

Executive Summary

Background

As the unique identification mark of a commodity, brand could enhance consumers' satisfaction both functionally and emotionally, thus providing them an incentive to identify, accept and purchase the branded articles. From the viewpoint of manufacturers and suppliers, brand represents a kind of value added that could boost pricing power and market share. Indeed, with the advent of a "branding era," brand-building is more and more widely recognized as a third source of "profit fountains," in parallel to revenue generation and cost reduction.

The recent years have witnessed a tidal wave of branding gaining momentum in Hong Kong. This emerging trend, while underscoring local companies' unanimous endeavor to climb up the value chain, indicates that Hong Kong brands have ushered in a new developmental stage teeming with both opportunities and challenges. Being the founding organization of the "Hong Kong Top Ten Brandnames Awards," the CMA has been keeping a close eye on the development of local brands and playing an active role as facilitator, catalyst and even incubator in this process. As part of its efforts to strengthen brand research, the Association conducted a questionnaire survey during July to September 2003, aiming to grasp the current status of members' brand development, keep abreast of their future plan and branding strategies, and solicit their viewpoints on Hong Kong brands' development environment and prospects. The survey adopted the self-completion approach and received 216 valid replies.

Profile of Respondents

Respondents to the Survey come from over 20 diverse industries, and 47.7% of them are middle-sized companies with turnover ranging between HK\$50 million and 100 million (*Figure-1*). About 61.1% of these companies are dealing with consumer products; while the other 27.9% specialize in industrial goods, such as materials, intermediate products, machinery, and equipment (*Figure-2*).

Figure-1 Turnover of the Responding Companies

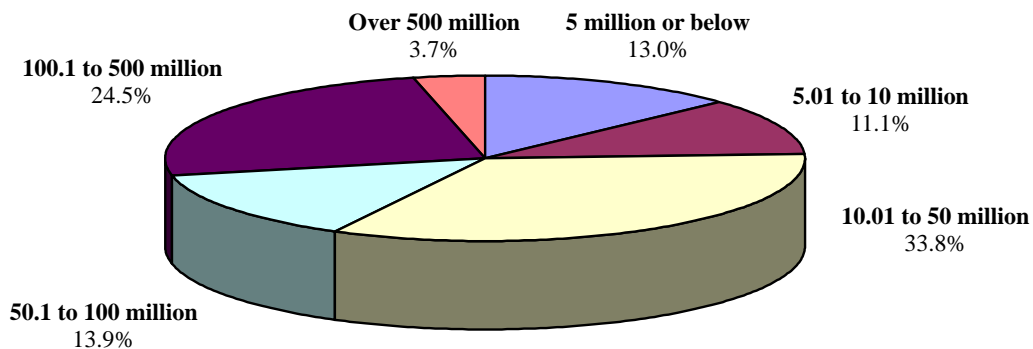
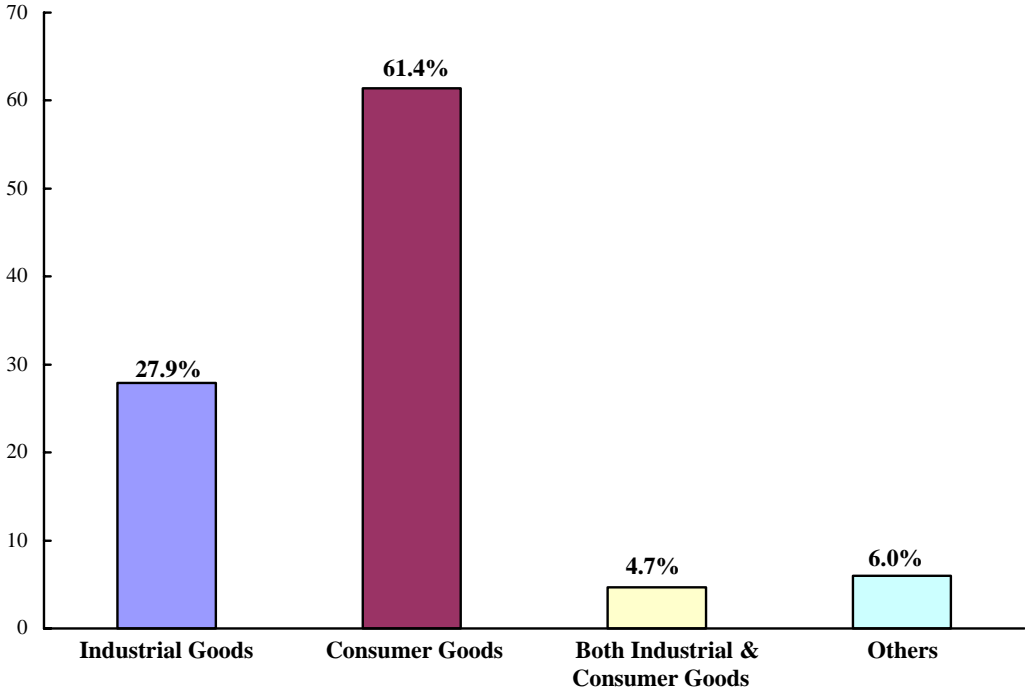


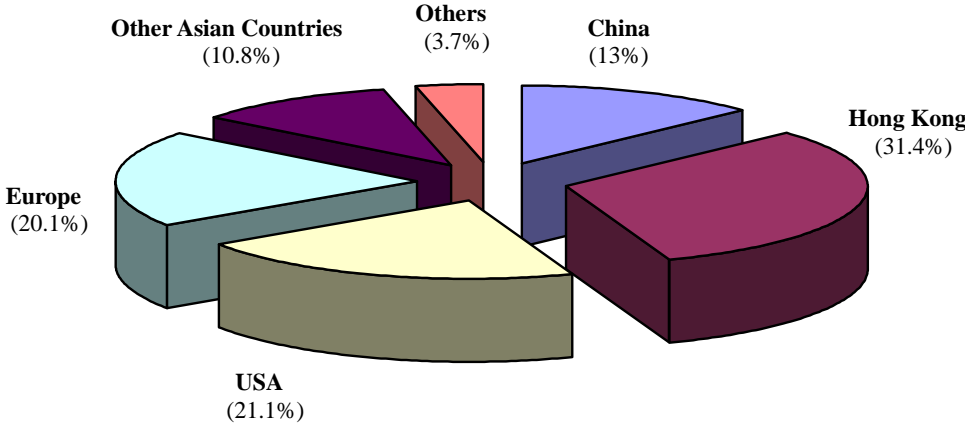
Figure-2 Product Line of Respondents



Note: 1. 215 responding companies are included.
 2. "Others" include construction and services.

In regard to the geographical structure of sales market, most responded companies have penetrated into multiple regions. However, 54.4% of them still exhibited a high degree of concentration with over 60% products destined for a single market. Hong Kong, USA and Europe collectively absorb 72.6% of all respondents' products, while Mainland China garners a comparatively insignificant share of 13% (Figure-3). Relatively, small companies are more likely to be "Asia-focused," dispatching over 50% products to Hong Kong and the neighboring countries; while consumer-goods producers/dealers are prone to focus on USA and European markets (EU/US-focused).

Figure-3 Market Structure of Respondents as a Whole

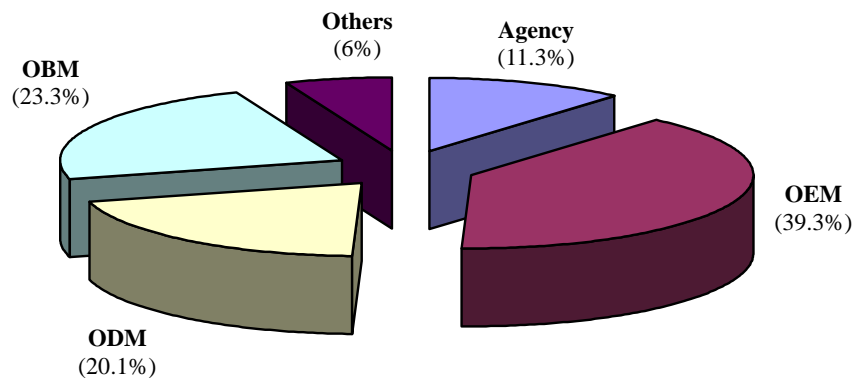


Note: Percentages are the shares of products sold to the respective regions, taking all respondents as a whole.

Status quo of Branding

Although OEM (Original Equipment Manufacturing) remains the most oft-seen operational model adopted by 61.6% responding companies, ODM (Original Design Manufacturing) and OBM (Original Brand Manufacturing) business together have constituted 43.4% of the total sales value of the sample companies (*Figure-4*). Actually, only one-fifth respondents are pure OEM operators (OEM Phase), while over 65% have moved onto higher developmental stage, i.e., 27.8% have stepped up OBM activities (OBM Phase) and 38.9% embarked on the “ODM Phase” (Table -1).

Figure-4 Operational Mode Structure of Respondents



- Note: 1. Percentage represents the share of sales value operated under the corresponding operational model;
 2. “Others” refer to the activities of services/construction industries.

Table-1 Evolution of Operating Mode

Developmental Phase	No. of Company	Percentage
OBM Phase	84	38.9%
ODM Phase	60	27.8%
OEM Phase	44	20.4%
Agency and others	28	12.9%
Total	216	100.0%

Note: Companies in “OEM Phase” are operated purely under OEM mode; “OBM Phase” companies have their own brands; while those at “ODM Phase” possess ODM business, but do not get involved in OBM yet.

Table- 2 Association between Operating Mode and Product Line

		Operating Mode			Total
		OBM Phase	ODM Phase	OEM Phase	
Product Line	Industrial Goods	16 (30.2%)	20 (37.7%)	17 (32.1%)	53 (100%)
	Consumer Goods	64 (51.2%)	36 (28.8%)	25 (20%)	125 (100%)
Total		80 (44.9%)	56 (31.5%)	42 (23.6%)	178 (100%)

Note: Figures refer to the number/percentage of companies.

Statistic analysis has disclosed that operating mode of responding companies is significantly associated with the product line as well as market orientation (Table-2 and Table-3). Apparently, companies specializing in consumer goods have a higher propensity to engage in OBM than industrial goods producers; while companies targeting at Asian market are more likely to be at “OBM Phase” in comparison to EU/US-focused respondents. To some extent, this may reflect that Hong Kong companies are facing a smaller “distance cost” when branding in the neighboring markets, owing mainly to their closer affinity with Asian consumers in respect of culture, language and economic background. Also, in line with their comparative advantages *vis-à-vis* the respective local competitors, it could be advisable for Hong Kong companies to follow a cost-leading OEM strategy in the developed markets, while pursuing differentiation-based ODM strategies in Asian markets.

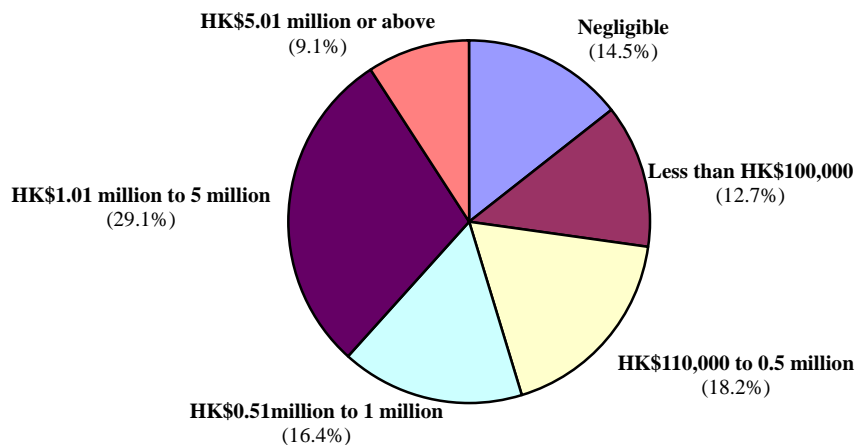
Table-3 Association between Operating Mode and Market Orientation

		Operating Mode			Total
		OBM Phase	ODM Phase	OEM Phase	
Market Orientation	Asia-focused	51 (56.7%)	21 (23.3%)	18 (20.0%)	90 (100%)
	EU/US Focused	30 (32.3%)	37 (39.8%)	26 (28.0%)	93 (100%)
Total		81 (44.3%)	58 (31.7%)	44 (24.0%)	183 (100%)

Note: Figures refer to the number/percentage of companies.

For the some 84 “OBM Phase” respondents, Hong Kong and Mainland China are the major destinations of their branded products; 39% of them possess more than one brandname, and 33.3% churn out less than HK\$5 million branded products every year. Thus far, the majority of these companies have not invested heavily on brands (Figure-5), and only 14.5% of them have ever resorted to professional assistance.

Figure-5 Annual Investment in Brands

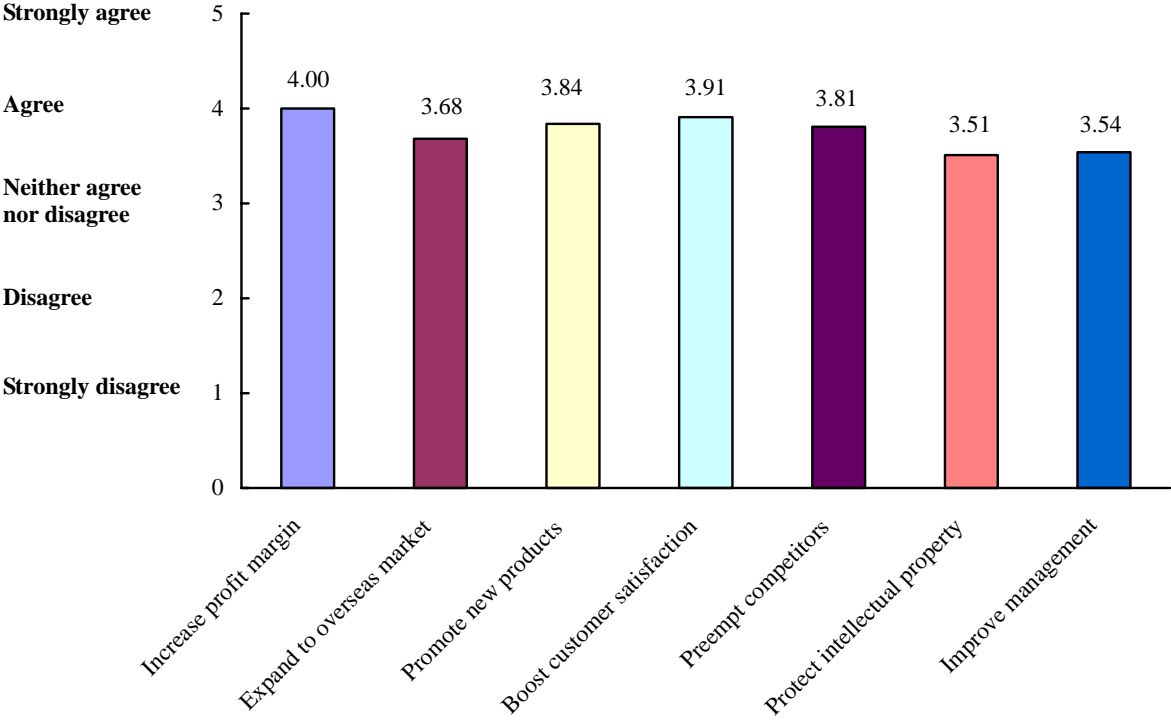


Note: 55 companies responded to this question.

Benefits From Branding

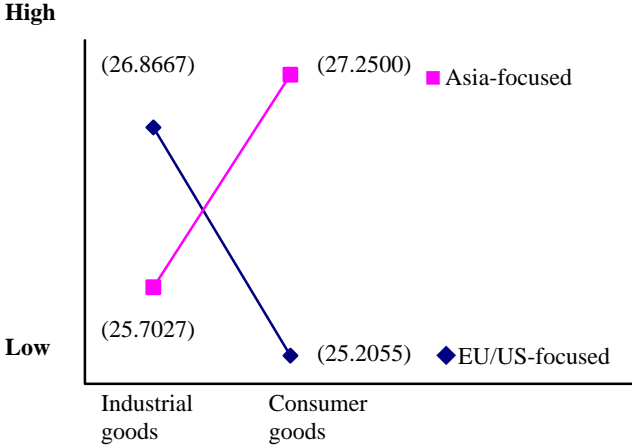
As widely acknowledged by the responding companies, brand building would conduce to increasing profit margin, cementing customer loyalty, cross-selling new products, preempting competitors and tapping overseas markets (Figure-6). In contrast to their EU/US-focused counterparts, consumer-goods producers with an emphasis on Asian market seem to be keener advocates of branding, exhibiting the highest score of “Brand Benefit Index” (Figure-7). It follows that this group of companies may have the strongest motivation for branding.

Figure-6 Benefits from Branding



Note: 5 stands for “Strongly Agree,” 4 for “Agree,” 3 for “Neither Agree Nor Disagree,” 2 for “Disagree,” and 1 stands for “Strongly Disagree.”

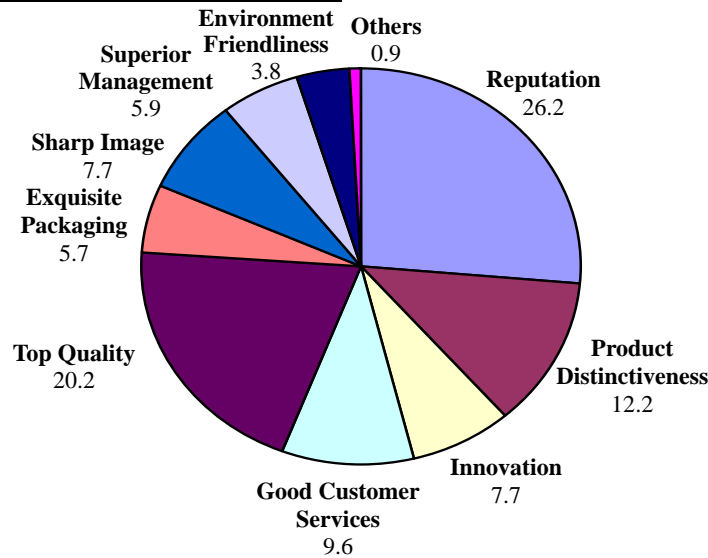
Figure-7 Market Orientation, Product Line and Brand Benefit Index



Note: 1. Vertical axis represents the Estimated Marginal Mean of “Brand Benefit Index;”
 2. “Brand Benefit Index” is constructed by summing up the 7 weighted scores that a respondent assigned to the respective items of brand benefits.

According to the respondents, reputation and quality are the most important cornerstones of a successful brand, followed by product distinctiveness, customers services, innovation, image and packaging (Figure-8).

Figure-8 Attributes of a Successful Brand



Note: Figures are the scores assigned to related factors.

Branding Environment

Few responding companies (only 1.4%) have alleged the development conditions of Hong Kong brands as “absolutely negative.” Nevertheless, the majority of them (over 80%) have shown an ambivalent attitude. According to the respondents, Hong Kong companies are blessed with a host of unrivalled advantages that could give them an edge in branding. Among other things, these include sharp business acumen, solid experience in supplying for international labels, powerful production capacity, as well as Hong Kong’s enviable status as a brand cluster, a paragon for intellectual property protection, and the gateway to China market. At the same time, a bevy of disadvantageous factors could bode ill for Hong Kong brands, such as limited local market, lack of proprietary technologies, stagnancy in innovation, and the insufficient support from government and community (Table-4).

Table-4 Pro and Cons of Hong Kong Brands’ Development Conditions

Advantages/Disadvantages	Score
<i>Favorable Factors:</i>	
Powerful production Capacity	3.74
Sharp business acumen	4.09
Experience in supplying for international brands	3.91
Proximity to Mainland market	3.75
Hong Kong as a brand cluster to provide brand info and role models	3.84
Sound legal system to protect intellectual property	3.84
<i>Unfavorable Factors:</i>	
Lack of proprietary/ patented technology	3.74
Weakness in innovation/ R&D	3.70
Deficiency in brand talents	3.46
Shallow domestic market	3.79
Insufficient financial resources	3.58
Late-comer disadvantages	3.26
Unfavorable social ambience (industry, consumer and government support)	3.65

Note: “Score” is the weighted average score, drawing on opinions of all sample companies; 5 stands for “Strongly Agree”, 4 for “Agree,” and “3” for “Neither Agree Nor Disagree.”

On the Mainland, Hong Kong brands could leverage on the fast-growing domestic market, the rise of middle-class and upstarts, liberalization of distribution industries, as well as preferential treatments under the “HK-Mainland Closer Economic Partnership Arrangement.” Also, since Hong Kong manufacturers have relocated production bases northward, they are much more familiar with and responsive to the needs of local consumers. But on the other side of the coin, Mainland’s poor record of intellectual property protection, prevailing favoritism for foreign labels, and fierce competition could pose a deterrent to Hong Kong brands (*Table-5*).

Table-5 Opportunities & Challenges of Hong Kong Brands in Mainland Market

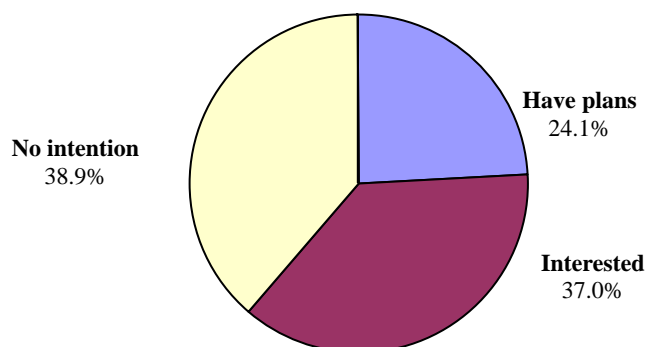
Advantages/Disadvantages	Score
<i>Favorable Factors:</i>	
Fast-growing market capacity	4.14
Strong purchasing power of wealthy class	4.11
Deregulation of distribution industries	3.92
CEPA and zero-tariff treatment for HK goods	3.82
Acquaintance with the preference of Mainland consumers	3.57
Proximity between manufacturing sites and market outlets	3.76
Close relationship with local suppliers and distributors	3.51
Good word of mouth for HK products	3.88
<i>Unfavorable Factors:</i>	
Fierce competition	3.92
Lack of experience in domestic sales	3.68
Protectionist policies against overseas brands	3.40
Rampant piracy and infringement of copyrights	4.29
Foreign-brands favoritism prevailing among consumers	3.95

Note: “Score” is the weighted average score, drawing on opinions of all sample companies; 5 stands for “Strongly Agree”, 4 for “Agree” and “3” for “Neither Agree Nor Disagree .”

Ways to Go

Looking ahead, over 60% respondents have indicated interests in devoting more resources to branding over the next two years, either to establish or further develop their brands; and 24% have come up with concrete plans (*Figure-9*). Analysis based on statistical model reveals that a respondent’s propensity to step up branding activities is foremost predicated on some endogenous factors. Relatively, companies in bigger stature or at higher developmental phase (in terms of operating mode) would have a stronger inclination to press ahead with branding. To some extent, this implies that big players and advanced “earlier birds” are apt to maintain a leading position in brand development, driven by the so-called “3R Advantages” - Resource, Readiness and Reassurance.

Figure-9 Future Plans for Branding



Note: Percentages are the shares of responding companies.

Companies that have intention of branding tend to adopt multiple strategies, with special emphasis on brand accessibility and brand extension. About 40% of these companies will increase spending on promotion and assign a brand manager, and half of them are bound to tap into Mainland market (*Table-6*).

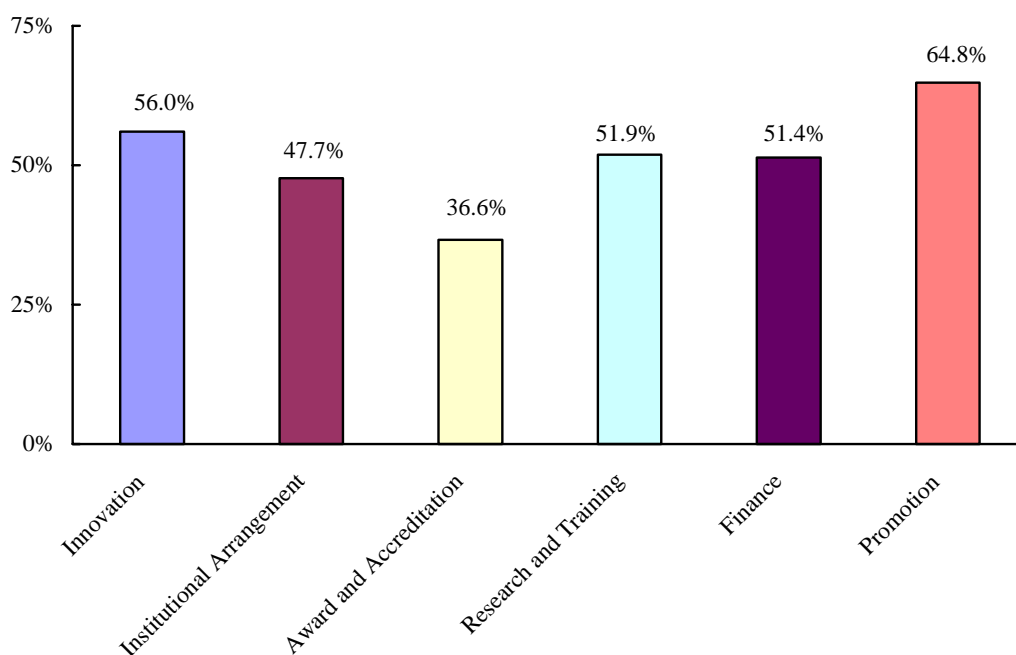
Table 6 Strategies for Branding

Branding Strategies	Percentage of Companies
Sell through distributors (e.g., retailer, wholesalers & importers)	61.4%
Set up chain stores, factory outlets, counters or show room	32.6%
Increase budget for brand promotion	40.2%
Designate staff to specialize in brand management	39.4%
Transform into a brand-building organization	21.2%
Employ professionals to review branding strategy	16.7%
Broaden product categories under the existing brands	50.8%
Develop sub-brands and associate brands	19.7%
Introduce brands into Mainland China	48.5%
Step up overseas marketing	43.9%
Brand acquisition and merger	7.6%
Line up strategic partnership in branding	26.5%

Note: Percentage is calculated as a share of the 132 responding companies.

As recommended by the responding companies, there are several areas where the SAR Government and related organizations could play a role to facilitate the development of Hong Kong brands, including promotion, innovation, research and training, accreditation, and finance (*Figure-10*). Moreover, 47.7% respondents have called for a high-level committee or institution to coordinate brand-related policies and activities.

Figure-10 Areas in Need of Assistance



Note: Percentages are the shares of responding companies.

Implications

In brief, the survey findings have affirmed that brand development has taken on increasing importance as a business strategy for Hong Kong companies to pursue industrial up-scaling. This branding wave *per se* could give a boost to Hong Kong's investment spending and open up new business opportunities for local service providers, especially those in the field of advertising, design, market research, training, corporate communications, and management consulting.

The strong economic complementarities and socio-cultural ties between Hong Kong and Mainland have always been cited as the driving forces behind the flourishing cross-border business activities. Branding is no exception in this regard. By capitalizing on Mainland's fledged economic strengths, Hong Kong brands would be better able to break through the bottlenecks in respect of market, technology and innovative ability. On the other hand, the geographic, linguistic, cultural and ethnic links, coupled with the ongoing economic integration between Hong Kong and its motherland, could keep the so-called "distance costs" at minimum. Suffice it to say, Mainland market has provided a launching pad *par excellence* for Hong Kong brands to take off. However, for Hong Kong companies to maximize the opportunities, they should get well prepared, stay vigilant, and move with caution. In particular, it is important to establish a sound "infrastructure" for domestic sales, ensure adequate protection for intellectual property, and to be on alert for intensifying competition.

As the market enabler, the Government should play its part in improving the development environment of Hong Kong brands. Besides setting up a policy arm to champion the cause and conduct coordination, the Government could consider including brand issues into SME supporting programs and CEPA's negotiation agenda. In the longer run, Hong Kong should pool together the concerted efforts from all walks of life and establish an all-round supporting system for brand development, so as to position itself as a star-studded brand hub.