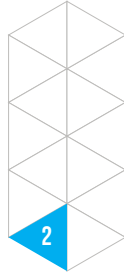


CHAPTER 2

INNOVATION AND INSIGHTS

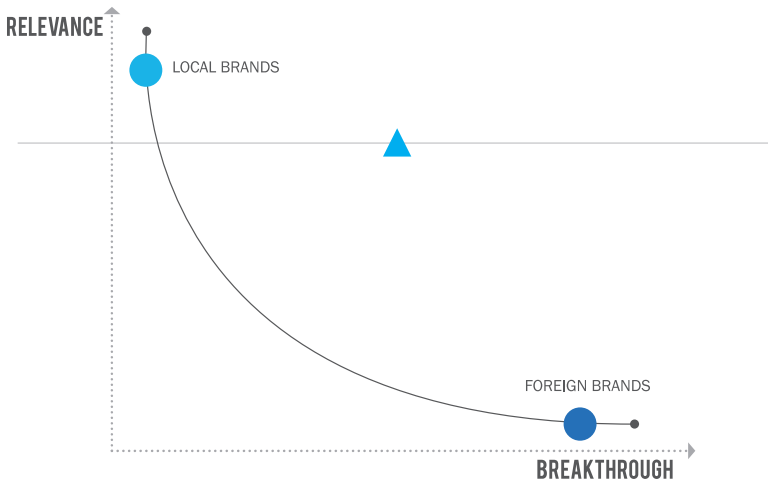


“How is innovation defined in China? To answer that question, we conducted research across different city tiers and found that there are two axes that are very important to the Chinese. The first dimension is relevance, meaning it is a customer-centric innovation. The other axis is what we call ‘the breakthrough’, meaning it brings a completely new experience to consumers that can change the mindset or lifestyle of people. We find that products from western companies typically reside high on the breakthrough axis before reaching more people- and local brands are on the opposite dimension of relevance, before offering a new experience to consumers.”

-LAWRENCE HE, PHILIPS

CHAPTER 2

INNOVATION AND INSIGHTS



Innovation

Four great inventions to one million patents

SYNOPSIS

When a Haier call center received a complaint from a customer in Sichuan about dirt reappearing in his washing machine after each cycle, it appeared to be another routine after-sales service checkup. Making the trek to a small



Sichuan village, the Haier technician was shown a load of freshly harvested and washed potatoes in the washing machine by the farmer who had made the call.

The Chinese consumer electronics and home appliances giant didn't dismiss the case, however. Rather than informing the farmer of his misuse of the product, Haier asked, "Who else is using our machines for this purpose, and how can we adapt our products to accommodate for unexpected usage cases like this?"

A long history of innovation shows that good design is not about staying within predefined bounds. It's about borrowing ideas across categories, improvising solutions out of a set of pre-existing conditions, and taking calculated risks based on pressing constraints or a fresh insight. The seed idea for an innovation can come from anywhere, but it takes a keen sense of observation to pick up on the opportunity. And that's exactly the approach Haier took when they developed a washing machine that could handle not only dirty laundry, but also freshly harvested produce.

That's the kind of open mentality that brands in China today must embrace to get to the bottom of consumer needs and desires before their competition or even consumers themselves do. Just as the Chinese define innovation differently from people from other parts of the world, Chinese consumer wants and needs are also much different from those of a consumer in the US or a consumer in India. While the recent buzz around crowd-sourced products indicates that listening to customer feedback is the key to unlocking groundbreaking ideas, Haier's example indicates that ordinary occasions for consumer behavior observation can take you further than meets the eye and can help you to unlock deeper insights.

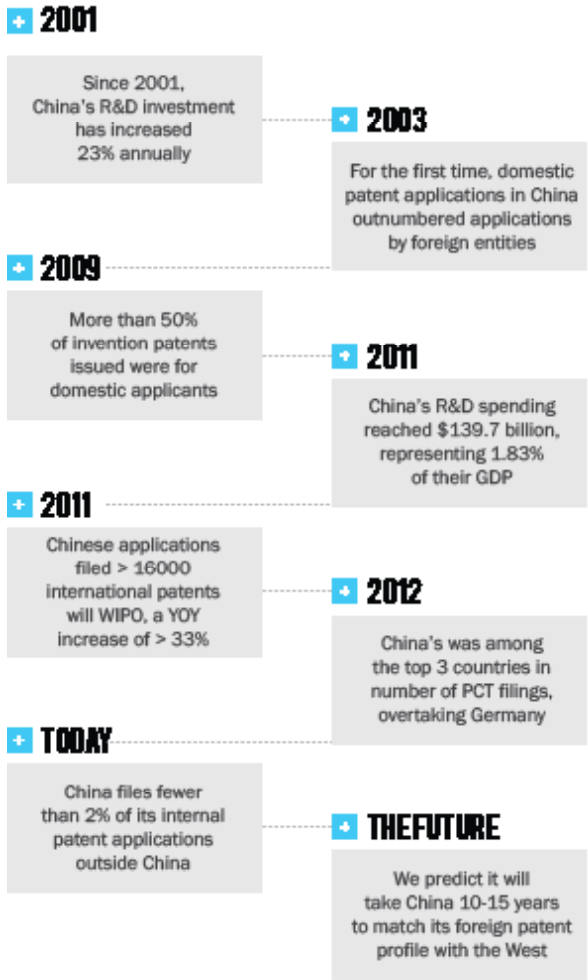
Despite the bad rap China gets for its counterfeit culture and a supposed lack of creative prowess, China is no stranger to innovation. Home to the Four Great Inventions – the com-

pass, printing, gunpowder, and papermaking – China was a major player in the innovation game beginning in ancient history. Fast forward to today and the middle kingdom now sits on an inventory of more than one million patents, which some pundits like to point to as an indication of China’s growing capacity for innovation.¹² But has China caught up enough to live up to its old glory days and claim a modern day Four Great Inventions?

Perhaps no – at least not yet. But to understand the long journey of China’s inventive tradition, there are a few fundamental factors underlying the country’s unique environment for cultivating innovation.

China - a leader of innovation?

Image No. 2.1



http://www.chinadaily.com.cn/cndy/2013-02/27/content_16259027.htm

¹² http://www.chinadaily.com.cn/cndy/2013-02/27/content_16259027.htm

Sowing Seeds of Innovation in the Mainland

Up till now, China's relaxed policy towards intellectual property standards has stemmed not only from a desire to drive immediate economic growth, but also from a cultural dissonance with the concept of IP in itself. Economically speaking, there are strong incentives for China to ignore intellectual property rights. By imitating internationally successful products and business practices, developing nations such as China can gain a competitive advantage. What many Silicon Valley enthusiasts often forget is that Japan and Korea also blazed the path from imitation to innovation, giving rise to brands such as Samsung and Toyota. On the cultural front, while the West often prizes innovation as an individual act born out of the creative genius of one inventor, forms of imitation have been respected as a learning tool in collective societies like China. In the short run, this has proven to be a fairly beneficial strategy—the Chinese economy has been growing exponentially, with counterfeits accounting for 15%-20% of all products made in China and for 8% of China's annual GDP.

On the flipside, China's lack of intellectual property rights has not only threatened to compel foreign businesses to reduce the amount of business they do both in and with China, but it has also reduced the incentive for domestic innovation since innovators are not guaranteed to profit from the fruits of their developments. With many businesses contending that poor IP protection stands as one of the most significant challenges for doing business in China, China's leadership is looking to bolster innovation in the country.

As a part of China's latest Five Year Plan, shifting China to an innovation-based economy – from 'Made in China' to 'Designed in China' – has become a top priority. With heightening intellectual property standards and 2.5% of China's GDP to be allocated toward R&D by 2020, China is taking measures

to be an innovation superpower once again.¹³ Currently, China falls only second place to the US in terms of R&D expenditure, with the US spending USD 405.3 billion (2.7% of GDP), China spending USD 296.8 billion (1.97% GDP), and Japan spending USD 160.3 billion (3.67% of GDP) on R&D.¹⁴ China's digital and technology spaces are a good indication of the breakthrough developments anticipated, with the last decade seeing the birth of the high speed train and new ground covered in mobile commerce by online shopping platform Taobao.¹⁵ And now, there are more than 1,500 R&D centers owned by leading overseas companies such as General Electric, Proctor & Gamble, and PepsiCo for the purpose of creating products for both the Chinese and international markets.¹⁶

So how can your brand be on the frontlines of China's innovation platform and pick up on opportunities before others do?

Have a relentless brand purpose

When it comes to identifying the right opportunities, some brands in China pursue everything they perceive to be 'the next big thing'. However, being able to tune out the noise and identify the opportunities which strike the right chord with both the brand and the consumer is key.

Allowing your core brand values to drive opportunity identification begins with understanding your brand's hierarchy of needs. Prioritizing what's important allows companies to narrow down the selection process and maintain sharp focus, which is vital to keeping afloat in this market.

Marie Han Silloway of Starbucks shares, "There's a lot of

¹³ http://www.booz.com/media/uploads/BoozCo_2012-China-Innovation-Survey.pdf

¹⁴ http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20130221_402874525.htm

¹⁵ <http://www.ft.com/intl/cms/s/0/3d97c42e-7200-11e2-886e-00144feab49a.html#axzz2Mlkhvyp5>

¹⁶ http://www.chinadaily.com.cn/business/2013-02/21/content_16244025.htm





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Rex Wong, *Vice President of Marketing, AB InBev APAC*

Jens Meyer, *Vice President of Marketing, Sport Performance, adidas Greater China*

Simon Millar, *Vice President of Marketing, Sport Style, adidas Greater China*

Anthony Lau, *Marketing Director, Credit Cards, Bank of Communications*

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Camilla Hammar, *Marketing Director, IKEA Retail China*

June Bu, *Executive Director, Elsker Mother and Baby Care, Johnson & Johnson*

Gary Xie, *Marketing Director, Baby and Child Care, Kimberly-Clark China*

Haiyan Wang, *Chief Marketing Officer, Biscuits Category, Mondelez APAC and China*

Mark Wang, *Marketing Director, Lenovo*

Christine Xu, *Vice President of Marketing, McDonald's China*

Paolo Mercado, *Head of Marketing & Consumer Communications, Nestle Greater China*

Lawrence He, *Vice President and Area Marketing Officer, Philips Greater China*

Marie Han Silloway, *Chief of Marketing, Starbucks China*

Vivian Pan, *Marketing Director, Visa Greater China*

Melissa Bell, *Marketing Director, Volkswagen Group China*

These CMOs are the visionary thinkers and doers setting the precedent for the future of marketing in China. We thank them for the opportunity to share their stories with you here.

