and were "chopped up" and retooled into more serviceable machines.

⁴ Hoover's Online and Joseph Weber, "Harley Just Keeps On Cruising: Despite aging clientele, motorcycle maker's stock is at a record high," *BusinessWeek.com*, October 27, 2006.

⁵ _____, "Best Managers of 2003: Yun Jong Yong," *BusinessWeek Online*, January 12, 2004.

⁶ _____, "The Top Brands," *BusinessWeek.com*, August 7, 2007.

⁷ Andrew Pollack; "Akio Morita, Co-Founder of Sony and Japanese Business Leader, Dies at 78;" *The New York Times* online, October 4, 1999.

⁸ See the W. Edwards Deming Institute web site at www.deming.org.

⁹ Theodore Kinni, "Pride Goeth Before a Profit," *Harvard Business School Working Knowledge* (online), September 29, 2003.

¹⁰ Lynn Sharp Paine and Kim Bettcher, "Recall: Bridgestone Corp. (A) (Abridged)," *Harvard Business School* case 9-306-020, July 20, 2005.

¹¹ This entire section of the article is based on: Lynn Upshaw, *Truth: The New Rules for Marketing in a Skeptical World*, New York: AMACOM, 2007.

¹² Peter J. Williamson, "The Real Risks of Chinese Product Recalls," *Harvard Business* blog, "Conversation Starter", posted July 2, 2007.

¹³ Don Lee and Ricardo Alonso-Zaldivar; "US, China sign pact on food safety," *Los Angeles Times* (online), December 12, 2007. And, Ariana Eunjung Cha & Annys Shin, "U.S. Gains More Access to Data On Chinese Exports," *Washington Post*, December 12, 2007, p. D01.