



**A Study on Western Companies in the Chinese  
Automotive Market in Relation to Branding**



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## Executive Summary

This thesis is written from the ground of a common interest in that of how Western companies can achieve a successful brand on the Chinese market. The definitive interest has been in the aspects of culture, segmentation and branding strategies. As to be able to obtain knowledge on the factors that has been seen relevant to research, it was chosen to work with a literature review as to be able to get an understanding of the research that has already been done on the subject. The definitions of the key terms in the project has been included as to get a general understanding of what they mean. As to be able to use the theoretical considerations gained from doing the literature review, a case regarding the Chinese market and its development and Volkswagen Group has been used to discuss the findings in relation to the problem formulation.

It has been concluded, the developing upper middle-class has the most potential whilst the consumers from the tier 3 and 4 cities are constantly increasing in potential. The cultural aspect is important to consider and adapt to and lastly, implementing a corporate- and product brand strategy has been examined to be the best fit for the Chinese automotive market.

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## 1. Introduction

The Chinese markets has been interesting for Western businesses ever since the development of the middle class. The developing middle class in emerging markets has been able to observe the Western lifestyle and brands through the use of global media and communications, which are constantly being more and more popular to use (Kardes, 2016). As a consequence of being able to broaden their horizon and their views from outside their national borders, they have developed a need for upgrading on their current living standards and trying out alternative lifestyles. Because of the economic growth and increased disposable income, the middle class has become able to afford the products and services from the western world as means of reaching out and obtaining the living standards and lifestyles they have been dreaming of. As a result, the middle class of the emerging markets has begun to represent a market segment that has interest for Western businesses (ibid). Several studies show that the Chinese middle class will grow even further in the future (Barton, Chen, & Jin, 2013; The Economist Intelligence Unit, 2016). For example, Mckinsey & Company estimates that the upper-middle class, who accounted only for 14% of urban households in 2012 will grow to 54% by 2022 (Barton, Chen, & Jin, 2013). Furthermore, The Economist Intelligence Unit also estimates that the Chinese middle class will grow significantly. They estimate that the low-income segment will narrow down from 37% in 2015 to 11% by 2030 and majority the of people from this segment will be moved into the lower-middle group (The Economist Intelligence Unit, 2016). The lower-middle segment will increase from 53% to 55% and the upper-middle segment will expand from 97 million people in 2015 to 276 million in 2030, or around 7% to 20% (ibid).

China has in the past two decades changed rapidly. With an open-door policy introduced by Deng Xiaoping, who is known as “the designer of China’s reform”, the country has become one of the biggest markets in the world (Meadows, Zheng, & Rickards, 2004).

The difficulties by entering the Chinese markets are not as much lying in the fundamentals such as in the product, price, promotion and place, even though these factors must be taken into consideration as well (Pitta, Fung, & Isberg, 1999). One of the keys to put a lot of effort into is that of culture (Meadows, Zheng, & Rickards, 2004). The culture influences the expectations of the consumers and are affecting all potential business transactions. It is therefore essential for Western marketers to be able to understand how the expectations are from their potential consumers across the world in order to gain success. If a marketer does not possess the ability to know and understand the fundamental cultural factors, it will be leading to a failure of gaining the consumers of different cultures (ibid).

Besides the cultural aspect, an important element of a company's overall marketing strategy is branding policy. Having a strong brand helps the firm establish identity in the marketplace and develop a solid customer franchise (Kotler P. , Keller, Brady, Goodman, & Hansen, 2012). Also, it can provide the basis for brand extensions, which enhances the company's position and value. Furthermore, it is suggested that it is necessary to make adjustments in brand positioning as well in overall marketing strategy in order to capitalize on the opportunities offered by the large emerging markets (Schaffmeister, 2016). McKinsey & Company predicts that there is substantial rise in the number of consumers in China, expressing willingness to pay premium prices for good quality (Atsmon, Magni, Li, & Liao, 2012). Chinese people associate good quality with well-known brands and high prices, which opens the door for foreign products (ibid). For that reason, consumers seem to be willing to trade-up as soon as they can afford it. They prefer to purchase global luxury brands more than domestic luxury products, even though it means paying higher prices. Many Chinese consumers purchase global brand products as they symbolize higher social status, prestige, high fashion, and reliability (Wang & Chen, 2004). However, this top-end consumption is more important for specific product categories, such as high-tech electronics. Other product categories are much more varied and nuanced (ibid).

China cannot be approached as one market. One of the first decisions for companies to make when creating a market strategy is to determine which regions and cities to target. An effective way to segment China is by dividing it to local categories to understand consumer behavior, income level and local trends, which can help companies tune in their strategies to local conditions. Many businesses classify China on a "tier" system to rank cities. These tiers are typically classified according Gross Domestic Product (GDP), population size and politics (Wine Australia, 2017). China has over 600 cities and they are usually divided into four tiers: 1 tier cities such as Beijing, Shanghai and Tianjin, 2 tier cities such as Wuhan, Chengdu and Hangzhou, 3 tier cities such as Daqing, Weifang, and Changzhou, and lastly 4 tier cities such as Anshan, Baotou and Datong.

This thesis will focus on the automotive sector of China. The automotive sector has been growing at a rapid speed between the years of 2001 and 2011 with an average growth of 24 percent a year (Wang, Liao, & Hein, 2012). By the year of 2010 it overtook the United States as the largest single-country new car market. The growth however, is being predicted to slow down between the years of 2011 and 2020 which is still a notable growth when comparing to other emerging markets (ibid). However, being the largest car market in the world also means that the competition is increasing and there will be too many brands.



The Chinese consumers are growing more sophisticated alongside the maturing of the market which means that their expectations to cars are developing. A lot of consumers in China have already purchased their first entry car and are looking forward to upgrade to better and newer models. As to be able to succeed in China, it is essential to be aware of the fact that the environment is becoming more demanding. Therefore, companies need to understand what the consumers are looking for in a new vehicle. As China is consisting of many regions and segments, it is becoming similar to the North American, European and Japanese markets and might even be more complicated (Wang, Liao, & Hein, 2012). According to the analysis conducted by McKinsey & Company, the trends over the next 10 years will be consisting of sales of SUV's tripling, as the consumers are going to want to go bigger. The Chinese consumers will be trading up, which means that they will be purchasing vehicles for a second time by purchasing higher priced vehicles. The high growth rates of new cars being observed will most likely continue and lastly, the consumer behavior will be differentiating depending on which region they are from and thus their preferences will be varying vastly (ibid).

Based on the discussion above, we will aim to gain a deeper understanding on firms' choice regarding segmentation, branding strategies and the cultural consideration in branding strategy foundation. The purpose will be reached by addressing following research questions:

- Which tier cities has the most consumer buying potential when looking at the automotive market in China?
- Which part of the branding aspect does companies have to pay particular attention to when conducting business in the automotive field in China?
- Does culture have any influence when Western companies are striving to build a strong brand in the automotive market in China and if so, how?

In order to understand and solve the problem, this project will take a theoretical perspective to the issue of branding, culture and segmentation in the aspect of the automotive industry in China. A thorough literature review of branding, culture and segmentation will be conducted as a mean of obtaining a broader insight on the subject as to be able to analyze on how Western automotive companies can improve their brand on the Chinese market as to obtain a competitive advantage against the competitors.

## 1.2 Motivations

The motivations behind writing this thesis comes from the interest of the Chinese market as it is of great interest for many Western companies. The interest comes from the rapid growth the country has been going through over the past years and from this a growing size of a middle class. The interesting field of research in relation to this is, how a Western company is enabling itself to be successful on a market that is different from the its domestic markets and how it should adapt itself to the cultural differences. Our believe is, that in order for a foreign company, in this case a western company, to succeed on a new and unknown market, it is essential to be able to understand the cultural differences and be able to look at them from the inside. Additionally, the group has had an interest in that of branding as it is influencing how consumers are perceiving the company.

The automotive market in China was being chosen as an industry, as the sales in vehicles tends to be growing at a rapid speed in emerging markets, which will make the cultural understanding and branding strategies important as to be able to gain success (McKinsey & Company, 2014). The interest behind this thesis is, simply put, how a company should strategize in relation to branding in an emerging market.

## 1.3 Limitations

The limitations in this thesis has been to choose which way to go in the field of marketing. As the entire field cannot be researched in the same thesis, a specific subject had to be chosen, which have been branding. However, as branding is a vast field of research, additional limitations in this subject had to be done as to be able to construct a research question. We decided to focus on the segmentation and cultural influences on that of developing branding strategies on the Chinese automotive market. We do however, recognize that there are additional influences to developing a strong brand, but have chosen to focus on the mentioned subjects in relation to branding strategizing as the Chinese market is vast and thus consisting of a variety of segments. Further, the cultural aspect was chosen as it has been a challenge for Western companies to penetrate the cultural barriers of China. As to be able to provide this thesis with an answer, we have chosen to do a literature review on the current research on the subjects of segmentation, branding strategies and culture, as to obtain a theoretical knowledge. The theoretical knowledge obtained has then been used to discuss the findings in relation to an empirical case consisting of Volkswagen Group and the Chinese market and its development, as to be able to provide an answer to the problem formulation of this thesis.

## 1.4 Definitions of Key Terms

*To get the fundamental knowledge of the essential terms used throughout this thesis, this section will be covering the definitions of what they mean and thus be undergone as to understand they mean. The terms which are being covered are as follows: Segmentation, branding and culture*

### 1.4.1 What is Segmentation?

The concept of segmentation was defined for the first time in an article in 1956 by Wendell Smith and was the beginning of the end of the mass marketing age. The focus points of this article were to separate the companies that were offering a range of product variety to what they saw as a homogenous market, from the companies that were offering tailored products for multiple heterogeneous market segments (Smith, 1956). The essential idea behind this was to state the fact, that there was the existence of different groupings of customers whom all had different needs and wants and thus required different products. The result of this article was the separation of a totally heterogeneous market that became groups with relatively homogenous needs and wants. Since then, what is considered as good marketing, have been relying on segmentation of markets, which means that marketers gradually have been moving away from using the concept of mass marketing. Marketers began to research on the details of customers, which focused on clustering the customers towards criteria (Doyles, 2011). The development of segmentation gave three separate advantages as it enabled marketers to be able to think of the customer before the product. By doing research on the customers' needs and wants, it was possible to establish a better dialogue with the customers. This also opened new segments of markets that had not been explored before by the mass marketers whom previously had been focusing on the producer interest rather than customers' interests (ibid).

### 1.4.2 What is Branding?

A brand is a combination of attributes which is giving a company, organization or even individuals a unique identity and value in relation to its competitors and customers. The attributes which a brand is both tangible and intangible and consists of a name, logo, products, services, people, reputation and more, which together are creating a perception of the company in the mind of the customers. The meaning of branding changed in the 1990's as it began to become one of the most essential aspects of the marketing mix. Companies were beginning to use advertising and sponsorships as means of

developing a brand meaning instead of simply using brand to push products and services (Doyles, 2011). A brand has been defined in many different ways over the years, depending on the perspective from which the brand is perceived. However, simply put a brand is what a company's prospect thinks of when the individual hears the brand name in the factual and emotional regard (McLaughlin, 2011). It is stated by Charles Doyles (2011), that there are many reasons to gain a strong brand and branding strategy. It gives products and services an environmental competitive advantage when doing business in a competitive market, market share increases and improved profitability. It further helps creating an acceptance from the consumer of the products and services and more. When relating to marketing management purposes, a strong brand is enabling better negotiation possibilities with channels of distribution and it is easier to obtain display space and lastly, companies are able to use a strong brand to increase their shareholder value (Doyles, 2011).

Due to globalization, the world has continually seen increases in individuals identifying with the global community (Alden, Steenkamp, & Batra, 1999). Therefore, much research has been conducted to study globally oriented topics such as global markets, global branding strategies, consumer attitudes towards global products, global identities, and global brands (Randrianasolo, 2017). Also, global brands positively influence perceptions that the brand is of higher quality and more prestigious. It is therefore more likely to be purchased by the consumers (Steenkamp, Batra, & Alden, 2003).

#### 1.4.3 What is Culture?

##### **Hofstede's view of culture**

Hofstede defines culture as: "the collective programming of the mind which distinguishes the members of one group or category of people from others" (Hofstede, Hofstede, & Minkov, 2010, p. 6). Furthermore, in his definition of culture, Hofstede refers to culture as "the collective programming of the mind". Culture is therefore a collective phenomenon which is partly shared with people who live or lived within the social environment. Furthermore, he also describes culture as mental programming. The sources of one's mental programs lie within the social environment in which one grew up and collected one's life experiences. This programming usually starts within the family, which then continues within the neighborhood, at school, at the workplace, and in the living community.

Hofstede refers to culture as something that is learned, not innate. It derives from one's social environment rather from one's genes. Therefore, culture should be distinguished from human nature on one side and individual's personality on the other (See figure 1). The model shows three layers of

mental programming which are based on: *human nature*, *culture*, and *personality*. *Human nature* is what all human beings have in common. It represents the universal level of one's mental software. It is inherited within our genes and determines our physical and basic psychological functioning. The *personality* of an individual is referred to his or her unique set of mental programs that do not have to be shared with other human beings. It is based on traits that are partly inherited within the individual's unique sets of genes and partly learned. *Culture* as mentioned before is a collective phenomenon, because it is at least partly shared with people who live or lived within the same social environment, which is where it was learned. *Culture* is as shown in the figure located between *human nature* and *personality*.

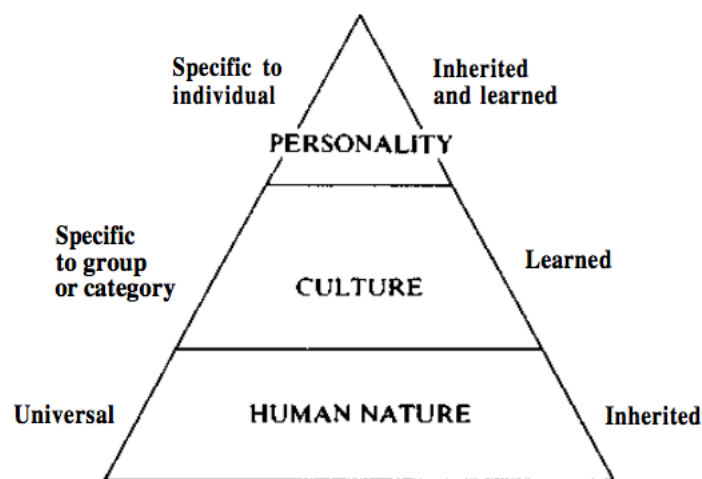


Figure 1: Three levels of uniqueness in human mental programming

**Source:** (Hofstede, 1991, p. 6)

## 1.5 Structure of the Project

*The structure of the thesis will be explained as to get an understanding of the process from developing the problem formulation and as to how the answer is being obtained.*

Firstly, the *introduction* is used as to present the subject which is of focus in this thesis and to state why it is relevant to look at the subject of choice.

Next, the *methodological approach* of the thesis is being explained as to get an understanding of the perspective being used whilst undergoing the research and how the data is being collected.

After the introduction and the methodological approach has been explained and made, the reader aware of the purpose and the guidelines of how the thesis is being constructed, an *overview of the literature and their paradigmatic foundations* included to the literature review will be made available. This will be giving an understanding as to what articles has been included and what their paradigmatic foundations are.

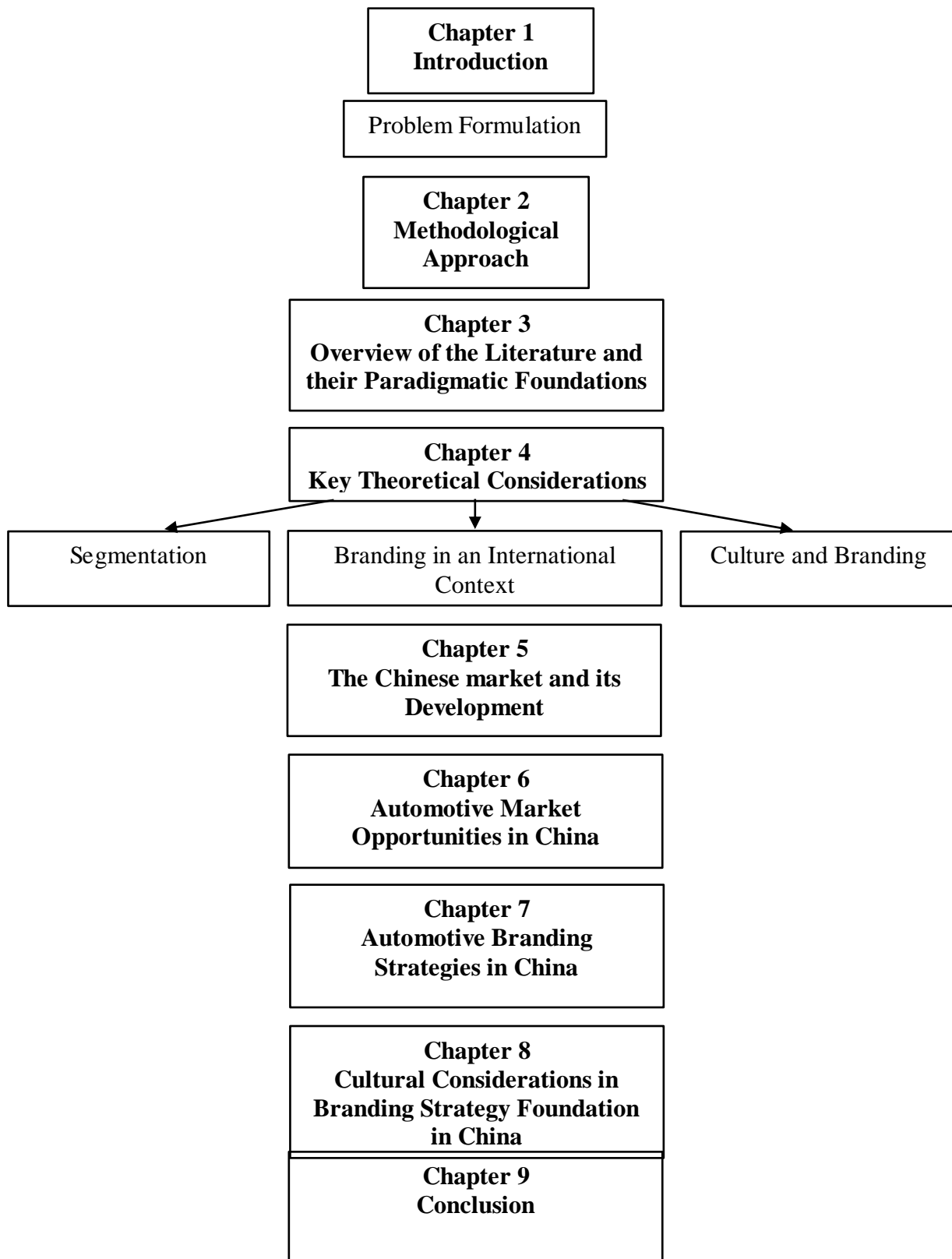
Following the overview of the included literature in the literature review, the *key theoretical considerations* will be discussed divided in three sub chapters in the following categories: *Segmentation, Branding strategies in an international context and culture and branding*. This will help getting a general knowledge on the theoretical perspectives on these subjects.

As to be able to take the theoretical considerations into use in the context of the problem formulation, a chapter identifying *the Chinese market and its development* will be written as to be able to obtain empirical information.

The following chapters will be having the purpose of implementing the theoretical considerations onto the empirical case, which will be consisting of the following chapters: *Automotive market opportunities in China, Automotive branding strategies in China, and cultural consideration in branding strategy formulation in China*. This will be discussed as to be able to identify the recommended solution to problem stated in the introduction.

Lastly, the collected data will be summarized, concluded and reflected upon as to reach an answer to the problem formulation of the thesis.

A figure of the structure can be seen below as to obtain a clear overview of the thesis and how it is build.

*Figure 2: Structure of the project (own creation)*

## 2. Methodology

*This section will be explaining the chosen methodology used as a mean of solving the problem formulation stated in the introduction of the project. Additionally, the research conducted will be defined as to give an understanding of the approach as to collect the needed knowledge on the subjects related to the problem formulation. The method that has been chosen to take into use as to give the conditions needed to solve the problem of this thesis is consisting of doing a literature review with the influence of the systemic approach which is defined by Arbnor & Bjerke and will be used to discuss the current research on the subject.*

### 2.1 Philosophical Assumptions and Paradigms

Thomas Kuhn has been influencing how the term of paradigm is being perceived by his theory of structure of scientific revolutions which had been developed as a mean of being able to formulate how research had to be conducted on any given scientific field. The way a paradigm should be understood is that it consists of a set of common characteristics that is supporting the way a researcher may structure the approach when reaching for an answer to a given problem formulation. A paradigm as a concept is being used to give an overview of the common understandings that there currently are on the specific phenomenon that is being studied. When looking at any field there are a set of factors which are needed to take into consideration when conducting research. This includes the common understanding of the given phenomenon that is being studied, which questions that can be seen as relevant, related to gaining an answer to the phenomenon, the structure as to how the given problem formulation should be answered accordingly, and lastly, how the understanding of the end result should be interpreted. The majority of scholars in the field of philosophy of science have defined assumptions in four different categories of paradigms and are as follows: ontological, epistemological, methodological assumptions and assumptions of human nature (Kuada, 2010). These four categories of paradigms will be roughly explained underneath.

*Ontological Assumptions* is how the assumptions of the reality or how the structure of the world is being created. It is here questioned how the construct of reality is influenced by the individual and by how he or she is viewing the world or if the reality is separate from the individuals. This can simply



be explained by the researcher as has to figure out what the reality of the subject is as it can be subjective or objective (ibid).

*Epistemology Assumptions* is describing the nature of how individuals have the knowledge they have. The question that can be asked here is whether the researcher is able to pass his or her findings to another individual outside of the research on a phenomenon without the intended meaning behind it being lost. Or does the outsider need to experience the same context that is related to the researched phenomenon as to be able to understand the intended meaning (ibid).

*Methodology* is the strategic planning of how the researcher is obtaining knowledge on the researched phenomenon as to solve the problem formulation. The methodology describes the reasoning behind the choices and use of specific methods. The methods of research depend on the researcher's perspective and approach to answering the problem formulation (ibid).

A precise and important explanation of this is given by John Kuada and is as follows:

*“If a researcher assumes that the social world can be objectively observed from outside, he is likely to adopt a methodology that focuses on an examination of relationships to universal laws and regularities in relationships. He therefore adopts objective approaches to uncover these relationships. But if the researcher assumes that the social world can only be understood by obtaining first hand knowledge of the subject under investigation, he is likely to opt for a methodology that focuses on individuals' interpretations of the world as they experience it”* (Kuada, 2010, p. 36)

*Human Nature Assumptions* means that the researcher is getting an understanding of how the relation between human individuals and their surroundings are. It is essential that the researcher makes a decision as to whether the social environment does have an influence on the individuals' functions or whether the individual is being independent and thus not being influenced by the environment of which they are surrounded (ibid).

## 2.2 The Methodology of Choice

*In this section, the choice of methodology chosen to follow as means of answering the problem formulation will be explained. This will give an understanding as to what reality the field has been*

*seen upon and how the answer has been reached. The authors chosen to use have been Arbnor and Bjerke, as past experiences have been that they their approaches fits how the reality has been seen when researching for knowledge and to seek an answer to the problem formulation. As to be able to choose one of the three approaches developed by Arbnor and Bjerke, they will be explained in in this section and the specific choice will be appointed and what it does for the thesis will be explained.*

### 2.2.1 Analytical Approach by Arbnor and Bjerke

This approach is being based on the assumption that reality is factive and consists of so called objective and subjective facts, whereas they are both viewed as being true. The objective facts are situations or circumstances that cannot be discussed as they cannot be influenced by the opinion of individuals (Arbnor & Bjerke, 2012). These facts can be the age of a company, the name of a person, the amounts of gigabytes on a laptop or the model of a cellphone. The subjective facts are the true opinions which individuals can have and are, from a methodological perspective, treated the same way as objective facts given that they are actual facts (ibid). In this approach, the question as to whether the findings uphold the truth is occurring, especially when handling subjective facts. When using the analytical view, the researcher is facing him or herself with the objective of identifying elements that are invariant, which means that they are not being influenced by potential changes in a given environment nor by the perceptions given by different individuals. These factors are being viewed as requirements as to be able to use the analytical view. In the analytical view, it is stated as follows: “[...] *invariant is seen as more “true”*” (Arbnor & Bjerke, 2012, p. 82). As the analytical is focusing on the invariant elements, logic and mathematics are having a dominant influence on this approach (Arbnor & Bjerke, 2012). The ambition behind the analytical approach is to build illustrations or models of the factive realities. These models have the tendency of containing quantitative elements (ibid).

### 2.2.2 Systems Approach by Arbnor and Bjerke

The systems approach by Arbnor and Bjerke is focusing on the correlation that exists between a set of components that a given system consists of. These correlations between components in a system are creating synergistic properties. By using this approach, it is assumed that an objective is existent in the form of the primary field of interest that is being researched (Kuada, 2010). By using this approach, it provides a flexibility when searching for an answer to the problem formulation.

Additionally, this approach makes it possible to conduct research by taking one of the following two issues into use or both in a combination, which consists of a static structure of the system and regular/non-regular processes (ibid). **The static structure** is the stable and fixed components of a given social system whereas the **processes** are based on the changes that happens in the systems and what causes these. The **regular** processes are changes being active and evolving, whereas the **non-regular** processes are drastic changes in behavior that can cause vast changes in a system (ibid).

The philosophy behind the systems approach consists of three assumptions, which are overlapping each other and by that constructs the idea of how the paradigm is interpreted. These philosophic assumptions consist of the systems theory, holism and structuralism.

#### 2.2.2.1 Systems Theory

In its widest definition systems theory is an interdisciplinary study of organizations that has systems, language and thinking involved. The systems theory can be seen as a framework that enables a creator of knowledge to be able to analyze and describe any given group of objects that works together with the ambition of gaining a result. These objects can consist of components belonging to a single organism, a company, an organization or a society (Arbnor & Bjerke, 2012). Systems theory as a study was a result from von Bertalanffy, in a cooperation with many other scholars (Rapoport, Boulding, Ashby, Mead and Churchman to mention some), released the General Systems Theory (GST) in the 50's. The idea of developing GST was to be able to correlate principles and concepts between different fields of study as a means of making it possible to having dialogues between them. It is by using the systems theory possible for a creator of knowledge to analyze and describe a specific cluster of components that are having a relation to each other (ibid). There are two essential ideas behind the systems theory as is defined by Arbnor and Bjerke as follows:

*“First, all phenomena can be regarded as a web of relationships among its components, that is, as a system. Second, all systems have common patterns, behavior and properties which can be explained and/or understood to develop greater insight into the behavior of complex phenomena and move closer towards the unity of science”* (Arbnor & Bjerke, 2012, pg. 103).

The whole idea behind the assumptions in the systems theory is that every component in a given system are vital on the road to gaining knowledge on any given field of study as it is seen essential

to be able to see the relations among another and how they are working together (Arbnor & Bjerke, 2012).

### **Holism**

It is believed by the term of holism, that a component of a given system cannot be defined, explained nor understood if that component is looked at apart from the rest of the system. It is therefore essential that the entire system is looked at as a unity to be able to gain the correct understanding of how the behavior of the components are (ibid).

### **Structuralism**

It is here referred to the many theories across humanities and social sciences and their similar mindset in the sense that they are sharing the assumption of structural relationships having the potential of being exposed and explored in a useful manor (ibid). Structuralism is seeking for relevant connections across disciplines as to be able to make them into structural networks (ibid).

#### **2.2.3 Actors Approach by Arbnor and Bjerke**

This approach claims that an individual should be seen as a particle (being) and at the same time a wave (becoming) that has indefinite differentiation (freedom). When undertaking this approach, the question of what would happen if an authentic human individual is closed in between some items in a questionnaire as a mean of being able to quantitatively determine the position of isolated characteristics of that individual. The actors approach believes that the closing in will have an influence on the measurements and thus affect the knowledge collected (Arbnor & Bjerke, 2012). As Heisenberg's uncertainty principle, Arbnor states that it is possible to be able to define an uncertainty principle in the area of social science by beginning at the ultimate presumptions given by the actors approach:

*"The more precisely you determine isolated characteristics of a human being and her activities, quantitatively and statistically, the less you understand of her as a whole. And the better you understand her as a whole, the more uncertain the quantitative statistic aspect become"* (Arbnor & Bjerke, 2012, p. 132).

This uncertainty principle is pointing out that by taking the use of various kinds of statistical measurements as a way of explaining or defining the human aspects and behaviour in social contexts, it will be leading to a decreased understanding of "ourselves" in the sense of authentic totalities.

Oppositely, the better understanding of one's self as an authentic totality, the more uncertain the quantitative aspect becomes. The reason is that individual human beings have free will and are acting as unique subjects (Arbner & Bjerke, 2012). In differentiation of phenomena in nature, human beings are in possession of the ability of thinking critically to what they are being exposed to and being uncritically manipulated by it as well. Human beings are creatures that are striving to create meaning in any given way. It is believed when following the presumption of philosophy of life according to the actors approach, that if the ability of obtaining the sense of achieving qualitative totality and the meaning of context, the ability to being able to create oneself as a free actor, that will mean that some of what is means to be a human individual will be lost. This means that it is important when using the actors approach to not be outside to be able to observe others and their situation as objects as this would appear strange. This perception would be the effect of not taking the position of participation when observing. If there is missing participation it will also be appearing as situations that are determined by external factors and therefore not by the free will of the human beings. However, if there is participation from the observer using the actors approach, it will be recognisable that situations are made from the thinking and choices made by the human beings (ibid).

### 2.2.3 The Approach of Choice and its Influence on this Thesis

As this thesis has the purpose of identifying how a Western automotive company can make a strong branding strategy as to be able to succeed on the Chinese market and stand out from the competition, it is relevant to look at the influential factors to do so. As the perception of this particular thesis is to look at the combined impact of factors, which are the influence of culture and segmentation on that of a company's branding strategy, this leaves out the analytical approach. Taking the actors approach and the systems approach into consideration, it is worth mentioning that when using the actors approach, it is important to be able to gather firsthand knowledge. This knowledge is gathered by being in the situation that makes it possible to observe a successful company on the Chinese market from the inside to see and participate in how this is made possible. In this thesis and in the collection of knowledge it has not been possible to get access to see how the company of the empirical case consisting of Volkswagen Group China, works from the inside and it has therefore been necessary to gather secondary data. This leaves out the actors approach, as it has not been possible to participate or experience the way of how Volkswagen Group China are operating when developing branding strategies. Therefore the choice has been on the systems approach as the purpose of this thesis is to identify how the influential factors (culture and segmentation) are affecting the success of a branding strategy for Western automotive companies.

## 2.3 Research Methods

*Now that the methodological perspective has been identified, the way of obtaining knowledge relevant to solve the problem formulation will be explained. As this thesis' methodological perspective is that of the systems approach developed by Arbnor & Bjerke, it has been seen as relevant to further use their interpretation of how research methods can be used. Therefore, the two ways of researching for knowledge will be explained and the chosen approach will be further clarified.*

This project has been written using the inductive approach, which means that the information collected is based on secondary data, as the objective has been to identify the general correlations or patterns in building a strong and successful brand in the Chinese market. The inductive approach is often used when the purpose of research is to identify and obtain an in depth understanding of the subject that is being researched and by that be able to develop a new theory if none is currently existent. It is stated by Arbnor & Bjerke (2012), that the research methods are consisting of two possibilities, which are consisting of collecting secondary data and/or primary information, collected by doing direct observations and interviews. Secondary information is considered as being essential to the systems approach when researching for information. However, secondary data needs to be used carefully in the sense that information related to the outside environment of the system of research and information related to other systems. Oppositely, information that is relating to the system of research, which can be consisting of statistics, documents or cases that is reflecting the environment and other real systems, can be used extensively (Arbnor & Bjerke, 2012). The primary information is often collected by doing direct observations as a mean of obtaining information from the inside of a system of research and can be done by doing personal interviews with individuals inside the system (ibid).

To be able to choose a subject to base this thesis on, the group has been undergoing Fisher's (2010) six stage process, which is consisting of first finding a field of interest in the area of international marketing to investigate, following a choice of a specific scope in the mentioned area. Thereafter potential issues and questions has been brainstormed to be able to identify research questions relevant to the chosen subject (Fisher, 2010).

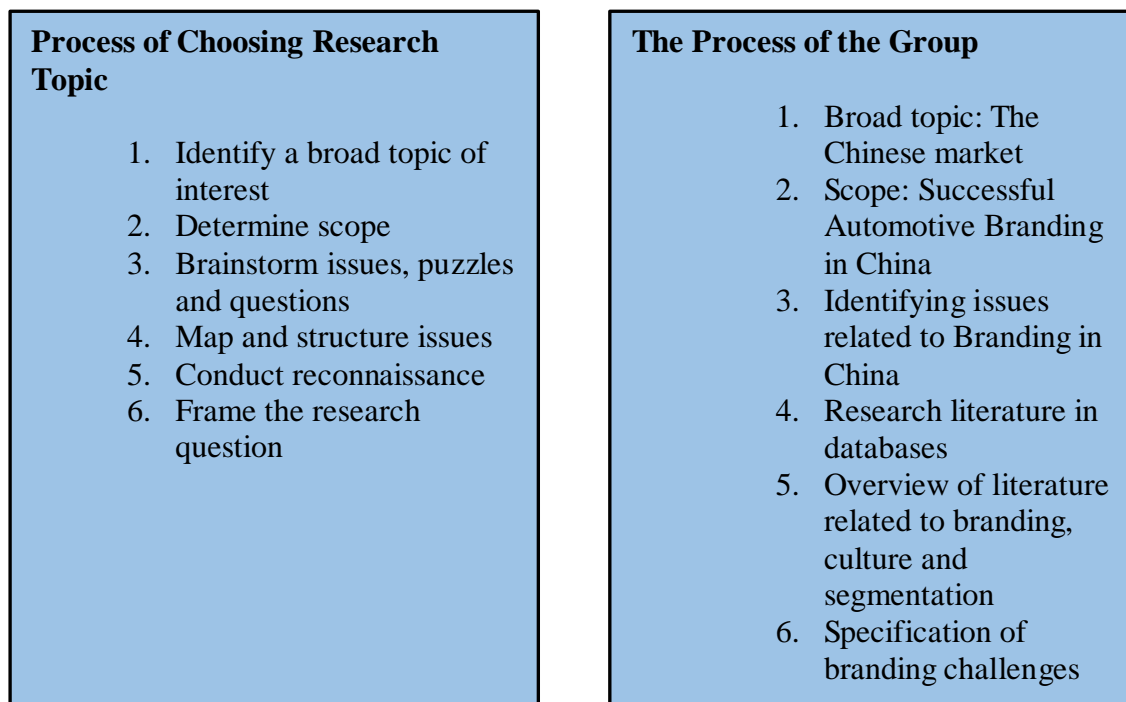


Figure 3: Process of choosing research topic

Source: Adapted by a combination of Fisher (2010) and Kuada (2010)

The reasoning behind the problem formulation of this thesis, has been the interest in obtaining more knowledge in how business should be done in China to be successful, as China is one of the emerging market that has gained the attention of the Western companies. However, the topic of the Western companies doing business in China is vast and thus the topic had to be narrowed down to a specific scope. By further researching on the topic of the Chinese market it was discovered that branding was one of the factors that had an essential influence on whether a Western company is able to succeed on the Chinese market or not. By doing a brainstorm and discussing the issues that could be influencing a company's success on the Chinese market, three key influencers were identified consisting of branding strategies, segmentation and culture. With these key influencers identified, a deeper and more specified research for knowledge in relation to these factors was done. As to be able to obtain knowledge on the topics, various electronic databases has been used, consisting of the university's library webpage, Google Scholar, Scopus and Abi/Inform. The keywords used to locate relevant knowledge are related to the three key influencers that has been identified in relation to the problem formulation and have been written as follows: *Branding, International Markets, Corporate, Product, Culture, Segmentation* and a mix of the words.

The amount of collected literature to each key influencer reached approximately 20 to 25 whereas most were discarded when concluding that they were not relevant as to what the purpose of this thesis was. The included literature consisting of articles, journals and sections of books, was then further being studied as to identify what could be used in the context of answering the problem formulation with more than one perspective to the subjects. These articles were eventually being numbered down to 16. The general idea has been to find literature that was from later years as these tends to be more up to date as to how the picture is in the more modern world. However, if literature from the earlier years provided relevant perspectives they were chosen to be included as to gain more insight to the subjects of segmentation, branding strategies and cultural understanding. Whilst researching on the subject of influencers on Western branding success on the Chinese market, it was further realized that the automotive market vast potentials due to the expansion of the middle class, whom are striving to update their current vehicle, and thus it was decided to bring this scenario into the thesis as a case, in order to discuss how Western companies can be successful in branding their vehicles on the Chinese markets and which segments they should be focusing on to be most effective.



### 3. Overview of the Literature and their Paradigmatic Foundation

*This section will be giving an overview of the included articles and papers as to be made aware of what was been chosen to include. Further, the literature will be shortly explained which will be what their purpose of their paper/articles is, what paradigmatic foundation they have and what they are offering in the search of answering the problem formulation in this thesis. The most relevant articles have been included in this chapter.*

## Segmentation Literature

### 1. Cui, Geng & Liu, Qiming: *Regional market segments of China: opportunities and barriers in a big emerging market*

This article is taking focus on China and is explaining that the popularity of China and vast increase consumer spending have attracted many multinational companies. It brings up the issue of misconception of the Chinese market as homogenous as it has the tendency of making it difficult for the companies trying to succeed on the Chinese market. This article is examining the diversity that exists among the Chinese consumers across regions as they are being vastly different in a various number of factors such as buying power, lifestyles and attitudes. This article is based on both primary and secondary data. The primary data has been collected from a national survey and the secondary data is based on a theoretical approach given by other articles.

By including this article, it gives an insight as to the importance of being aware of the fact, that the Chinese market is not homogenous and how they are differentiating from each other.

### 2. Lin, Chin-Feng: *Segmenting customer brand preference: demographic or psychographic*

The purpose of this article is to utilize multiple segmentation variables as to be able to identify better specified sub-markets that supports a company's competitive advantages. They are proposing a multi-segmentation methodology as to be able to compare the segmentation capabilities and their variables which can provide a company with a complete informational knowledge to the market segmentation. Their market segmentation characteristics are based on that of demographic and psychographic variables which are being based on consumer brand preferences. This article is being based on both primary and secondary data, whereas the primary data has been collected by doing personal interviews based on a questionnaire and their secondary data is based on that of a literature review.

By including this article, the thesis has been provided with a general perspective as to how segmentation can be constructed by using the variables consisting of demographics and psychographics.

**3. Hassan, Salah S. & Craft, Stephen: *Examining world market segmentation and brand positioning strategies***

This article has had the purpose of examining the conceptual and empirical relations between that of segmentation bases and brand positioning strategies. Further, they have discussed the practical implications of companies operating in the global markets. What they have identified in their article is that there is a relation between the use of micro and macro bases when doing segmentation, and when looking at the top global brands it is noticed that they have a combination of these. Whereas in opposition, the more localized companies are solely using the micro bases when doing segmentation. This article's approach is empirically examining various segmentation factors of which are put into relation to four global strategic opportunities.

By including this articles to the literature review, it provides a broader insight as to how segmentation can be conducted. Further, it provides a relation to a company's brand positioning when doing segmentation. This however is not included in this thesis, as it is not relevant. Thus, the segmentation bases of micro and macro bases is what it provides to this thesis.

**4. Wang, Arthur, Liao, Wenkan & Hein, Arnt-Philipp: *Bigger, better, broader: A perspective on China's auto market in 2020***

The purpose of this paper is to give a better understanding as to what is going on, on the Chinese automotive market. They are explaining how the consumers' needs has developed over the years and what can be inspected to happen in the next years as the country of China is still undergoing a rapid development. Their approach to collect knowledge in their paper has been by cross-checking their results by using available data sources and interview experts as to develop their understanding of specific factors.

This paper is included as it provides this thesis with a vast amount of insight as to how the Chinese automotive has developed over the past decades and in which direction it will be going in the future.

**5. Kotler, Philip, Keller, Kevin, Brady, Mairead, Goodmand, Malcolm & Hansen, Torben:  
*Marketing Management***

This book is stating that there are two broad groups of variables of which are being used when doing segmentation. On one side, researchers are choosing to define segments by using descriptive characteristics such as geographic, psychographic and demographic. On the other side, researchers are defining segments by using behavioral considerations, which can consist of the responses of consumers related to benefits and brands. The book states however, that no matter which approach to segmentation that is being used, it is essential to be able to adjust marketing strategies according to the differences in consumer markets. The books methodology is to theoretically explain the approaches to segmentation.

This book is included as it provides different perspectives as to how segmentation can be constructed and this broadens the knowledge of this subject.

## **Branding Strategy Literature**

**1. Douglas, P. Susan, Craig, Samuel C. & Nijssen, J. Edwin: *Executive Insights: Integrating Branding Strategy Across Markets: Building International Brand Architecture***

According to Douglas et al. (2001), brands play a critical role in establishing a firm's visibility and position in international markets. In order to create a strong, overall marketing strategy, firms must build a coherent brand architecture. In this paper, Douglas et al. (2001) examine the way firms have developed international brand architecture and perspectives on international branding. Also, they examine the drivers that shape the architecture and propose a brand architecture framework based on the geographic scope, product scope and the level in the organization at which brands are used. This study consisted of semi-structured interviews conducted with 24 senior executives, who were responsible for international brands and branding strategies. All were based in Europe. Furthermore, all the information was supplemented by secondary data such as company reports, journals and newspaper articles on other companies etc.

**2. Urde, Mats: *Core value-based corporate branding***

This article introduces a conceptual framework for a corporate brand building process based on core values of a company. Urde (2003) findings indicate that core values are overarching concepts that summarize the identity of the corporate brand and acts as a key factor for the brand building process. His article is based on research into the brand building efforts of more than 50 major companies over

a period of ten years. Furthermore, Volvo has been used as an illustration and the work is based on first-hand experiences, interviews, and unique internal strategy documents from Volvo.

This article is included as it examines which role the corporate identity has for the brand building process and due to the fact that the research is based of more than 50 major companies over a period of ten years.

**3. Kapferer, Jean-Noël: *The New Strategic Brand Management: Creating and sustaining brand equity long term***

Kapferers (2012) book is for understanding today's brands and managing them efficiently in today's markets. His book concentrates on internalization and globalization and how to implement these in practice. Furthermore, his book also examines the efficient management of the relationships between the brand, the corporation and the product (the issue of brand architecture).

By including this book, we find relevant topics that contribute to successful branding in an international context.

**4. Xie, Henry Yu & Boggs, David J.: *Corporate branding versus product branding in emerging markets: A conceptual framework***

Yu Xie and Boogs (2006) paper examines which branding strategies that firms in developing countries choose for their entry into emerging markets. They first present a literature review on corporate and product branding and then propose a conceptual framework which consists of different factors that affect the branding decisions of developed-country firms operating in emerging markets. Yu and Boog (2006) state that branding strategy in the international context is crucial for firms in developing countries who aspires to succeed in emerging markets. Firms may wish to be careful in evaluating the market situations in target markets and adopt the branding strategy that fits their capability and goals in particular markets.

By including this article, it gives an insight of which factors that influence firms' choice of branding strategy when entering emerging markets.

**5. Wang, Xuehua, Yang, Zhilin & Liu, Ning Rong: *The Impacts of Brand Personality and Congruity on Purchase Intention: Evidence From the Chinese Mainland's Automobile Market***

Want et al. (2009) examines the importance of product-brand personality and importance of company-brand personality characteristics as well as on investigation of product-/company brand congruity and self-image congruence on purchase intention, within the context of Chinese automobile industry. Their results reveal that product-brand personality is more significant in affecting purchase intention than company brand personality. Also, their results indicate that purchase intention among Chinese consumers when buying a new car is positively affected if the firm has a more positive product-brand personality. By having a strong and positive product-brand personality, it could help consumers to differentiate among the many products on the market. The survey from their study was conducted in four major cities i.e. Beijing, Shanghai, Guangzhou, and Chengdu. 800 questionnaires were distributed with 477 usable cases.

By including this paper, it gives us insight of how product and brand personality affects the Chinese consumers' purchase intention when they want to buy a new car.

**6. Urde, Mats, Baumgarth, Carsten & Merrilees, Bill: *Brand orientation and market orientation – From alternatives to synergy.***

This paper examines the interaction between brand orientation and market orientation. Brand orientation is defined as an inside-out, identity-driven approach. Similarly, market orientation is an outside-in, image-driven approach. This conceptual paper explores the interaction between brand orientation and market orientation. Their findings indicate a new type of orientation, a hybrid between brand and market orientation.

This paper is included as it provides insights of which approaches companies can undertake. Do they take an inside-out approach, where brand identity is the key, or do they take an outside-in approach, where the brand image is the key?

## Cultural Branding Literature

### 1. Cayla, Julien & Arnould J. Eric: *A Cultural Approach to Branding in the Global Marketplace*

This article is focusing on the ethnocentric issues in relations to that of international marketing. It has identified this as an issue as the global market is developing. According to Cayla & Arnould that in order to be able to meet the theoretical and methodological challenges that exists on the global market, it is essential that marketing scholars are revising key premises and foundations. They believe that the future of branding is going to have a need of being “*contextually and historically grounded, polycentric in orientation, and acutely to the symbolic significance of brands of all types*”. Their purpose with their article is to acknowledge the diverse ways of branding and thinking in brands across contexts by taking a cultural approach. This article is written by discussing the literature on the subject of culture in relation to branding and by that bringing their own approach to how the cultural aspect should be approach.

By including this article, the authors’ approach consisting of being contextually sensitive with culture in mind in correlation to international branding may prove to support an advantage in branding in the automotive industry in China.

### 2. Krueger, Dale & Nandan, Shiva: *Branding in the Global Arena: The Role of Culture*

This paper is taking focus on the role of branding in a company’s global strategy and the importance of taking culture into consideration. They have been identifying a set of issues related to cultural respect in regard of branding that needs to be considered by global companies. They are stating that the term of globalization can be debated but that the impact of this cannot be denied. They are using their paper to explain the importance of including a given country’s cultural traditions in companies’ global branding strategies to be able to make it consistent and strong. Additionally, they have included examples of the importance of cultural understanding in correlation to international marketing by including examples from India and China.

This paper is included as it provides key issues related to respect with culture and branding and offering strategies as to how to solve these issues and what companies should be made aware of to be successful on the international market. Further, it has been included as it gives insight to the importance of understanding culture in relations to international marketing on the Chinese market.

### **3. Ioanid, Alexandra, Mihai, Petruta & Militaru, Gheorghe: *Integrating Country-specific Culture in the Branding Strategy for Building Global Success***

Ioanid, Mihai & Militaru states the importance of integrating a strong brand in the cultural origins and values of the company with the ones in the countries of which they operate and building relations with the local consumers basing it on trust. By permitting regional flexibility accordingly to how brands are being marketed by using the cultural characteristics of the local market, a company chances of gaining market share is growing. This paper is taking focus on various cultures and are bringing forth strategies that are valid for both products and service companies. The purpose is to point out how important it is for integrating the specific country's culture in a company's marketing strategy as a mean of improving the effectiveness. This article is based on a literature research and the authors' own experiences in the multicultural environment, which means they have included both primary and secondary data.

This paper is included as it provides a general knowledge of how a company should be interacting with a different culture than it is accustomed to. As the paper is based on both a literature performed by the authors and past experiences with multicultural environments, it offers insight and strategies that may prove useful when striving to gain a strong brand on the Chinese automotive market.

### **4. Mooij. De Marieke & Hofstede, Geert: *The Hofstede model: Applications to Global Branding and Advertising Strategy and Research***

As the cultural aspect has gained increased interest over the past years it has been seen as relevant to bring Hofstedes Model into this thesis as well. Therefor this article has been chosen as it focuses on the relevant elements in the Hofstedes Model in correlation to that of branding and advertising. It reviews studies that are using the model and are giving insight as to what marketers has to be cautious about when applying the model. According to Mooij & Hofstede the interest in culture comes from the dilemma of whether a company should standardize their advertisement for efficiency or adapt to the local the local cultural values to be more effective. Recently, studies have proven that adaption strategies are more effective and thus the understanding of cultural differences has gained the view of upholding an important subject to research. This article is based on reviewing studies that has been using cultural models, as to be able to provide guidelines for what needs to be carefully used.

Mooij & Hofstedes' article has been included as the Hofstedes Model is one of the most used models when it comes to cultural understanding in the field of international marketing. Therefor it is essential

that the model is being correctly used and the relevant elements are being taken into consideration, which this article provides.

**5. Melewar, T. C., Meadows, Maureen, Zheng, Wenqiang & Rickards, Richard: *The Influence of Culture on Brand Building in the Chinese Market: A Brief Insight***

This journal takes the aspect of Western companies and their complications when wanting to succeed on the Chinese market. They state that the Chinese market appears to be difficult to understand and can prove unpredictable. Even though a lot of marketers are searching for definitive patterns in the market it is only a few of them that actually succeeds in identifying the key variables that are required to be able to succeed. This article has identified the key issues in relation to culture of which they see as the most relevant and are offering advice as to how a brand can be made strong in a market that is having the habit of changing.

By including this journal, it is providing further knowledge as to which complications Western companies are typically meeting when trying to achieve success on the Chinese market. Additionally, it provides a perspective as to how the authors would advise companies to make their brand being accepted on the Chinese market.



## 4. Key Theoretical Considerations

*In this chapter, the relevant theoretical approaches obtained from the literature will be undergone and discussed. The idea behind this is, to develop the theoretical knowledge to be able to answer the problem formulation and the three sub questions which this thesis is built upon. By identifying the theoretical approaches, they can be used in the next chapter, which is consisting of a discussion of the collected theories and correlating them to the empirical case.*

### 4.1 Segmentation

Identifying promising target markets has always been a critical issue in international marketing and international business research, strategy and management. Typically, firms approach to evaluating foreign target markets has been approached from two complementary levels: a market (country) perspective, also labelled as “international market selection”, and a consumer perspective, which can be labelled as “international consumer segmentation” (Gaston-Breton & Martin, 2011).

#### 4.1.1 Concept of Segmentation

In today's globalized world, market segmentation is an essential element of marketing in industrialized and emerging countries. Products can no longer be produced and sold without considering customer needs. Firms should also recognize the heterogeneity of these customer needs. The concept of market segmentation was introduced by Smith (1956). He argued that a “*lack of homogeneity on the demand side may be based upon different customs, desire for variety, or desire for exclusiveness or may arise from basic differences in user needs*” (Smith, 1956, p. 4). Furthermore, he suggested that it is attributable to consumers' desires for more precise satisfaction of their varying wants.

Nowadays, in a customer-oriented era, firms attempt to break down markets into manageable parts of consumer groups and treat them according to the similar characteristics. This is called market segmentation. According to Kotler et al. (2012), market segments can be characterized in different ways. The authors state that one approach is to identify *preference segments*. When all customers have roughly the same references, this is labelled *homogenous preferences*. At the other extreme, customers with *diffused preferences* vary significantly in their requirements. Lastly, *clustered preferences* are when market segments emerge from groups of customers with shared preferences. In order to target the right consumers, marketers should divide consumers into groups based on their needs and wants (Kotler P. , Keller, Brady, Goodman, & Hansen, 2012). Therefore, segmentation is

a stage where the company identifies all clusters of possible consumers by grouping those consumers based on same needs, demands, requirements and other different characteristics.

#### 4.1.2 The Process of Market Segmentation

There are many ways in which firms can develop or form their current segment and the procedure of segmentation may differ between firms. Hassan and Craft (2012) state that market segmentation can be viewed as: “*the process of identifying segments whether they are country groups or individual buyer groups, of potential customers with homogeneous attributes who are likely to exhibit similar buying behavior patterns*” (Hassan & Craft, 2012, p. 348). Furthermore, they state that firms can approach global segmentation in four ways. First, firms can identify clusters of countries that demand similar brands (“global strategy” giving more weight to hybrid bases of segmentation factors). Secondly, firms should target different segments in different countries with the same brand (“multinational strategy” with emphasis on geo-demographics factors and attitudinal factors). Thirdly, firms should identify similar segments that are present in many or most countries (“focused strategy” which should strike a hybrid balance between micro-culture and usage behavior). Lastly, firms can focus on different segments that demand different brands (“multi-local strategy” where strong local brand loyalty is unique in terms of product attributes and usage patterns) (Hassan & Craft, 2012). Their research examines the relationship between three types of segmentation bases and brand positioning (See figure 4).

		Brand Positions	
		Same	Different
Market Segments	Same	<p>1</p> <p><u>Global Strategy</u></p> <ul style="list-style-type: none"> <li>• Macroeconomics*</li> <li>• Attitude and Usage*</li> <li>• Micro-Culture*</li> </ul>	<p>2</p> <p><u>Focused Strategy</u></p> <ul style="list-style-type: none"> <li>• Attitude and Usage*</li> <li>• Micro-Culture**</li> </ul>
	Different	<p>3</p> <p><u>Multinational Strategy</u></p> <ul style="list-style-type: none"> <li>• Geo-demographics*</li> <li>• Micro-demographics**</li> <li>• Attitude and Usage*</li> </ul>	<p>4</p> <p><u>Multi-local Strategy</u></p> <ul style="list-style-type: none"> <li>• Brand loyalty*</li> </ul>

Figure 4: Segment-based strategic brand positioning matrix

Source: (Hassan & Craft, 2012, p. 350)

Their study shows that by adapting a “global strategy” and “multinational strategy”, firms will most likely gain a significant competitive advantage. They state that this is because unified brand image can be leveraged across markets. This gives the brand a perceived reputation and coherence in image and positioning which is internationally reinforced (Hassan & Craft, 2012).

Doyles (2011) state that very first stage of doing segmentation is establishing the criteria for segmenting a market and then separate the heterogeneous market into the relevant clustered subgroups. The first limitation faced when doing segmentation is that if the size of the market is being separated into too small niche markets it may contain too few potential customers to make it profitable. The chosen market segments should be measurable and relevant information describing customer characteristics should be obtainable as this enables the marketer to size the segment. The information related to the customers should be accessible as this makes the company able to communicate effectively with the segments of target (Doyles, 2011).

The following step is to analyze the characteristics of the identified groups. When the market has been subdivided into the segments of target it is essential to make an evaluation of the market segment attractiveness, which can consist of the structure, size and growth, the company’s reputation in the segment and the competition within the segment. This will make the marketer able to dispose of the unprofitable segments from the ones that has potential profitability (ibid). However, the most common ways to perform market segmentation is through the STP (Segmentation, Targeting and Positioning) process (Kotler P. , Keller, Brady, Goodman, & Hansen, 2012).

#### 4.1.3 Types of Market Segmentation

In a multi-dimensional market, companies can increase profitability by utilizing market segmentation. In order to have an effective market segmentation technique, firms should select relevant segmenting bases and descriptors. Furthermore, segmentation variables must be considered in light of their measurability, availability, reliability, and ability to uncover characteristics of each market segment (Lin, 2002). According to Kotler et al. (2012), there are four major segmentation dimensions that are commonly used. They are geographic, demographic, psychographic and behavioral segmentation (Kotler P. , Keller, Brady, Goodman, & Hansen, 2012). Some researchers seek to define segments by looking at descriptive characteristics i.e. geographic, demographic and psychographic. Others try to define segments by looking at behavioral considerations. The example of variables on each type of dimensions of segmentation can be seen in figure 5.

*Figure 5: Segmentation variables for consumer markets*

Source: Adapted from (Kotler P. , Keller, Brady, Goodman, & Hansen, 2012, p. 376)

<b>Dimensions</b>	<b>Variables</b>
Geographic	Region, city size, location
Demographic	Age, family unit size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, social class
Psychographic	Activities, interests, opinions
Behavioral	Benefits sought, user status, usage rate, loyalty status, readiness stage, attitude to the market offer

According to Lin (2002), the relation between consumer brand preference and the characteristics of a sub-market is the key for marketers. In order to understand the brand preference of each segment, firms can utilize different market segmentation variables which can provide more valid information. Lin (2002) state that businesses that want to develop new brands or expand their product lines can use brand preference as a significant factor in allocating resources to develop effective product strategies. Furthermore, Lin (2002) suggests that firms should adopt a multi-segmenting method which consists of both psychographic and demographic segmentations. A multi-segmentation method provides a complete marketing segmentation information. This method is useful for deciding product positioning and increasing target market share (ibid).

#### 4.1.4 Market Segmentation in China

According to Cui and Liu (2000), there are significant differences across the regional markets in China. Their study reveals the heterogeneity among the Chinese consumers. Consumers in South China lead the nation in purchasing power while also adopting new and luxury goods. Consumers in East China have become trendsetters in “lifestyle” products (Cui & Liu, 2000). Consumers in these regions maintain active lifestyles and are more individually oriented. In the North, Central, and Southwest China, consumers are generally satisfied with their lives. However, there is a significant gap between them and consumers from coastal areas in most product categories and penetration of many new products is much lower in North, Central, and Southwest China compared to South China.

Consumers from Northeast and Northwest purchase the traditional products like the rest of China (ibid). Cui and Liu (2000) also state that China cannot be approached as a single market. If so, it can lead to misconceptions about the opportunities and risks in China. Multinational corporations (MNCs) face several challenges due to the increasing regional differences and consumer heterogeneity. However, the regional characteristics also provide some advantages for firms. Based on these regional characteristics, firms can select target markets, establish an agenda for expansion, and improve marketing effectiveness. Wang et al. (2012) state that automakers in China must better understand what their customers want, and how their expectations differ from region to region. The Chinese car market has evolved to have the same similarities like that of North American, Europe, and Japan. However, it is perhaps even more complex due to the many regional and segment differences (Wang, Liao, & Hein, 2012). Therefore, China's car market has strong regional characteristics. Take city tiers as an example. Wang et al. (2012) state that China's smaller cities such as tier 3 and tier 4 are accounting for more and more automotive sales and they project that new car sales in these cities will reach almost 60% between 2012 and 2020. New car sales in tier 1 and tier 2 cities are projected to grow about four and six percent respectively.

## 4.2 Branding in an International Context

*Branding has become a crucial part of many companies and especially for those who are expanding into new markets. Brand(s) symbolizes a firm's presence in the international arena. MNCs do especially pay very close attention to branding in a global context to remain competitive (Chabowski, Samiee, & Hult, 2013). The choice of appropriate branding strategy is a matter of concern for the companies, i.e. whether they should go for independent brands, use its own company name for branding, or use a mixed branding strategy. Therefore, this chapter will focus on the concepts of corporate and product branding. Moreover, this chapter will also discuss the concepts of brand and market orientation.*

### 4.2.1 Brand Architecture

According to Douglas et al. (2001), building a coherent international brand architecture is a key component of the firm's overall international branding strategy. Building a brand architecture provides structure to leverage strong brands into other markets and integrate strategy across markets (Douglas, Craig, & Nijssen, 2001). Also, the term "brand architecture" is sometimes used as a synonym of "branding strategy". Heding et al. (2008) defines brand architecture as a structure that organizes the brand portfolio. It defines brand roles and relationships among companies' brands, e.g. the role between a car brand and the model (i.e. Volkswagen Golf) (Heding, Knudtzen, & Bjerre, 2008). Some firms choose to market products to specific segments and keep their corporate brand in the background, while others communicate the corporate brand to the market (ibid). According to Douglas et al. (2001), there are three major patterns of brand architecture – corporate-dominant, product-dominant, and hybrid or mixed can be identified. Corporate-dominant architecture tends to be more common among firms with a relatively limited range of products or with a clearly defined market. Product-dominant architecture is found among firms that have multiple national or local brands. However, the most common used brand architecture is a hybrid or mixed structure. It consists of a mix of global corporate, regional, and national product-level brands (ibid).

Douglas et al. (2001) propose a brand architecture framework, based on the geographic scope, product scope and the level in the organization at which the brand is used (See figure 6).

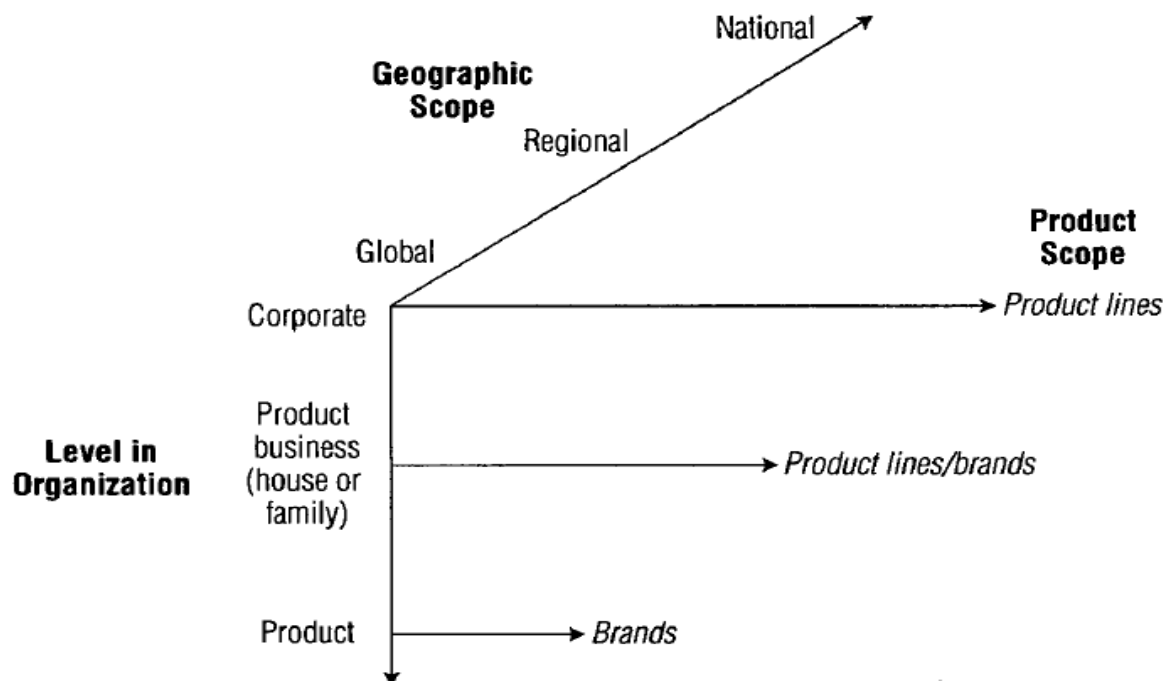


Figure 6: Dimensions of International Brand Architecture

Source: (Douglas, Craig, & Nijssen, 2001, p. 107)

Douglas et al. (2001) suggest that brand architecture is the process and outcome associated with establishing a strategic rationale. This strategic rationale is there to harmonize brand portfolio management decisions in the organization and across different geographic locations. Therefore, they propose this framework which is designed to search for ways to reduce the number of brands and improved efficiency and harmonize brand strategy across product lines and country markets. Townsend et al. (2009) conceptual definitions of each level of brand architecture are consistent with Douglas et al. (2001) definitions, who as stated above suggest that international brand architecture includes the brand's level in organization, its geographic scope, and its product scope.

Urde (2003) mentions four types of brand architectures – corporate brands, product brands, corporate and product brands (with dominant use of the corporate brand), and product brands and corporate brands (with dominant use of product brands) (See figure 7). He states that core values and the choice of brand architecture are linked together.

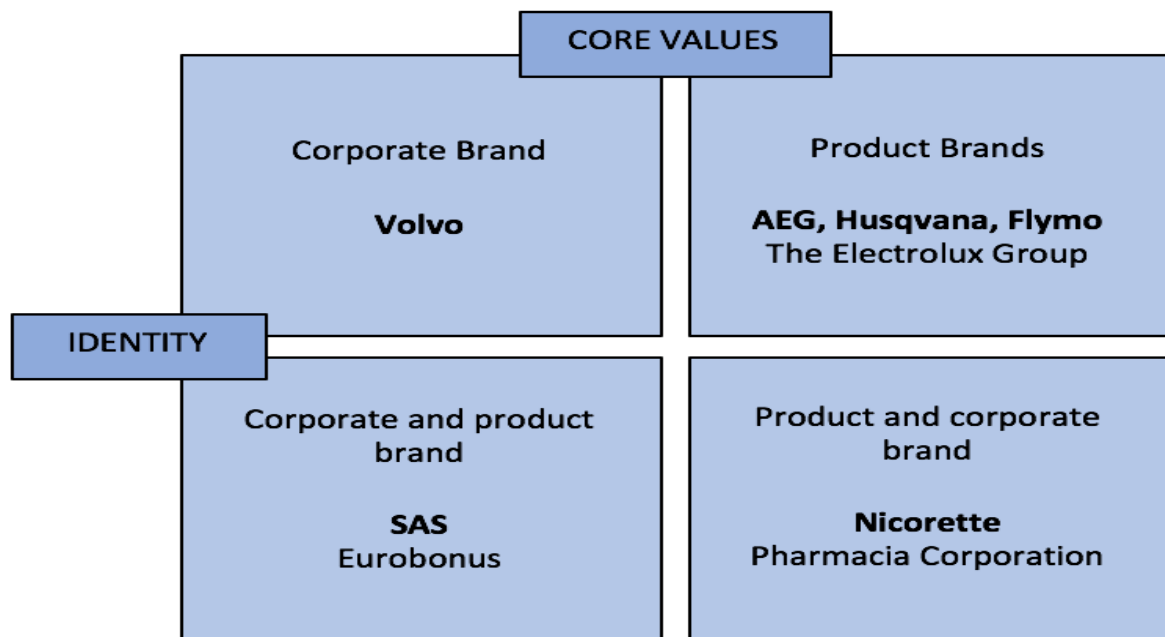


Figure 7: Four Brand Architectures

Source: Adapted from (Urde, 2003, p. 1029)

Urde (2003) emphasizes that in the corporate brand architecture, all products share the core values of the corporate brands. However, the brand is individual. In contrary, the product brand's core values are individual for each product and they have their own identity. Furthermore, Urde (2003) states that a corporate brand and a product brand can have different roles. However, they can also be linked together as shown in figure 8.

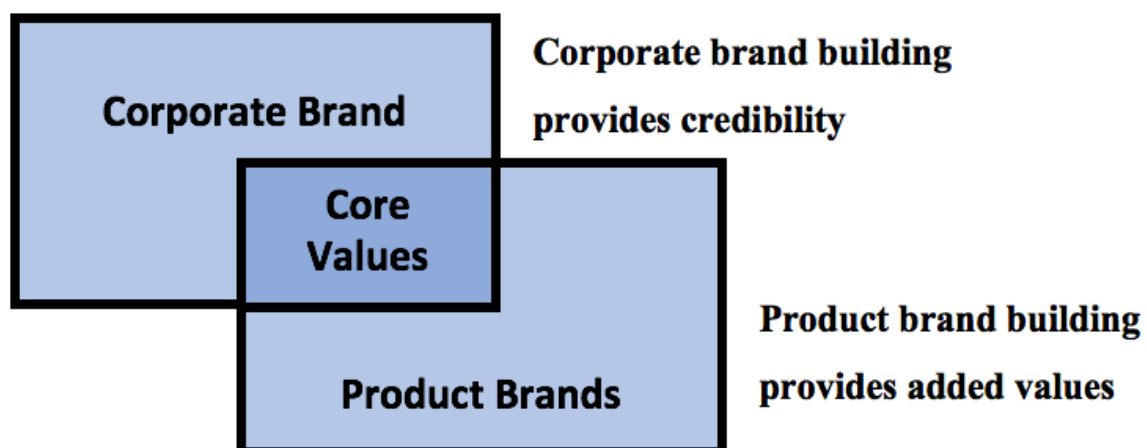


Figure 8: Core-value framework linking a corporate brand to product brands

Source: Adapted from (Urde, 2003, p. 1029)



## Strategy approach

Kapferer (2012) presents a model for different branding strategies a company can undertake. They all have a different approach to the branding strategy (See figure 9).

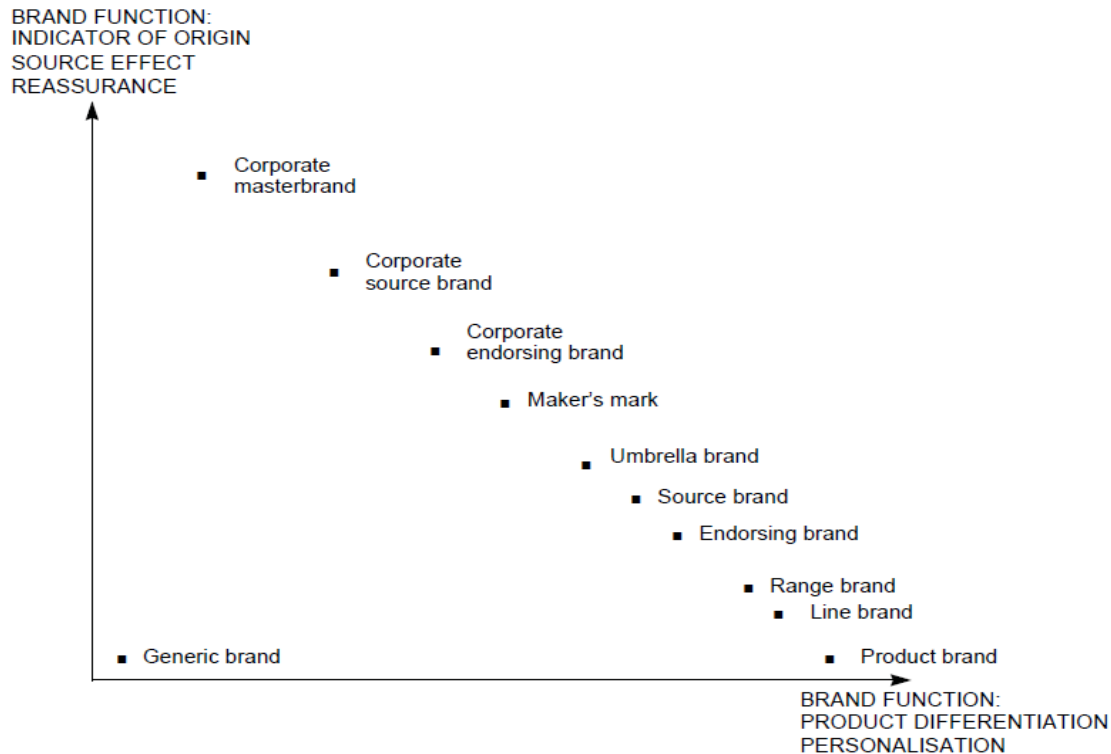


Figure 9: Positioning alternative branding strategies

Source: (Kapferer, 2012, p. 352)

The figure shows that the more differentiated a product is, the more the strategy is likely to aim towards a product brand. Figure 9 also illustrates that the more the brand functions as an indicator of origin, the more the strategy is aimed towards a corporate branding strategy. At one extreme, *corporate masterbrand* is characterized by a single and unique brand level, often the corporate name (Kapferer, 2012). At the other extreme, *product brand strategy*, the company is not identified at all, meaning that new products get their own names and positioning in the market (ibid). For example, the car manufacturer PSA functions via a product brand strategy. Either people can buy a Peugeot or Citroën, but not a PSA (ibid). All the other strategies in between functions differently, and companies might use a mix strategy of corporate and product brands. Yu Xie and Boggs (2006) state that some MNCs almost entirely focus on corporate branding, as for example IBM. Other MNCs, such as Procter and Gamble (P&G), are focusing on product branding (Xie & Boggs, 2006). They also state that another option is to focus the strategy on corporate branding and product branding simultaneously

(ibid). This is similar to the conclusion drawn by Singh (2012), who believes that future branding strategy will consist of a mixed branding strategy that is umbrella, endorsed, dual, sub-brand and multi-brands. The corporate name or the product name is likely to be in the “driver seat”. This could help companies to mitigate the impact of complexities imposed by the environment in the future (ibid).

#### 4.2.1.1 Corporate Branding

According to Xie and Boggs (2006), corporate brand architecture is defined by: “*core values shared by different products with a common and overall brand identity, which play a decisive part in coordinating the brand-building process*” (Xie & Boggs, 2006, p. 349). They further state that corporate branding is the strategy where the brand and corporate name are the same. Some examples of corporate brands are IBM, Nike, Virgin and Sony (ibid).

Urde (2003) state that the role of the corporate brand is to give credibility in cases such as communications with government, the financial sector, the labor market, and society in general. Furthermore, Urde (2003) also believes that brands can help the company to articulate its core values. According to Singh (2012), the corporate branding leverages the corporate identity, i.e. company’s core values, communication, and culture. Kapferer (2012) states that corporate brands will be more and more present and visible in the future.

According to Balmer (2012) corporate brands have been characterized as follows:

*“The corporate branding philosophy, at its core, represents an explicit covenant between an organization and its key stakeholder groups including customers”* (Balmer, 2012, p. 1070)

*“The covenant is set forth by senior management in terms of a clearly articulated corporate branding proposition. It is professed via the multiple channels of communication. It is experienced through corporate and staff behavior, and, importantly, through the organization’s products and/or services”* (Balmer, 2012, p. 1070)

*“A corporate brand, although it creates awareness and recognition via a name of logo, needs to articulate its accord with key stakeholders by demonstrating, unceasingly and over time, that it has kept its corporate branding pledge. As such it became a mark of assurance”* (Balmer, 2012, p. 1070)

Yu Xie and Boggs (2006) states that the motive for creating a corporate brand is to differentiate the firm from its competitors. Furthermore, they state that the corporate identity, represented by the firm’s ethics, goals and values, works as an important corporate asset to differentiate the firm from its

competitors. They further state that corporate brands can increase the firm's visibility, recognition and reputation to a greater extent than product brands. As markets are becoming more complex and products and services are quickly imitated and homogenized, it is becoming more difficult to maintain credible product differentiation and requires the positioning of the whole corporation rather than only its products. Therefore, the key elements of differentiation strategies are the corporate values and image (ibid).

Singh (2012) states that bad publicity can influence public opinion about a brand. This can result in bad reputation of the companies and their entire business, brand line and range. This is especially if the company is using corporate branding strategy.

#### 4.2.1.2 Product Branding

According to Yu Xie and Boggs (2006), product branding is defined as the strategy of building separate brands for different products. What characterizes a product brand is that it is flexible, allowing firms to position themselves against different segments in different markets. Some examples of product brands are Toyota and Lexus from Toyota and Lux and Dove from Unilever (ibid).

According to Kapferer (2012), a product brand strategy is where a particular product gets its own name and has its own positioning. P&G for example has undertaken this strategy by being present in the European detergent market by the brands Ariel, Vizir, Dash and in the soaps market by Camay, Zest, etc. What is characterized by these products is that each of them have their own precise and well-defined positioning and they occupy a particular segment. For example, Camay is a seductive soap, Zest a soap for energy. The way Ariel positions itself is by being the best detergent in the market. Dash is positioned as the best value for money (ibid). Furthermore, in order to extend the products, companies have to renew the products and improve the products in order to adapt to customer needs. It is also stated that when adapting a product brand strategy, the name of the company is not visible for the public (ibid). For example, the brand structure of car brand, Jaguar, which is owned by Tata group, is a product brand. Jaguar brand has core values with quality and aristocratic ideals. The brand identity is based on a symbol (a stylistic jumping Jaguar), a personality (sophisticated), and a product (premium priced quality cars) (Uggla & Filipson, 2009).

#### **Differences between Corporate Branding and Product Branding**

Corporate brands can be managed the same way as product brands (Kay, 2006). However, building a strong corporate brand is different than building service or product brands. This is because strong

corporate brands targets different segments (ibid). P&G as an example offers many products. However, their corporate name is unknown among its customers. According to Kay (2006), corporate brands are often distinct from product brands. Corporate brands and their communication are directed at shareholders, employees, and other stakeholders and they have little impact on consumers and may not have any influence on the demand for product and service offerings (ibid).

According to Yu Xie and Boggs (2006), a corporate brand differs from a product brand in its strategic focus and its implementation, which include corporate strategy, corporate communication and corporate culture. They further state that the focus of corporate branding shifts from the product to the corporation and exposes the corporation and its members to a larger extent. Product brands also target specific consumers, while the focus of corporate branding is on the stakeholders. Furthermore, corporate branding is more strategic than product branding (ibid).

Balmer (2012) states that there are some clear differences between corporate brands and products brands. These are illustrated in figure 10.

<b>Factors</b>	<b>Product Brands</b>	<b>Corporate Brands</b>
<b>Management responsibility</b>	Brand Manager	Chief executive (Corporate marketing director)
<b>Functional responsibility</b>	Marketing	Most/all departments
<b>General responsibility</b>	Marketing personnel	All personnel
<b>Disciplinary roots</b>	Marketing	Multidisciplinary/corporate marketing
<b>Brand gestation</b>	Short	Medium to long
<b>Stakeholder focus</b>	Consumers	Multiple stakeholders
<b>Values</b>	Contrived	Real
<b>Communication channels</b>	The marketing communication mix	Total corporate communications  <i>Primary communication:</i> Performance of products and services; Organizational policies; Behavior of CEO and

		senior management; Experience of personnel and discourse by personnel  <i>Secondary communication:</i> Marketing and other forms of controlled communication  <i>Tertiary communication:</i> Word-of-mouth
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Figure 10: A comparison between product and corporate brands

Source: Adapted from (Balmer, 2012, p. 1066)

#### 4.2.2 Brand Orientation and Market Orientation

The brand management literature has for a long period of time mainly focused on product branding (Gromark & Melin, 2011). However, during the 1990s, corporate branding gathered more attention among research scholars. The brand management became more holistic and process oriented and brands were increasingly considered a strategic resource. By doing research on corporate branding, it also gave birth to the concept of brand orientation (ibid). Therefore, in this chapter, we will discuss the concepts of brand orientation and the opposite concept, market orientation.

In Urde and Kochs (2014) paper, they discuss to what extent an organization should be guided by its identity and to what extent it should respond to others' views and wishes when positioning its brand(s). *Market orientation* is labelled as satisfaction of needs and wants of customer and non-customer stakeholders (Urde & Koch, 2014). In *market orientation*, brand image is key and defined from the outside-in perspective. By using this approach, firms are responding to the needs and wants in its market. *Brand orientation* in contrary is about satisfying the needs and wants of the customer and non-customer stakeholders within the brand's identity. Brand identity is therefore key and defined from an inside-out perspective. *Brand orientation* is defined as: "[...] an approach in which the processes of the organization revolve around the creation, development, and protection of brand identity in an on-going interaction with target customers [and non-customer stakeholders] with the aim of achieving lasting competitive advantages in the form of brands" (Urde, 1999, p. 117). These

two approaches are visualized in the figure below. The figure illustrates the continuous interaction between the organization (internal), the brand (internal/external), and customer and non-customer stakeholders (external).

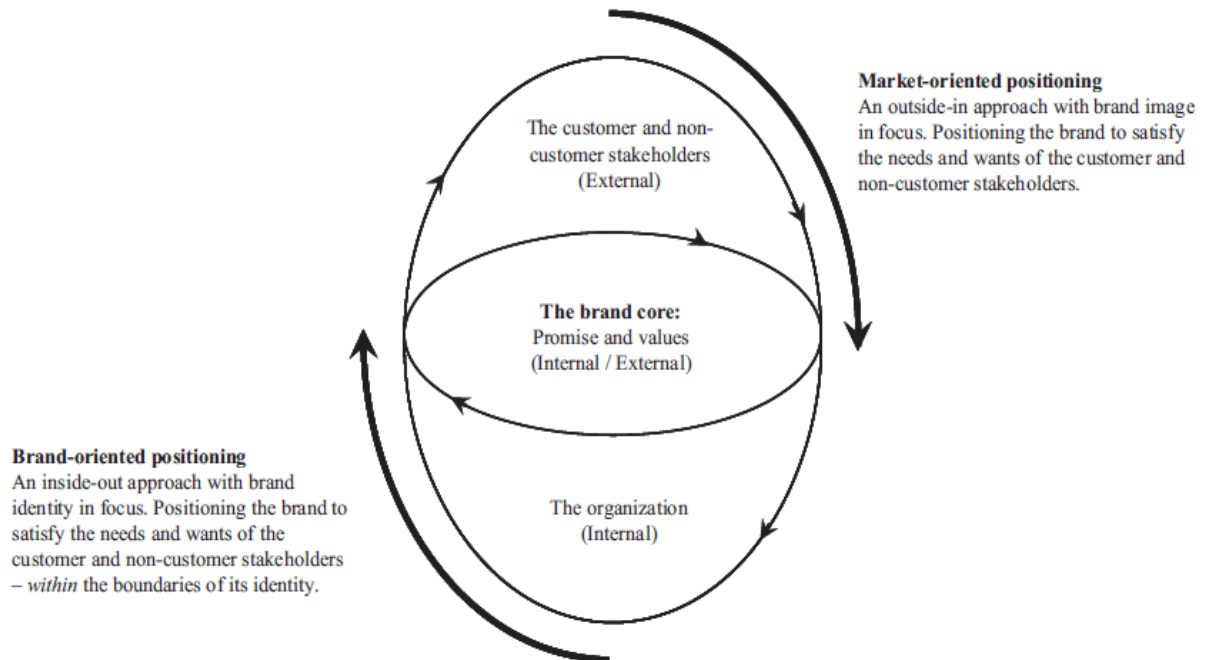


Figure 11: The Market and Brand-oriented Approaches

Source: (Urde & Koch, 2014, p. 482)

As indicated in the figure, market-oriented positioning is where the customer and non-customer stakeholders are crucial in forming and positioning the brand. Furthermore, the focus is an outside-in perspective and the image. In the brand-oriented positioning, the inside-out perspective is more important and the organizational identity and value is part of the brand identity.

Urde et al. (2011) identify four basic approaches to brand and market orientation. These are *Brand Orientation*, *Brand and Market Orientation*, *Market Orientation* and *Market and Brand Orientation*. These are illustrated below.

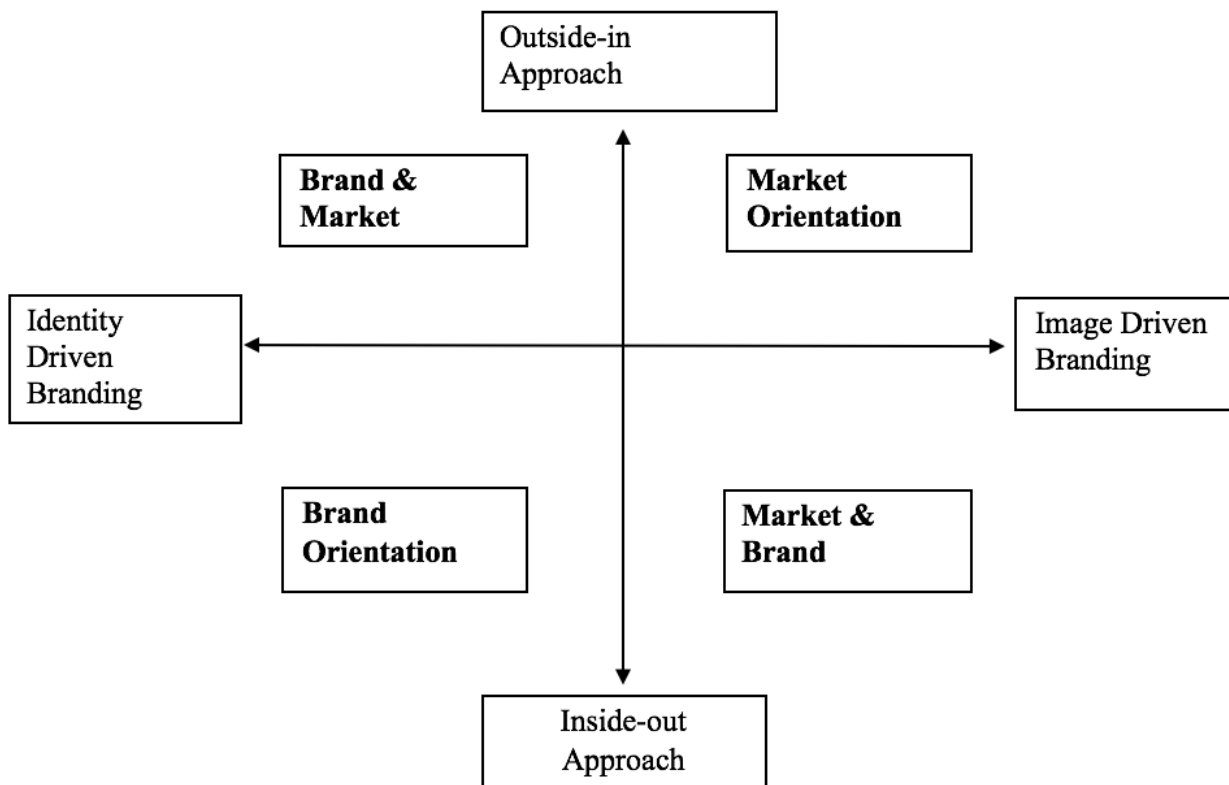


Figure 12: The Brand and Market Orientation Matrix

Source: Adapted from (Urde, Baumgarth, & Merrilees, 2011, p. 5)

Urde et al. (2011) state that the two paradigms, brand and market orientation, no longer can be an either-or proposition. In addition to the two paradigms, there are two other approaches as seen in the figure above. They state that the *brand* and market orientation, and *market* and brand orientation now are labelled as hybrid versions. One is being related more closely to brand orientation whereas the other is more closely to market orientation. For example, Amazon uses a market oriented approach:

“Our first Leadership Principle is customer obsession – we believe leaders start with the customer and work backwards. They work vigorously to earn and keep customer trust. Although leaders pay attention to competitors, they *obsess* over customers” (Amazon.com, 2017).

This quotation identifies that the company is having an outside-in approach. The customers are essential for Amazon in order to create value. The needs and wants of the consumers are crucial and therefore they are being “obsessed” with the customers.

Other examples of organizations using other approaches are: Amnesty International (Brand-oriented approach), Electrolux (Market and brand-oriented approach), and Volvo (Brand and market-oriented approach) (Urde, Baumgarth, & Merrilees, 2011).

### 5.2.3 Emerging Markets and Branding Strategies

As mentioned previously, firms have increasingly turned their attention to emerging markets for business growth and expansion. Three main reasons are mentioned for why emerging markets are attractive for foreign firms. First, if firms have a strong reputation and have had success in other markets, they can establish a presence and gain new customers relatively quickly. Secondly, due to the saturation of developed markets, firms are exploiting new markets in emerging economies in order to defend themselves from economic recession and changing demographics. Thirdly, the size and growth of emerging markets offer massive potential for marketing success (Xie & Boggs, 2006). Kapferer (2012) state that the choice of a branding strategy is a strategic decision. This strategic decision is aimed at promoting individual products and ranges as well as capitalizing the brand in the long term. According to Kapferer (2012), choosing an appropriate branding strategy should be determined by three factors: product or service, consumer behavior, and the firm’s competitive position. He further states that the branding policy is a reflection of the strategy chosen by a particular company in a specific context (ibid.).

According to Xie Yu and Boggs (2006), when firms are developing branding strategies in emerging markets, they should develop their strategies based on an understanding of the markets economic, technological, socio-cultural, and competitive conditions. They further state other factors such as stakeholder interests, corporate image and reputation, market complexity, marketing costs, product characteristics, that could influence firms branding strategy when entering emerging markets. These factors are illustrated in figure 13.



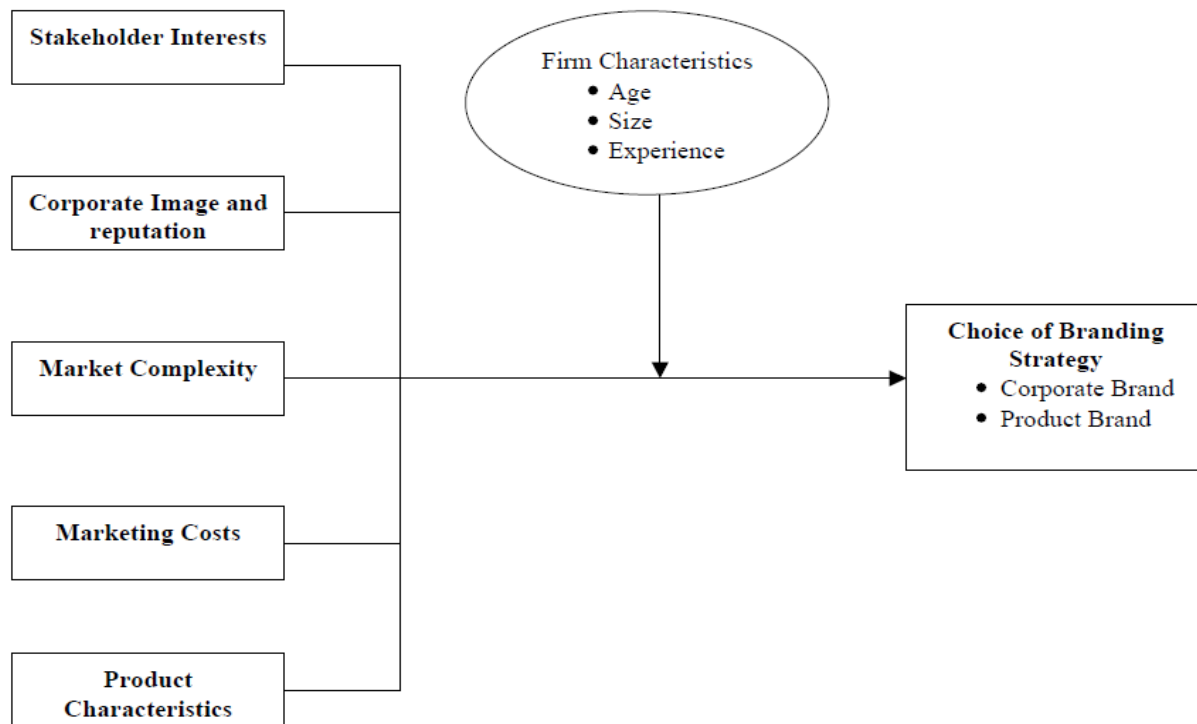


Figure 13: Factors affecting branding strategy of developed country firms in emerging markets

Source: (Xie & Boggs, 2006, p. 352)

The concept of brand personality has also shown that the more congruent the product-brand personality is with the human characteristics of an individual's self-concept, the more positive the individual's attitudes towards the product will be (Wang, Yang, & Liu, 2009). Corporate brands also have their particular personalities and it is stated that corporate brand personality can influence consumer's purchase intention (Sirgy, Grewal, & Mangleburg, 2000). For example, consumers of Citroen would be more likely to relate to the auto manufacturer to such human characteristics as confidence, prestige, and attractiveness. However, Wang et al. (2009) state that product-brand personality has more influence and affects purchase intention more than corporate brand personality in the Chinese automotive market. The importance of corporate brand personality is found to have no effect on consumer's purchase intention. When consumers consider buying a new car, they rely more on product brands, even though they also consider corporate brands. It is suggested that foreign car manufacturers cannot rely on their global image as has been assumed before. This is because product brands are increasingly valued in terms of design and performance (Wang, Yang, & Liu, 2009). The purchase intention among Chinese consumers when buying a new car is positively affected if the firm has a more positive product-brand personality. By having a strong and positive product-brand

personality, it could help consumers to differentiate among the many products on the market. This could also enable companies to occupy a more competitive market position (ibid).

### 4.3 Culture and Branding

*In this sub chapter, the importance of taking culture into regard when conducting business on a foreign market will be stated. By including different perspectives on the subject of branding on a global scale and later discussing the similarities and differences, between the included literature included in the review, on the key focus points when branding in correlation to cultural differences, an overall knowledge of strategic approaches will be obtained, which will be used to discuss the optimal solution according to answering the problem formulation of this thesis.*

#### 4.3.1 The Importance of Cultural Context in Branding

When Western companies are striving to operate on foreign markets, in this case the Chinese market, they are facing issues such as identifying the differences between the Chinese market and the Western markets and how they should react to these cultural differences (Melewar, Meadows, Zheng, & Rickards, 2003). Additionally, Cayla & Arnould (2008) has identified a tendency of cultural ignorance from Western marketers, as they believe that branding theories and techniques developed by Western companies can be used cross culturally to build a strong brand. Branding professionals from the Western world are suggesting that Asian brands are lacking the ability to correlate the emotional aspect to their consumers, which Western companies are using in their marketing strategies and are thus viewing this statement as an argument to suggest that Asian brands are suffering from inferiority compared to Western Brands. This suggested lack of ability has made consultants believe that by implementing Western branding models and frameworks to the Asian markets they would be able to obtain a more effective result than the Asian brands (Cayla & Arnould, 2008). However, what is essential to remember is, that to be able to create an effective branding strategy on foreign markets, companies will face challenges due to the vast diversity in cultures in a global context. As branding and establishing a marketing image is requiring cultural knowledge of the market, it is essential for companies to take the cultural context and its influence into consideration when trying to succeed (Krueger & Nandan, 2008). According to Cayla & Arnould (2008) however, even though international marketing scholars have begun to acknowledge the importance of cultural differences,

they are still having the tendency of not being acceptable to the idea of models in brand development. How a strong brand is being defined can be different depending on the cultural context.

To bring an example, the Chinese market has proved that it is essential to take the cultural context into consideration. Lenovo and Haier are some of the Asian companies that have been on the receiving end of criticism from Western marketing scholars in the regard of neglecting the emotional relations to their consumers. However, on the Chinese market they have achieved a remarkable success in obtaining consumers due to their size. The reason that this is having a positive influence is, that the Chinese consumers are perceiving a company's size into relation of reliability and stability and reassures them that the products the company delivers can be regarded as safe (Cayla & Arnould, 2008). In fact, the concern related to product safety, in the mind of the Chinese consumers, are having such a vast impact on them that some brands are marketed on that factor alone. The reasoning behind the focus on product safety is a consequence of the many counterfeit goods and safety alerts on the Chinese market, which makes it essential to state and ensuring the Chinese consumers that the products are not in fact, dangerous. Furthermore, it is stated that safety is the fundamental essence in the Chinese culture and is something they need and is not an individual desire (ibid).

#### 4.3.2 Approaches to Solve Cultural Issues

Cayla & Arnould (2008) has taken notice, that the research on marketing standardization has taken an approach to culture from the outside of it as an exogenous variable that they can choose to either adapt to or ignore. They believe that this approach is wrong and are suggesting moving away from this perception of culture in correlation to international marketing and instead view branding practices as cultural. This means that international marketing should be consisting of researching on how brands from various cultures are globalizing, the impact of branding activities in cultural systems and how brands are created and received in polycentric worlds (Cayla & Arnould, 2008). Additionally, Krueger & Nandan (2008) states, that a powerful brand is one of the key assets in order to achieve a successful global marketing strategy as this makes the company well-recognized on the global scene. Brands such as Intel, eBay, Starbucks and Disney are able to maintain an impressively strong presence on the global market as they have been able to achieve success in developing a positive images and associations to the consumers' mind-sets (Krueger & Nandan, 2008). Krueger & Nandan (2008) are viewing other factors as essential when wanting to develop a strong brand in a global market, compared to Cayla & Arnould (2008). They believe that the focus should be put upon having products with a unique identity and image, which is achieved by providing consumers with products

that benefits them with their core needs and that differentiates them from their current and potential competitors (ibid). Ioanid et al. (2014) further points out the importance in identifying the target they are trying to obtain to in each country construct their marketing strategy accordingly to the cultural context. An example to how this can be executed will be illustrated by using the brand of Zara, whom are creating different brand images depending on which market it is addressing. In Western Europe, Zara is promoting its image as casual with prices in the lower tier, whereas in Eastern Europe it is promoting itself as a fashionable image with high-end product to higher prices. Zara has also adapted its collections to fit the cultural context of Arabic countries by only exporting clothes which are covering enough to be available for Muslim women (Ioanid, Mihai, & Militaru, 2014). The reason that this strategy is effective is that Zara has been able to build a strong brand name in an unfamiliar market by adapting itself to the culture of the market they are entering, which is the most effective way to build a strong brand which is also pointed out by Melewar et al. (2003). Reasonable choices to achieve this is by using local staff establishing operations with local players. One major complication for companies is however, to combine the culture of the company to that of the country of entry (Melewar, Meadows, Zheng, & Rickards, 2003). The creation of a well-known brand and successful marketing strategies in a country's cultural dimensions is a challenge but is also necessary if a company strives to succeed as by analyzing the country of entry's cultural framework, the company is able to anticipate and avoid cultural difficulties. This can be done by researching on each of a country's cultural dimensions, local patterns and segments which will be supporting the company's ability to align its brand and image with the culture of the country (Krueger & Nandan, 2008).

As mentioned, Cayla & Arnould (2008), highlighted that their cultural approach consists of three main objectives, whereas the first objective is to compare how brands from different cultures are globalizing themselves and examining different models of brand globalization. This research should supplement previous conducted knowledge on internationalization of business activities in the sense of how a company is behaving when moving out from their domestic market to foreign markets while involving various models in the field of brand globalization (Cayla & Arnould, 2008). Cayla & Arnould's (2008) article states that previous research has identified the existence of historical and cultural differences of brand cultures, but it has not been made clear how they globalize. To bring forth examples from Cayla & Arnould (2008), Japanese brands have the tendency of not including cultural markers that shows the origin of their products. In opposition, the American brand Levi's is highly associated to the American lifestyle, as they have chosen to include the cultural markers in

their way of branding themselves. Sony, the Japanese brand, has chosen to do their branding strategies differently. Even though they have involved some cultural elements into their products (simplicity, compactness and fine detailing), they did not take a Japanese lifestyle into their products. It has been suggested that the reasoning behind this is, that the Japanese brands are bleaching the cultural elements such as, ethnicity, race and cultural references, out of their brands as to be able to obtain a smoother transnational distribution and consumption of their products (ibid). In opposition, iconic American brands are gaining success because their brands are infused with their cultural lifestyle which are helping consumers deal with contradictions in their lives. Additionally, Chinese brands are gaining success on other markets that involves the need of safety in products, such as Eastern Europe, due to the fact that the Chinese brand's domestic markets are similar to that of the Eastern European markets (ibid).

The second objective is to be more careful with analyzing the initial impact of branding activities on local cultures. The reasoning is, that there is a growing concern to how the impact of marketing activities is actually influencing the public domain. The brand's impact itself is especially relevant to take into consideration. Because of the growing success of books on the field of branding and the creation of business schools, research is suggesting that this very diffusion has led to the diffusion of brand involvement itself (ibid).

The third and last objective according to Cayla & Arnould (2008), is doing a brand analysis of the meaning of a brand as it is created in a polycentric world. The meaning behind a brand emerges out of the increasing dispersion in networks of users, producers and additional agents. To bring an example, in 2008, a situation occurred during the Paralympics on April 7. The Chinese athlete Jin Jang was being attacked in Paris while doing the Olympic torch relay by protesters that were denouncing the Tibet policy in China. The following days, Jin Jang was being celebrated as a hero in Chinese Media, internet blogs and on bulletin boards. Because of the circumstances of Jin Jang being attacked in Paris, attention was turned towards the French companies that were located in China. On April 19, crowds consisting of Chinese consumers were marching through the streets of Wuhan with signs stating that the Chinese consumers should say no to French goods (ibid). The point behind this example is to illustrate that when a company is conceived as an evolving narrative, the composition of brands has become a process that involves many individuals that are all bringing an understanding. It is not only the managers and consumers whom are influencing this understanding, the popular culture intermediaries in various cultural contexts also influences the understanding. The meaning of a brand depends on consensus and dissensus between the united meaning of what the brand means to

the stakeholders of a brand and the active negotiations of the meanings. Considering the fact that the stakeholders of a brand and the consumers are coming from different communities in correlation to the understanding of the meaning of a brand, they all add different factors to the overall understanding. Cayla & Arnould believes that this perspective can be used as a model on a global level, which can provide a formulation as to how cultural geography of brand stories can provide companies and consumers with memes that can support brand narratives (ibid).

Another approach as to how to handle branding in the aspect of globalization is made by Krueger & Nandan (2008). They are pointing out that due to the increasing international trading and globalization companies has gone from having a national focus in their marketing strategies to taking focus on the international perspective with either a global or multinational approach. By using the global strategy, a given company is able to produce the exact same product to different countries and cultures and still use the same production functions. By using the global strategy, a company is enabling itself to take competitive advantages in the sense of efficiency when developing new products, research and development, workforce flexibility and skill transfer (Krueger & Nandan, 2008). However, to be able to get the ability to maintain a global competitive advantage it is essential to be able to focus on the marketing to be adaptive and changing relating to the different customs, buying habits and the different demographic segments in a given country when doing business across cultures. The success of a company on a global market does not depend as much on whether they are choosing to use the global or the multinational strategy as it depends on the marketing mix' alignment to the country's culture. When a company strives to become global, brand identification and image becomes essential influencers on their ability to be successful. Branding is an asset that helps increasing the value of a company and is enabling it to be able to communicate their identity and image related to its products and services to the consumers and enhancing the potential of consumer acceptance. In this context, it is important to keep in mind that consumer awareness and acceptance varies from country to country (ibid). To illustrate the importance of being aware of cultural differences, an example by Krueger & Nandan (2008) will be explained. Wal-Mart and Tesco are two companies whom are being successful on their domestic markets and in other international markets. However, Wal-Mart had to withdraw from the German market, while Tesco had to do the same on the Irish market. The reason that they had to withdraw was because both companies had failed to succeed in dealing with the German and Irish cultures. The products and services of Wal-Mart and Tesco was not different but they did not promote consumer acceptance (ibid).

The consumers' acceptance is depending on the image of a brand and is consisting of the believes consumers are having to that brand's product line and the company and how it is separating itself from the competition. A brand is communicating with the consumer with overall characteristics or personalities, which for the consumer, is more important than the product or service of a company. This can consist of a name, slogan or symbol that is communicating an identity-image and thus linking to the consumer (ibid).

#### 4.3.3 Hofstede's Dimensions in Correlation to Cultural Branding Approaches

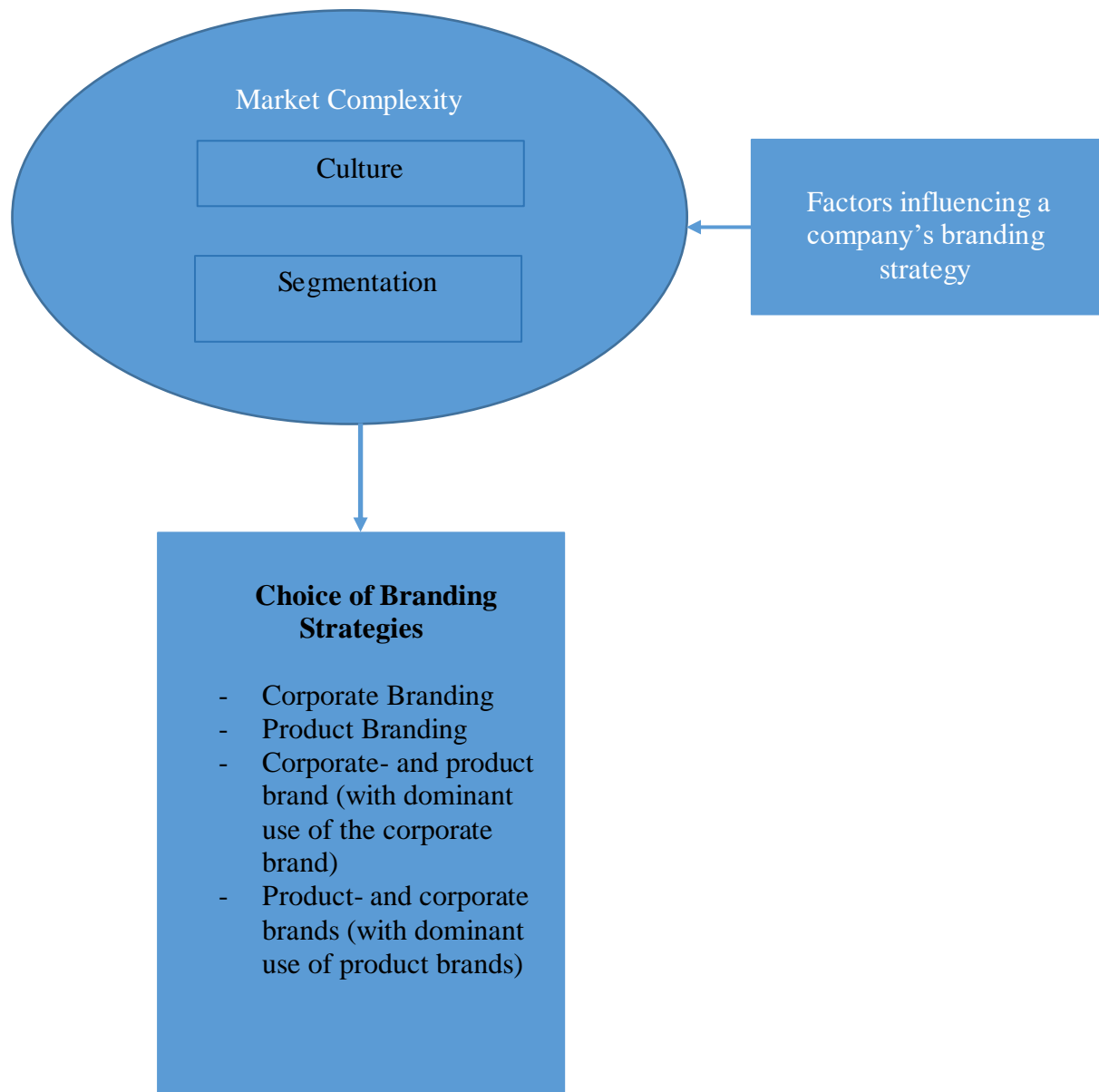
The approaches above can be related to that of the Hofstede's Model. In short, The Hofstede Model is differentiating cultures by dividing it into six different dimensions: power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, long-/short-term orientation and indulgence/restraint. The model is using a scale going from 0 to 100 and is consisting of data from 76 countries fitting each of the six dimensions included, whereas every country has their position on the scale relative to other countries (Mooij & Hofstede, 2010). To understand how the Hofstede Model can be used in relation to cultural branding it is important to know how the dimensions are meant to be understood. Some of these dimensions will be explained and correlated to the approach of handling branding in foreign cultures. Power distance, is essentially explaining the relationship between bosses and the subordinates in a company, but this dimension can further be used to obtain information about how individuals in a culture are viewing their rightful place in society versus equality, whereas this perception can explain the need for obtaining luxury brands as a way of symbolizing an individual's status in a high power distance culture (ibid). If this dimension is being taken into relation to the example made by Ioanid et al. (2014) illustrating the way Zara has conducted their branding strategy by adapting according to the competition on the market. They have been able to identify on which market they would be seen as a luxury brand and as an affordable brand, which shows the tendency of individuals from Eastern European countries to purchase Zara as a mean of illustrating their status in their given culture. However, in Western Europe, individuals are choosing another brand that is branding itself as a luxury lifestyle symbol. The dimension of masculinity is showing that achievement is an important value. Innovativeness and the need for change has been identified as low when cultures that has a high uncertainty avoidance, but the cultures with the combination of a high power distance, the innovative and modernity brands are providing the individuals with status. The explanation is that high scores in masculinity and power distance is demonstrating the need for status and is explaining the need for luxury brands as it will support their

status in the hierarchy and their success (Mooij & Hofstede, 2010). As Krueger & Nandan (2008) explained, it is important for companies to be able to identify the customs, buying habits and the demographic segments in a given country as to be able to brand themselves in the most effective manner, which the Hofstede's Model can provide information and by give essential information as to who and how they should construct their branding strategy according to the culture of the country. This is further argued towards by Mooij & Hofstede (2010), by stating the differences in importance of personal appearances in the Japanese and Chinese culture. In the Japanese culture, they are having a high power distance and a high uncertainty avoidance, which means that they are judging people according to how they are dressing. In China, the power distance is also high on the Hofstede Model scale. However, they are having a low uncertainty avoidance, and they do not focus as much on the personal appearance. The Japanese are associating one's social status with face, whereas the Chinese are associating it to one's capabilities related to economy. An important statement to remember is, that the cultural models are not developed to analyze on consumer behavior, which means that when used, the indicators of culture that are relevant in correlation to consumer behavior needs to be chosen and understood (Mooij & Hofstede, 2010). It has only recently been proved through studies, that the adaption strategy is more effective than standardizing, which has made marketers aware of the importance of culture and thus cultural models has various models has emerged. However, the Hofstede Model has been the most applied when related to global marketing. The reason behind this is, that other cultural models are based on far less countries than that of Hofstede's and additionally, his dimensions are straightforward and is appealing to both academic and business use (ibid).



#### 4.4 Theoretical Framework based on the Literature Review

In order to answer our research question and sub questions, we have developed a theoretical framework based on the literature review. The theoretical framework will influence our empirical part of the project. Throughout the literature review, we identified many different branding strategies that are mixtures of corporate and product branding, in which MNCs can adopt. However, we will base the theoretical framework on the brand architectures mentioned by Urde (2006). This is because their paper examines which factors that influence the branding strategy of firms in emerging markets. However, we have chosen to modify their figure in order to reach our purpose. We have focused on the factor *market complexity*, which consists of the cultural aspect and segmentation. These factors are most relevant for our study, and therefore some of the other factors in Urde (2006) figure are not mentioned in our theoretical framework. Based on the above-mentioned factors, we have created a theoretical framework which is summarized below.

*Figure 14: Theoretical Framework*

## 5. The Chinese market and its development

*In order to better understand China as a whole, this section will provide some information about its economy and the development of it. Furthermore, as mentioned previous, China cannot be approached as one market, and therefore this section will also describe the categorization of tier systems which many businesses use to rank China's cities. Also, we will define the Chinese middle class and how it has been developed. Lastly, we will provide some information about the Chinese automotive industry.*

Before 1978, China was a poor country due to its centrally-planned economy. China had a GDP (Gross Domestic Product) per capita level similar to Zambia. China also had a GDP per capita level lower than half of the Asian average and lower than two thirds of the African average (Eckart, 2016). According to data from World Bank, 88,32 percent of the Chinese population lived in extreme poverty in 1981 (See figure 15). It had higher extreme poverty percentage than some other emerging countries such as India and Brazil, and higher than world's average poverty percentage.

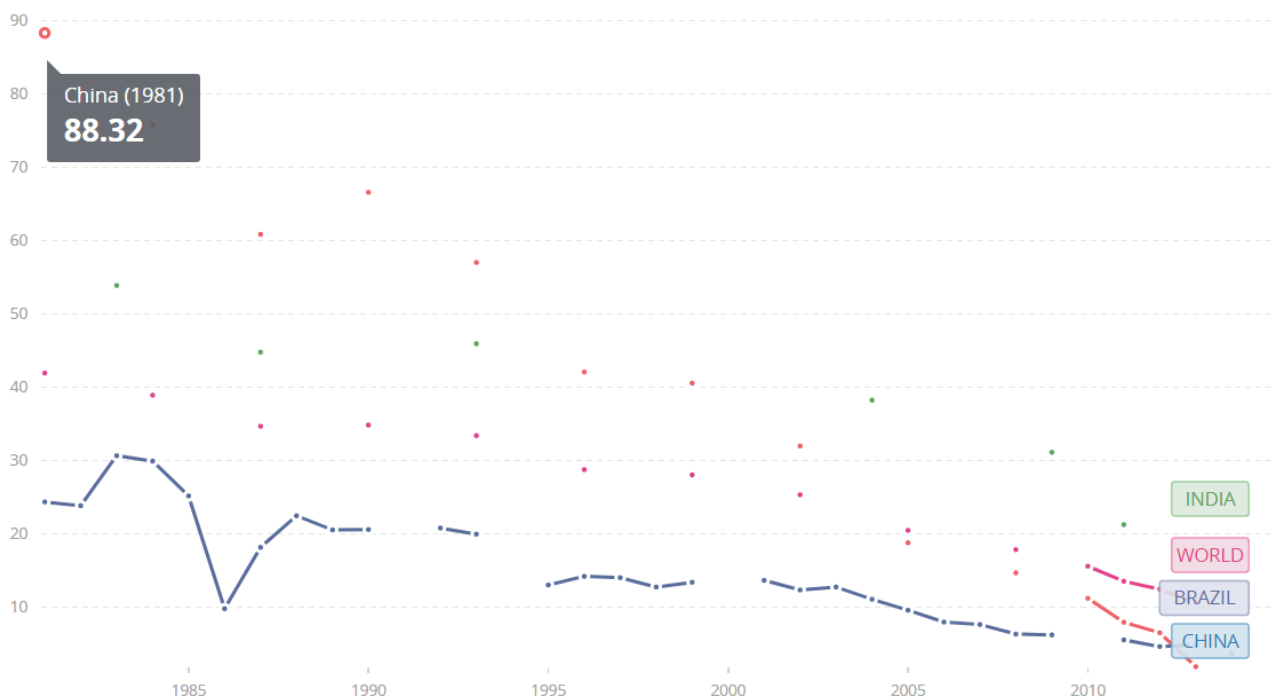


Figure 15: Share of population living in extreme poverty, 1981-2014

Source: (The World Bank, 2014)

However, since initiating market reforms in 1978, China shifted to a market-based economy which led to rapid economic and social development. The government established four special economic

zones along the coast. The purpose with this was to attract foreign investment, boost export, and import high technology products into China (Morrison, 2015). Additional reforms were introduced along the way which sought to decentralize economic policymaking in several sectors, especially trade (ibid). Provincial and local governments stood for the economic control of various enterprises, which allowed them to operate and compete on free market principles, rather than guidance of state planning. Furthermore, several coastal regions and cities were appointed as open cities and development zones. This was an opportunity to experiment with the free market reforms. Another key success to China's economy was the trade liberalization which removed trade barriers and encouraged greater competition and attracted FDI (Foreign Direct Investment) inflows (ibid). Since the above-mentioned reforms, China's GDP growth has averaged nearly 10 percent per year (See figure 16).

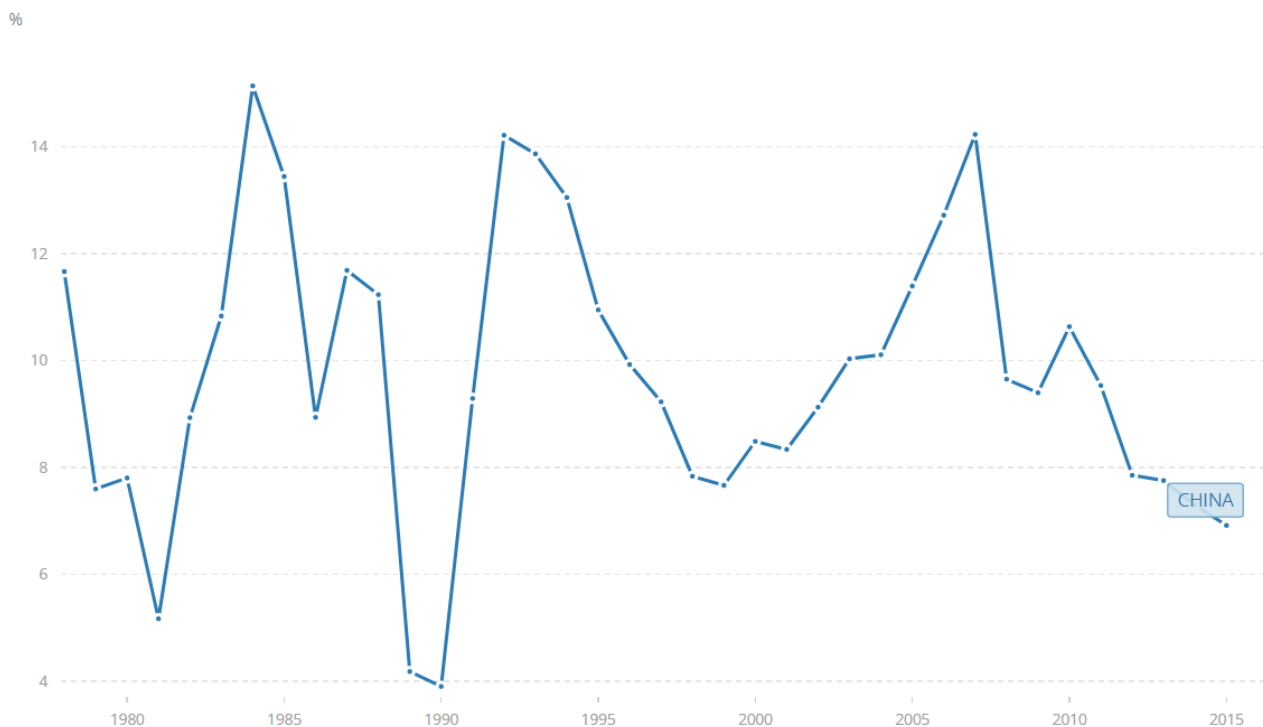


Figure 16: Chinese real GDP Growth: 1978-2015

Source: (The World Bank, 2017)

**Note:** The sharp economic slowdown in 1989 and 1990 was largely the result of the political and economic turmoil in China that occurred following the June 4, 1989 (Morrison, 2015).

This is the fastest sustained expansion by a major economy in history (The World Bank, 2017). China managed to raise GDP per capita from 155 US Dollars in 1978 to 7,590 US Dollars in 2014 (Eckart,

2016). This sustained growth has lifted over 800 million people out of poverty. However, this development has been driven by the eastern part of China, whereas the development in the western part of China is lagging behind and its per capita income is still below world average (ibid). Nevertheless, China represents an extraordinary case of economic development in an emerging market.

With a population of 1.3 billion, China is the second largest economy in the world. It continues to play important and influential role in development and in the global economy. Since the global financial crisis in 2008, China has been the largest contributor to world growth (The World Bank, 2017). The world reached its UN millennium development goal of halving extreme poverty and this was largely driven by China. China accounted for more than three quarters of global poverty reduction between 1980 and 2005 (Stuart, 2015). This accomplishment was done by a growth strategy which was to assemble and sell cheap goods to the world.

### **China is the world's largest exporter and the second largest importer of merchandise goods**

As mentioned, China has made a considerable contribution on the global economic development. China has become the world's largest exporter (Sawe, 2017) and second-largest importer of merchandise goods (World Trade Organization, 2016). Also, it is the third largest exporter and second largest importer of commercial services (ibid). The below figure visualizes China's trade with countries around the world.



Figure 17: China's 2013 trade with each country

Source: (Russel & Lai, 2016)

The main destinations are the US (18%), the European Union (15.6%), Hong Kong (14.6%) and Japan (6%). 94.3% of all merchandise exports are manufactured goods, 3.2% agricultural products and 2.4% fuels and mining products (World Trade Organization, 2016).

### 5.1 Understanding China's tiered city system

As it is not possible to look at China as one market it is important to be able to determine which region and cities a company should target. One of the ways to do so is by using the tier system. There is no official definition given by the Chinese government in relation to that of the tier system and businesses are taking different approaches as means of defining, which can consist of GDP (Gross domestic product), political administration, size of population and more. One thing the approaches have in common however is that they are dividing it into four different tiers that consists of different consumer behavior, income levels and business potential (Wine Australia, 2017).

#### **Tier 1 Cities**

This tier is representing the areas that are the most developed in the country of China and is having the most wealthy and sophisticated consumers. These cities are viewed as the center of the economic activity as the industries, which are developed to be the drivers behind the economy of the country are clustering around this tier. Additionally, these cities are believed to be holding the most potential as to attract foreign and domestic investments (Cheng, 2014). The tier cities are all having a GDP that is higher than 300 billion dollars and have cities with more than fifteen million people (Wine Australia, 2017).

#### **Tier 2 Cities**

These cities have gained an increased interest from investors and is representing fast growing areas. The consumer behavior is rapidly evolving and is beginning to look similar to that of the tier 1 cities (Cheng, 2014). The cities are having a GDP of 60 to 299 billion dollars, is consisting of provincial capital cities and sub-provincial capital cities, and are consisting of cities with three to fifteen million people (Wine Australia, 2017).

**Tier 3 Cities**

The economy and development in many of the cities of this tier are inferior to that of the ones in tier 1 and tier 2, whilst other cities in this tier is still being considered as noteworthy economically and historically. A large amount of the cities in this tier are seen as convenient and as a low-cost location for industries and companies (Cheng, 2014). The cities of this tier are having a GDP between 18 to 67 billion dollars, consisting of prefecture capital cities and are having populations with between 150.000 to three million people (Wine Australia, 2017).

**Tier 4 Cities**

The cities in this tier are consisting of the majority of China's urban population. Whereas the speedily changing rates of development that is happening across China does hold the ability to change a lot of these cities so they can evolve. The GDP of these cities are below 17 billion dollars, they are county level cities and are consisting of populations with less than 150.000 people (Wine Australia, 2017).

## 5.2 China is Developing Middle Class Consumers

China's middle-class consumers are evolving rapidly, and according to a study by Mckinsey & Company, more than 75% of China's urban population will be considered middle class by 2022 (Barton, Chen, & Jin, 2013). These urban households are defined as urban consumers who earn 9,000 to 34,000 US dollars a year. In 2000, just 4% of the urban population was considered middle class. In the upcoming years, the middle class will be powered by the labor market. Furthermore, the middle class will also be powered by policy initiatives which will push wages up and financial reforms that will stimulate employment and income growth. Also, the income of households could increase due to the rising role of private enterprise, which could encourage productivity. If this is expected to hold true, urban household income will at least double by 2022 (ibid). This emerging middle class will look to upgrade their consumption in the future. They will shift to higher quality and more branded products (The Economist Intelligence Unit, 2016).

**Defining different types of consumers**

In China, there is no statistical definition of middle-class level income. However, some metrics are using groups to distinguish between several different income groups. For example, China's National Bureau of Statistics defines income ranging from 60,000 to 500,000 yuan per year (equivalent to

\$7,250 - \$62,500) as middle class (Wang H. H., 2010). Mckinsey and Company uses other ranges and so does the Economist Intelligence Unit.

Mckinsey & Company define four types of consumers in China (Barton, Chen, & Jin, 2013): affluent consumers, with an disposable income above 229,000 yuan a year (equivalent to > \$34,000); upper middle class consumers, with an disposable income of 106,000 to 229,000 yuan (equivalent to \$16,000 to \$34,000); mass middle class consumer, with an disposable income of 60,000 to 106,000 yuan (equivalent to \$9,000 to \$16,000); and poor-income consumers, with an disposable income that is less than 60,000 yuan (equivalent to < \$9,000). Below is an estimation on how the development of these different group will be until 2022.

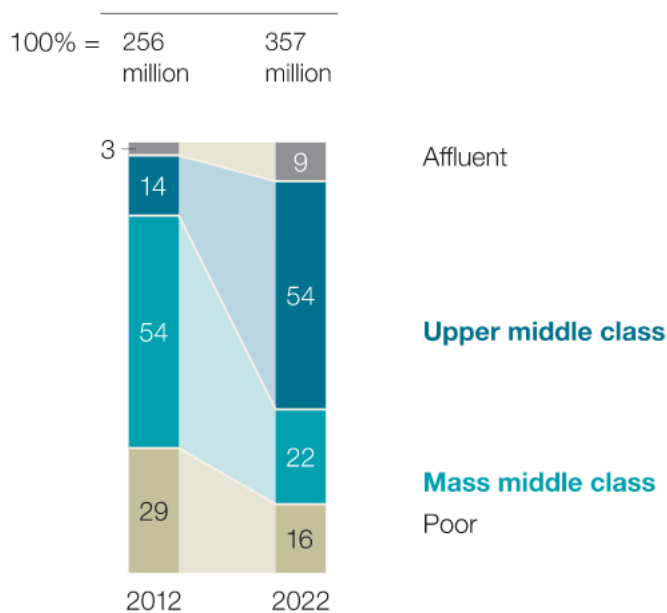


Figure 18: The evolution of the middle class, 2012-2022

Source: (Barton, Chen, & Jin, 2013)

The figure illustrates that the poor-income consumers will decrease from 29% to 16%. Furthermore, the mass middle class consumers will significantly decrease from 54% to 22%. However, this indicates that many consumers from this segment will likely become upper middle-class consumers, as it is estimated that this segment, who accounted for just 14% of urban households will increase to 54% by 2022. The affluent segment will increase from 3% to 9% by 2022.

Another report from The Economist Intelligence Unit, a research and analysis division of the Economist Group, also define four types of consumers in China. However, they define these consumers regarding their disposable income differently than Mckinsey & Company. Nevertheless, their definition of types of consumers in China also gives an indication of how big the middle class



is and how it will evolve. In the report they define the four types of consumers in China as: Low-income consumers, whose disposable income is less than 13,000 yuan a year (equivalent to \$2,100 in 2015); lower middle-income consumers, with a disposable income of 13,000-67,000 yuan (\$2,100-10,800); upper middle-income consumers, with a disposable income of 67,000-200,000 yuan (\$10,800-32,100); and high-income consumers, with a disposable income above 200,000 yuan (>\$32,100) (The Economist Intelligence Unit, The Chinese consumer in 2030, 2016). The below figure visualizes the annual disposable income per capita distribution and how it will develop in the nearby future.

**Annual disposable income per capita distribution**  
(% of total population, grey income-adjusted, constant 2015 prices)

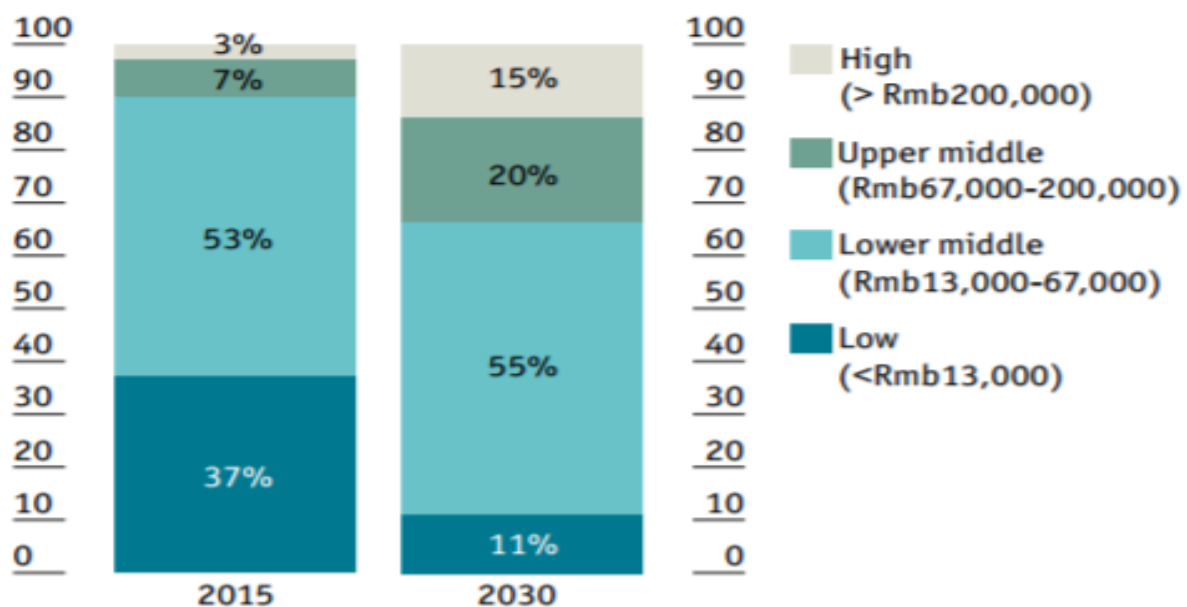


Figure 19: Annual disposable income per capita distribution, 2015-2030

Source: (The Economist Intelligence Unit, 2016, p. 6)

According to the Economist Intelligence Unit, the low-income population will narrow down from 2015 to 2030. They estimated that 37% of the total population, or around 500 million people, belonged to this income group in 2015. By 2030, they however expect that only 11% of the population, or around 155 million people will be defined as low-income. Majority of the low-income group will be moved into the lower-middle group by 2030. As the figure illustrates, this segment will remain almost unchanged by the year of 2030, at 55%. It is also estimated that the upper-middle class population will expand from 97 million in 2015 to 276 million in 2030, or around 7% to 20%. This shift in demographics will create a significant demand for consumer upgrade regarding higher quality

of consumer goods and services (The Economist Intelligence Unit, The Chinese consumer in 2030, 2016). The group of high-income consumers will expand more quickly than any other group. In 2015, this group only represented 3% or around 35 million people of the total population. In 2030, it is estimated that the high-income group will represent 15% or around 204 million people of the total population.

### 5.3 The Chinese Automotive market

#### **Brief overview of China's automotive industry development**

In 1980s, Chinese leaders chose the automotive industry to be one of the pillar industries in the seventh five-year plan (1986-1990)<sup>1</sup>. They chose the automotive industry to be one of the pillar industries in the seventh five-year plan as it involved development of many other sectors such as steel, rubber, machinery etc. The Chinese government sought to consolidate the industry and create three large producers and three small ones. These producers were to form joint ventures with foreign producers. The goal was to obtain access to advanced technology, maintain high rates of local content and produce to world standards (Thun, 2004). The first joint ventures of the development of passenger cars were developed by Shanghai Automotive Industry Corporation (SAIC) with Volkswagen, and Beijing Jeep with American Motors Corporation (Ban, Belzowski, & Gumblich, 2005). These companies had a profitable monopoly on the Chinese market for several years. However, the Development Research Center of the State Council issued a report “*World Trade Organization and China's Auto Industry*”, and the report concluded that the Chinese autos were not competitive due to outdated products, high prices, and lack of independent R&D ability (Chu, 2011). The Chinese government therefore wanted to improve competitiveness of the automotive industry through promotion of ownership of family cars and reduction of import costs. However, the most important decision was to allow more intense international competition on the domestic market. The central government was in charge of the next industrial upgrading's as none of the existing Chinese automakers or local governments had the ability to lead the changes. The central government negotiated with major global automakers and required that they bring in the latest technology through joint ventures. The first and most important case was the joint venture between SAIC and GM in 1997. This deal was followed by several other joint ventures: Guangzhou-Honda (1998), Tianjin-Faw-Toyota (2000), Changan-Ford (2001), Beijing-Hyundai (2002), Brilliance-BMW (2002) and

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<sup>1</sup> China's five-year plans are a series of social and economic development initiatives which was first introduced in 1953.

Dongfeng-Nissan (2002) (Chu, 2011). Because of these deals, the Chinese automotive market became a global battlefield.

### Sales of passenger cars continues to increase

For the past two decades, China has been the global automotive industry's greatest growth market. Since 2008, sales of passenger and commercial vehicles have increased exponentially, surpassing 20 million per year in sales of vehicles in 2013 (See figure 19).

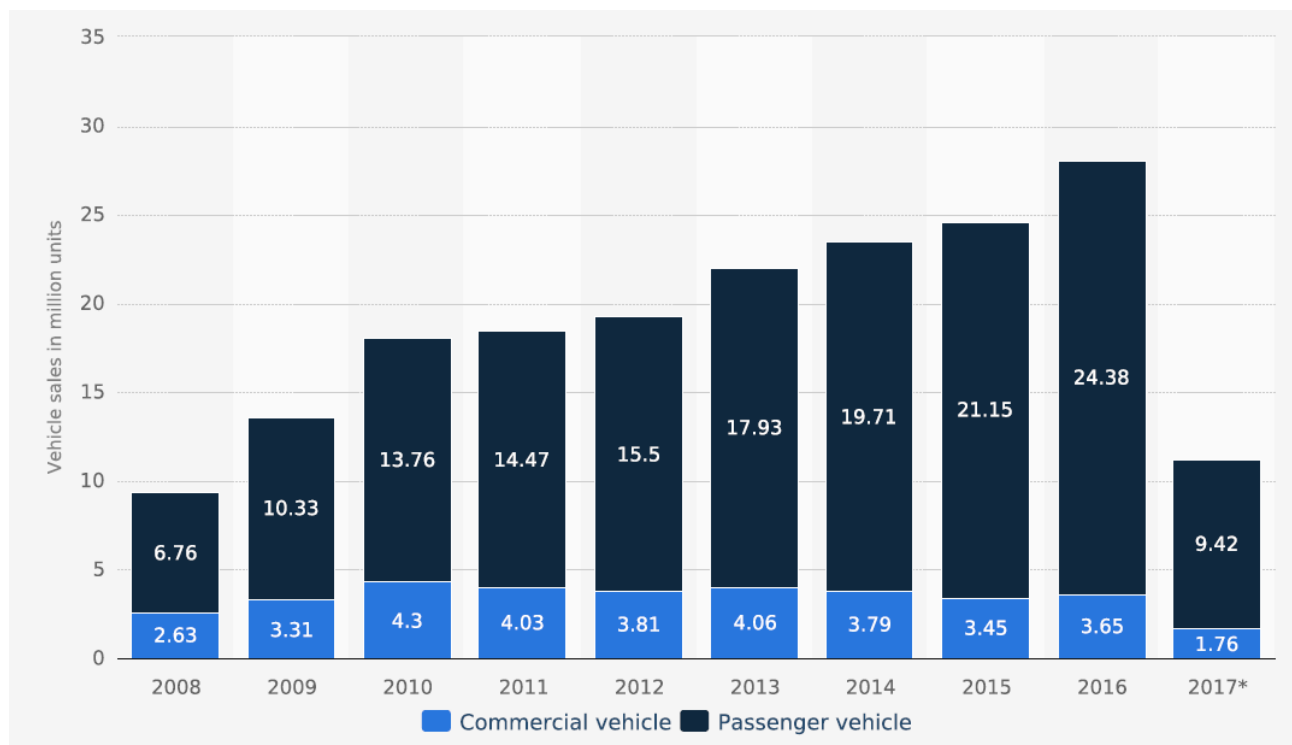


Figure 20: Passenger and commercial vehicles sales in China from 2008-2017 (in million units)

Source: (Statista.com, 2017)

The Chinese automotive industry represents an extraordinary case of industry development. By becoming a WTO member in 2001, China needed to open its doors to foreign investment. This investment has poured in and many billions of US dollars have been invested by foreign automakers (Ban, Belzowski, & Gumbrich, 2005). Today, the Chinese market are packed with foreign automotive brands such as Audi, Volkswagen, Toyota, Honda, Ford and virtually every major auto manufacturer is present in China. Volkswagen as an example has 28 Volkswagen-branded cars in China (Feijter, 5 Stunning Facts About The Chinese Car Market You Need To Know, 2016). One foreign automotive manufacturer that has managed to gain success on the Chinese market is Volkswagen Group, which has received three spots on the top-ten list of most sold vehicles in China (Yan, 2017).

## 6. Empirical Case: Volkswagen Group China

*As the purpose of this thesis is to identify how a Western company can develop a strong brand on the Chinese automotive market, it has been chosen to take a case into the discussion which includes an automotive company from the Western world that has achieved to be successful on this very market. The reason behind choosing Volkswagen is that they have managed to obtain three spots on the top-ten list of most sold vehicles in China in 2016. But before they are brought into the discussion in relation to the gathered knowledge obtained from the literature review, this section will clarify who Volkswagen Group China is.*

### **Volkswagen Group in China**

According to Volkswagen themselves, the company have been one of the earliest and most successful international partners of China's automobile industry. The group itself has grown together with the Chinese auto industry, which has made it possible to achieve overcoming challenges and growth, whilst having a partnership with China over the past 30 years. The partnership between China and Volkswagen began in 1978 and the first Santana was already being produced in April 1983 in Shanghai. The first joint venture named SAIC Volkswagen Ltd was founded in October 1984 in Shanghai, whereas the second joint venture occurred a few years later in February 1991 named FAW-Volkswagen Corporation Ltd was being established in Changchun (Volkswagen, 2017).

On the Chinese market, the Volkswagen Group are currently having production, sales and services of complete vehicles and parts. They are offering all of the Group auto brands on the market, which consist of:

- |              |                                  |
|--------------|----------------------------------|
| - Volkswagen | - Bugatti                        |
| - Audi       | - Lamborghini                    |
| - Skoda      | - Porsche                        |
| - SEAT       | - Ducati                         |
| - Bentley    | - Volkswagen commercial vehicles |
| - Scania     | - MAN                            |

Since they have been entering the Chinese market, Volkswagen Group has managed to take a leading market position, which is also noticeable on the top-10 list made by China Daily (2017) over the most sold vehicles in 2016. By the year of 2015 in cooperation with Volkswagen Group's two joint

ventures they have provided the Chinese consumers with 3.55 million vehicles in total on the Chinese mainland and Hong Kong, which was further increased by 2016 to approximately 4 million vehicles as shown on the figure.

Thousand units	2016	2015	%
<b>Deliveries</b>	<b>3,982</b>	<b>3,549</b>	<b>+12.2</b>
<b>Vehicle sales<sup>1</sup></b>	<b>3,873</b>	<b>3,456</b>	<b>+12.1</b>
<b>Production</b>	<b>3,896</b>	<b>3,420</b>	<b>+13.9</b>

Figure 21 - Sold vehicles in China

Source: (Volkswagen, 2016)

Volkswagen Group China currently have established plants in Shanghai, Changchun, Dalian, Nanjing, Yizheng, Chengdu, Foshan, Ningbo, Changsha, Urumqi and Tianjin, whilst also working towards establishing another plant in Qingdao. With the inclusion of the two joint ventures, Volkswagen Group China has over 90.000 employees.

According to Volkswagen Group, innovation and efficiency are the keys behind a sustainable lifestyle and are stating that they are committed to being the most sustainable automaker in China, by using an efficiency strategy. As to be able to adapt to the fast development happening on the Chinese auto market, they are investing 22 million in the years between 2015 and 2019, whereas two thirds of this amount is being used to support projects with the purpose of sustainable development. This includes developing more efficient products, powertrain technologies and to achieve more environment-friendly production possibilities.

In the first quarter of 2017, Volkswagen Group China, have managed to keep their current market leadership. Deliveries however, have been affected by a series of factors, whereas one of the most influential have been the tax increase on vehicles with small engines and their ramp-up phase of their SUV offensive. Prof. Dr. Jochem Heizemann (member of the board of management of Volkswagen Aktiengesellschaft), states that this is not worrying, as they are launching 30 new models in 2017 and are having an offensive happening in SUV's (the fastest growing segment), which is expected to increase their overall market growth with approximately four to five percent (Financial Times, 2017).

What is it that makes Volkswagen Group such a success on the Chinese market and how can their success be transferred to other Western companies? The Volkswagens approach to obtain a strong brand on a market that seems difficult to enter will be related to the theoretical framework developed by the literature review. This will give an insight to how this is achievable.

## 7. Discussion

*The obtained knowledge from the literature review, the knowledge of the Chinese market and the approach to branding of Volkswagen Group will be discussed in this section. This will be done to identify what a Western company can do on the Chinese market as to gain success with the Chinese consumers while relating the theoretical framework developed from the literature review, to the approach of Volkswagen Group.*

### 7.1 Automotive Market Opportunities in China

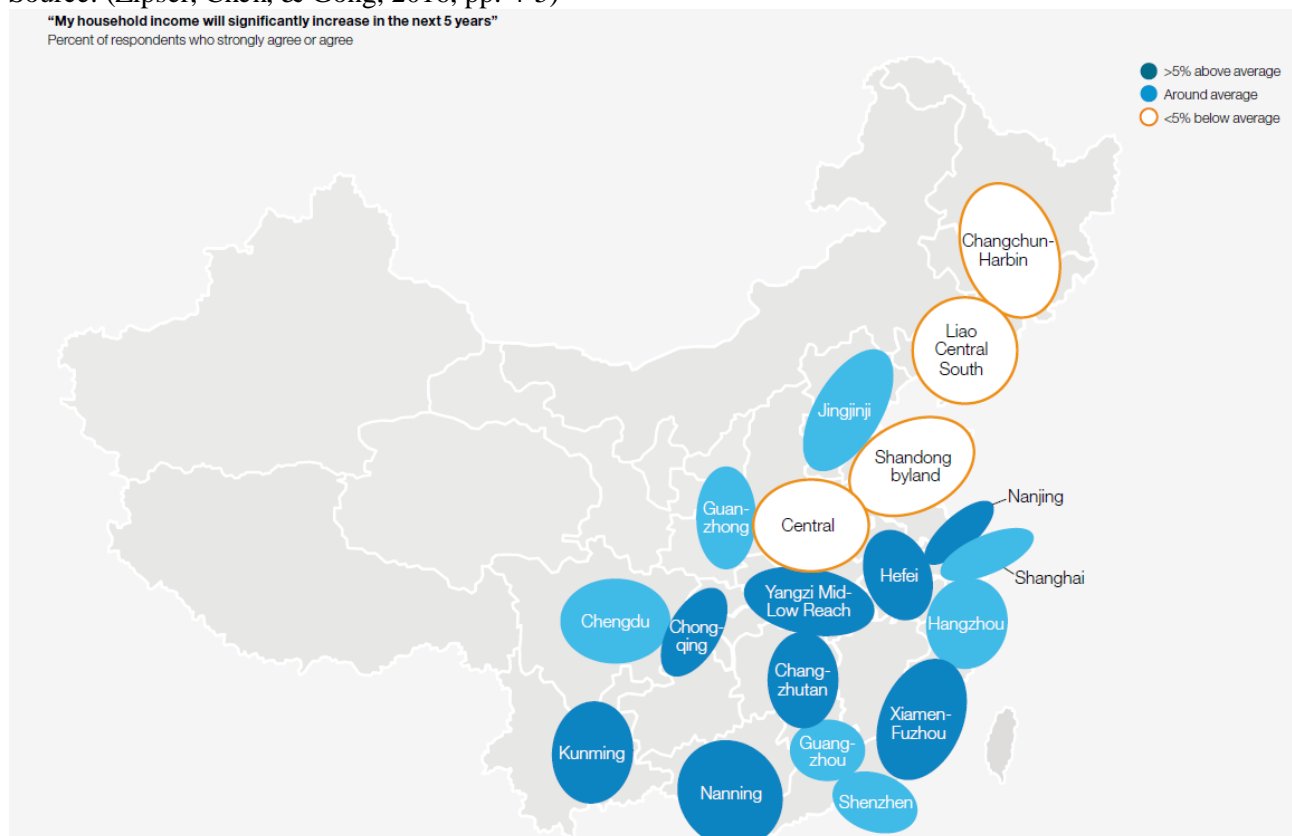
Western companies doing business in China needs to understand the rapidly changing dynamics of marketing and consumption. Differences in for example demographics, income, growth and urbanization are forcing western companies to carefully study the basic motivations of Chinese consumers. These are changing constantly due to aforementioned structural and growth dynamics. Therefore, in this chapter we will discuss the automotive market opportunities for Volkswagen in China.

The Chinese consumers will switch to a higher mainstream segment because of rising wages. It is estimated that the upper-middle class segment will significantly increase in the nearby future (Barton, Chen, & Jin, 2013). For example, Mckinsey & Company estimate that this segment will increase from 14% to 54% by 2022. The Economist Intelligence Unit estimate that the upper-middle class population also will increase significantly by 2030. 180 million additional households will represent this segment, close to 280 million people, or roughly three times the population of Germany. This group will become the standard setters for consumption, capable of affording family cars, branded goods and small luxury items (The Economist Intelligence Unit, 2016; Schaffmeister, 2016). This group is estimated to have a disposable income of \$10,800-\$34,000 (Barton, Chen, & Jin (2013); The Economist Intelligence Unit, 2016). For international brands such as Volkswagen, this means that the chance to introduce better and high-value products to a vast group of new consumers. Provincial variations present opportunities for Volkswagen looking for new markets. However, car ownership in first-tier cities and coastal provinces has reached a high point due to better infrastructure, and due to easier access to car loans and other services (The Economist Intelligence Unit, 2016). For example, because of high levels of traffic and air pollution, Beijing, Shanghai and Hangzhou (among many other) have imposed restrictions regarding automotive purchasing. Nevertheless, the focus of Volkswagen could be on persuading consumers to trade upwards and to purchase premium car models, rather than expanding levels of ownership (ibid). Volkswagen's strategy is to emphasize

premium brands due to increasing affluence in China's demographic. This is consistent with recent research made by McKinsey & Company, who have interviewed 10,000 people with the age of 18 to 56 across 44 cities. Their findings show that consumers are becoming more selective about where they spend their money, shifting from mass to premium segments (Zipser, Chen, & Gong, 2016). Furthermore, 55% of consumers were confident that their income would even further increase over the next few years. Furthermore, 50% of consumers were also found to seek the best and most expensive offerings, which is a significant increase over the previous years, making it attractive for automotive brands such as Volkswagen. However, regional differences in consumer confidence have widened as seen in the figure below. For example, in the Liao Central city-cluster, the confidence has decreased to 35%, while in Nanjing city-cluster, the confidence rose to 62% (Zipser, Chen, & Gong, 2016).

Figure 22: The confidence among Chinese consumer whether their household income will significantly increase in the next 5 years

Source: (Zipser, Chen, & Gong, 2016, pp. 4-5)



With Volkswagen being a well-established brand in the world, they will have to focus on adopting a multi-segmenting method. Lin (2002) suggests that businesses that want to develop new brands or expand their product lines can use brand preference a significant factor in allocating resources to develop effective product strategies. Lin (2002) further suggests that firms should adopt a multi-



segmenting method consisting of both psychographic and demographic dimensions in order to have a complete marketing segmentation information. However, due to the aforementioned with China being a very complex market and consumers becoming more sophisticated, Volkswagen will have to consider all of the segmentation dimensions such as geographic, demographic, psychographic and behavioral, in order to target the broad number of consumers. Chinese consumers are becoming more sophisticated about cars. They are developing strong preferences. However, at the same time, they are showing increasingly diverse behavior and needs. According to McKinsey & Company, companies have to offer products to the growing segments of the markets. Automakers need to review their product-cycle plans and identify the most favorable segments. For example, with the growing segment such as SUVs and higher priced cars along with the fact that the Chinese consumers are becoming more environmentally conscious, Volkswagen need to address these demands. In 2016, the Volkswagen passenger car brand revealed the Teramont which is the first seven-seater SUV for the Chinese market (Volkswagen, 2016). Due to premium standards of Chinese consumers, this model was presented with a new design with an elegant and robust exterior. However, Volkswagen's brands such as the Jetta, Lavalda, Sagitar, Santana and Tiguan models, the Audi Q3, Q5, A6 L and the Skoda Octavia are mentioned by the company to have been especially popular. Looking at some of the cars such as Jetta, Lavalda and Santana, they are all sedan cars. These are sold in the range of 8,000 US dollars to 20,000 US dollars (Feijter, 2016). Even though they have sold extremely well in the past, there is a reason of concern. As mentioned previously, due to the rising Chinese upper-middle class and increasing confidence that their income will increase, the growth of sedan cars is slowing down as many car buyers are shifting to more expensive and larger cars such as SUVs. Facilitated by higher incomes, the SUV boom has also been underpinned by a desire for safer and smoother driving and to the social status associated with luxury vehicle ownership (The Economist Intelligence Unit, 2016). According to professor Heizmann, Member of the Board of Management of Volkswagen AG (with the responsibility for China) this is something Volkswagen focuses on the Chinese market: *"To meet the needs of the customers we consistently deliver top models with the highest level of quality and reliability and innovative technologies"* (Abel, 2013, p. 31). Furthermore, demographic change will most likely sustain further demand for SUVs. After several decades of strict population control under China's one-child policy, the Chinese government has begun to gradually loosen this restriction since 2012 (JATO, 2016). Therefore, several provinces in China now have many millions of couples who are now allowed to have a second child. This indicates that in the long run, there will be a change in the size of Chinese families which makes the demand for SUV even higher.

Automakers typically think of China as one or maximum of four markets (Tier 1 to Tier 4 cities). McKinsey & Company suggests that smaller cities such as tier 3 and tier 4 cities are accounting more automotive sales than ever before, and it is projected that new car sales in these cities will reach almost 60% between 2012 and 2020. Similarly, The Economist Intelligence Unit findings indicate less developed cities provide new opportunities compared to more developed cities.

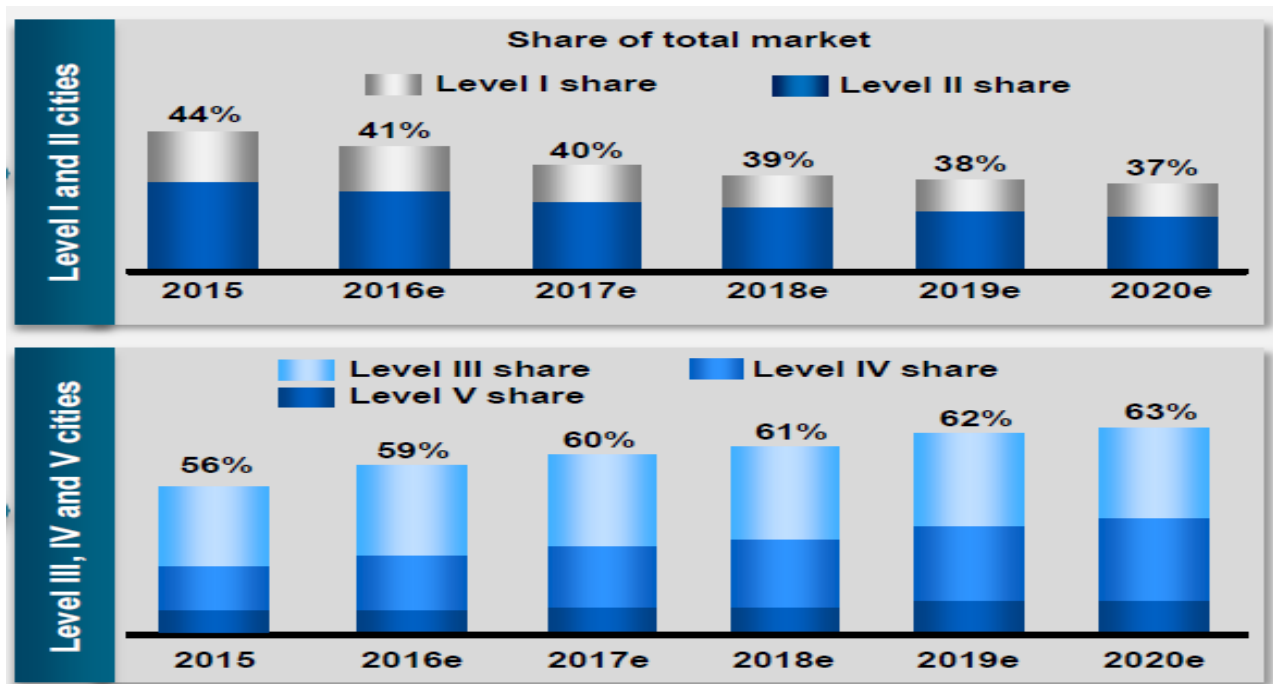


Figure 23: Share of total market

Source: (Isensee, 2016, p. 8)

The restraining growth of car sales in tier 1 and tier 2 cities may be due the purchase restriction policy in these cities. Tier 1 and tier 2 cities have endorsed policies restricting the purchase of cars with the aim to reduce the growing problem of pollution and traffic congestion. For example, by the end of 2014, Beijing, Shanghai, Guangzhou, Guiyang, Tianjin, Shijiazhuang, Hangzhou and Shenzhen had introduced limits on buying cars (JATO, 2016). Furthermore, other restrictions have been applied such as limited driving in some places and banning cars registered outside the city from being driven inside on the busiest roads on work days. The outcome is that tier 3 and tier 4 cities have begun to overtake tier 1 and tier 2 cities as the fastest-growing sales regions in China. This is due to the purchase restriction policies as well as the rising income level per capita among the Chinese consumers (ibid).

## 7.2 Automotive Branding Strategies in China

According to Urde, there are four brand architectures available to a firm. These are *corporate brands*, *product brands*, *corporate- and product brands* (with dominant use of the corporate brand), and *product- and corporate brands* (with dominant use of product brands). Kapferer (2012) state that the more differentiated a product is, the more the strategy is aimed towards product brands. On the contrary, the more the brands functions as an indicator of origin, the more the strategy is aimed towards a corporate branding strategy. However, another option can be to focus the strategy on corporate branding and product branding simultaneously (Xie & Boggs, 2006; Kapferer, 2012; Singh, 2012). In the case of Volkswagen, the company has implemented a corporate- and product brand strategy. A corporate- and product brand strategy is a strategy in which the corporate brand itself is dominantly used to brand the different products or product lines. This strategy is commonly used where companies give individual products their own identification but closely link them to the company's overall brand. To illustrate this with the example of the Volkswagen brand, see the figure below.



Figure 24: Range of Volkswagen vehicles

Source: (Isensee, 2016, p. 17)

For Volkswagen, this strategy brings together multiple products under the umbrella of a single, strong brand. In the corporate- and product strategy, every product or brand shares the same vision and values. This offers the chance for Volkswagen to increase customer loyalty as it is more likely that consumers are attracted to the overall brand. These different brands illustrated on the figure above

have the function of putting added value to the product and making the product easier to recognize. This also makes them easier to categorize according to different qualities and features in order to maximize customer satisfaction. However, in China, Volkswagen need to operate as a joint venture. This could increase organizational complexities and could constraint the branding strategy. In China, the complex structure of the local automotive industry considerably lowers brand visibility. Consumers do not care about different joint ventures brands (Kapferer, 2012). They do however care that the brand is Volkswagen. Also, what makes a big difference is whether the car is imported or manufactured locally (ibid). Volkswagen has made some significant process regarding this, creating a unified online brand portal where consumer can, for the first time, find all Volkswagens products in China in one spot, no matter if they are imports, Shanghai Volkswagens or vehicles manufactured by FAW-Volkswagen.

Volkswagen also confirms that it is very important to take culture into consideration when entering the Chinese market. In order to develop the best vehicles, the cultural aspect is mentioned one of the key factors to succeed on the Chinese market. They are involving themselves in the Chinese community and thereby considers the cultural factor as essential to move the company forward. Furthermore, consumer characteristics are also considered since the company strives to deliver products that are most relevant to the consumers. Volkswagen tries to understand and to be ahead of the consumers and to keep up with innovation and deliver products in line with customer needs. They are therefore having a *market and brand oriented* approach indicating that the approach is more closely related to *market orientation*, where they company is responding to the needs and wants in the Chinese market.

The advantage of a corporate- and product strategy is that each of Volkswagen's products can benefit from the corporate brand. However, this also makes it more complicated since it is very important for Volkswagen to have a good reputation as well as having a strong and stable brand. If the company experiences bad publicity, it will affect the products negatively. For example, Volkswagen faced bad publicity when the company played guilty in cheating in emission tests by making their cars appear less polluting than they were. It resulted in a fine of \$4.3 billion (The Guardian, 2017). With the corporate name on their cars, the whole company was negatively affected by the bad publicity and they had to gain trust again among various stakeholders.

### 7.3 Cultural Considerations in Branding Strategy Foundation in China

As have been stated from the literature review, Western companies are having difficulties identifying the differences that are existing between the Chinese market and the ones of the Western world (Melewar, Meadows, Zheng, & Rickards, 2003) and additionally has the tendency of showing ignorance towards the importance of cultural understanding (Cayla & Arnould, 2008). This however, has not been the case for Volkswagen Group, whom has succeeded in overcoming the cultural barriers by becoming one with it. Their corporate core values are consisting of innovation, sustainability and social responsibility, whereas they are stating themselves that culture is essential to society as it influences many aspects of life. Due to this believe, Volkswagen Group have developed a cultural engagement program, that are based on their corporate values, that supports a vast amount of domestic and international art and cultural activities (Volkswagen Group China, 2015). Volkswagen Group's view of success for a company in the twenty first century is going further than that of the annual profit and sales figures. It is depending on a company's willingness in contributing to the communities of which they want to succeed. Volkswagen Group is taking the responsibility of contributing to the Chinese community seriously as is being reflected by their thirty years of being in the Chinese market. They have been striving to replicate the close relations of which they have been developed and enjoyed by evolving it to a wider level. To achieve this Volkswagen Group is perceiving culture as essential. The CEO of Volkswagen Group China, Jochem Heizmann states, that Volkswagen has always had a focus culture and cultural exchanges as it is the tradition of Volkswagen Group (Ti, 2016). He further explains the value of culture as follows:

*“I believe that communication means learning from each other, and is a process of understanding each other. We hope to deepen mutual understanding and exchange of knowledge between China and Germany through a variety of cultural projects”* (Ti, 2016)

As stated by Cayla & Arnould (2008), research on marketing standardization has taken an outside approach to that of culture viewing it as an exogenous variable that can either be adapted to or ignored. They believed that this approach is wrong. This statement can be viewed as believable when taking the perspective of how Volkswagen has approached the Chinese culture. Instead of viewing it from the outside, the Volkswagen Group China has integrated itself to the culture and become part of it. As mentioned in the literature review, Krueger & Nandan (2008), are perceiving the uniqueness and image of the products to be more essential when doing business in a foreign market with a different

culture. Taking this into relation to Cayla & Arnould's (2008) statement of Chinese consumers correlating a company's size to reliability and stability which further provides them with security to the safety of products, another influential variable in the cultural perspective that is being provided by Volkswagen Group. Back in 2012 Jochem Heizmann was elected as the CEO of Volkswagen Group China. His aim with his position and how the company has been working towards providing their customers in context to their needs, is explained as follows:

*"My aim is to further strengthen the ties between the headquarters in Wolfsburg, the joint venture partners, and Volkswagen Group to take care of the needs and wishes of the Chinese consumers. This is not a one-way road. We are interacting to offer the best customized products with our multiple brand strategy"* (Abel, 2013, p. 29)

The citation above gives the impression of awareness in integrating themselves with the culture with the use of their joint ventures, as this gives them the needed knowledge to develop products according to the needs of the Chinese customers, which is as one of the essential factors by Krueger & Nandan (2008). Additionally, it is stated that to be able to meet the customizable needs of their Chinese consumers, they are having a dialogue with them which is having a vast influence on the development of Volkswagen and the additional brands the Volkswagen Group is in possession of. This is stated as follows:

*"Producing the best customized car is our goal, and that's what we are working towards. That's why we are eager to know what the people are thinking about future cars, and what their needs and wishes are. Chinese customers influence the development of Volkswagen and its multiple brands. Not only via PCP, but also our own trend scouting and the research teams of the entire Volkswagen Group are focusing on the large Asian market"* (Abel, 2013, p. 31)

Additionally, the other factor mentioned by Krueger & Nandan (2008), which consist of the image of the product is being fulfilled by having the consumers' influence benefit their development of their vehicles, as this gives the impression of the voice of the people being listened to. This is based on Volkswagen Group China's guiding principles on the Chinese market which is "Ren Wei Ben" that is translated to "People First" and means that they are involving their customers, employees and the society as a whole (Volkswagen Group China, 2015). Another way they are proving their perception of "People First", is their promotion of culture and support in education and bilateral exchange, which has been growing over the past years using their PACE strategy (Participation, connection, education

and exchange). The idea of PACE is to create new opportunities related to being able to participate in events with culture and art, being proactive in relation to connect individuals to new cultural experiences and to promote cultural education and a bilateral exchange between the countries of Germany and China (Ti, 2016). Volkswagen Group is supporting many different activities in the cultural area, whereas some of these initiatives are consisting of the following:

- In June 2016, Matthias Muller (Volkswagen AG CEO), made an announcement of a new cultural exchange fund that is to foster the dialogue between the youth the youth of China and of Germany (Ti, 2016)
- Volkswagen made an exclusive partnership with the Sino-German Youth Communication Celebration Concert in Beijing's Pudu Temple in September. The concert made it possible to bring young classical musicians from the German Music Council's Jugend Musiziert youth competition and the first China Youth Music Competition, which showed the way music can be used as a language everyone can communicate with (Ti, 2016)
- By using the cooperation between Volkswagen Group of America and the Museum of Modern Art in New York, the Group has been helping to open an educational opportunity for individuals in China to obtain knowledge and experience one of the world's most recognized art institutions (Ti, 2016)

According to Volkswagen Group, these activities are seen as a natural extension when looking at their commitment and connection to China (ibid). One of the cultural activities that have gained especially positive interest is the Rain Room display exhibition in Shanghai. This artwork has been made by the British-German artist collective named, Random International, and had before Shanghai already been success in both New York and London. By supporting this exhibition, Volkswagen has made an essential contribution in forming new relations between the Western and Asian art (VW Volkswagen AG, 2015). Jochem Heizmann explains the importance of contributing to cultural engagement as follows:

*"Art and culture are the driving force behind innovation, because often it is above all artists who manage to ask questions which awaken the urge for new discoveries. Volkswagen therefore promotes interaction with creative work with the greatest conviction. By supporting this exhibition, we will provide the starting signal to establish a creative platform which offers people new inspiration and provides an interesting perspective on the significance of environmental sustainability."* (VW Volkswagen AG, 2015)

As mentioned by Krueger & Nandan (2008), branding is enabling a company to communicate its image and identity to the consumers and is increasing the potential of consumer acceptance. This acceptance is fully depending on how these consumers are perceiving the company image, which Volkswagen Group has made quite some initiatives to make positive in the minds of the Chinese consumers. They are striving to develop the cultural bonds between the Western and Chinese cultures by supporting activities that makes the two communicate and thus makes them understand each other. This is strengthening the perception of the Volkswagen Group as a brand.



## 8. Conclusion

Our three research questions will be concluded by including the findings from the discussion chapter between the empirical case and the theoretical considerations from the literature review.

- **Which tier cities has the most consumer buying potential when looking at the automotive market in China?**

Our findings indicate that due to economic growth in China and the growing middle-class segment, there are many opportunities for foreign car manufacturers. However, our research indicates that tier 1 and tier 2 cities has less potential than tier 3 and tier 4 cities. Due to strict purchase restriction policies in tier 1 and tier 2 cities, the growth of car sales has begun to decrease. Tier 3 and tier 4 cities has therefore begun to overtake tier 1 and tier 2 cities as the fastest-growing sales regions in China due to various restrictions in tier 1 and tier 2 cities as well as the rising income level per capita among the Chinese consumers. As a result, the demand of bigger and more premium cars such as SUVs has increased in the last couple of years. As a consequence, Volkswagen revealed the Teramont, which is the first seven-seater SUV for the Chinese market. Our research also suggests that the Chinese consumers will shift from mass to premium segments. Therefore, for automakers such as Volkswagen, the upper-middle segment will be the main group that should be targeted, as it is estimated that this segment will grow the most. As a result, Volkswagen will have the opportunity to introduce better and high-valued cars to a vast number of new consumers.

- **Which part of the branding aspect does companies have to pay particular attention to when conducting business in the automotive field in China?**

Our research indicates that a key component of a firm's international branding strategy is the creation of an international brand architecture. Brand architecture is defined as a structure that organizes the brand portfolio and it defines the brand roles and relationships among company's' brands. Our findings indicate that Volkswagen uses a corporate- and product brand strategy, where the corporate brand is dominantly used to brand the different products or product lines. By doing so, Volkswagen give individual products their own identification but closely link them to the company's overall brand. Benefiting from the fact that Volkswagen is already a strong brand on the Chinese markets, the various products will be easier to recognize as the corporate name is included in all of their products. However, this could also have serious consequences if one of the products experience bad publicity.

The whole corporate name will then be affected. Volkswagen for example faced negative publicity when they cheated in emissions tests by making their cars appear less polluting than they actually were. However, as markets are becoming more complex, such as the Chinese market, and products are quickly imitated and homogenized, it is becoming more difficult to maintain credible products differentiation. Therefore, it requires the positioning of the whole corporation rather than only the products.

- **Does culture have any influence when Western companies are striving to build a strong brand in the automotive market in China and if so, how?**

As has been discovered in the literature review, that Western companies tends to have issues with identifying the differences between the Chinese and Western markets and even tends to be ignorant to it. Further, it has been stated that it is important to not ignore the cultural differences as it will provide misunderstandings in terms of communications with consumers. Volkswagen Group has used a substantial amount of energy in building bridges between the Western and Chinese cultures by engaging the cultures together, which is both having a positive influence on the brand perception of Volkswagen and on the general perception between the Chinese and the Western cultures. Cultural perception is influencing the way consumers are seeing a company's brand and it is therefore of importance, that the company that is striving to succeed on the Chinese markets is engaging itself into the culture and become part of it.

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