

FROM OEM TO OBM: CROSSING THE CHASM

by

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"Five years ago, we were nobody. We were down at the commodity level," said Eric Kim, then Samsung executive vice president of global marketing.

Today, Samsung is imprinted on consumer DNA as one of the world's leading brands. In TV sets, video recorders and flat-panel screens Samsung is number one. In cell phones, Samsung is threatening Motorola's once rock solid position as the world's number two. Other Asian brands are also making Western companies look nervously over their shoulders. Huawei "is the biggest reason I know to sell Cisco stock," according to a prominent Wall Street analyst. According to the *Asian Wall Street Journal*, Samsung will be more profitable than any other technology company in the world in 2004.

Samsung, Haier, BenQ, Lenovo (formerly Legend) and other firms have accomplished what many other Asian firms would like to do – make the jump from OEM (original equipment manufacturer) to OBM (original brand manufacturer).

The motivations are clear. OBM firms are more profitable. On average, the gross margin for OEM products is 19%, while the margin for OBM goods is 27%. However, margins for branded consumer goods can be more than 100%. As a result of the low margins, the profits of the top 100 OEMs in Asia-Pacific totaled only \$4 billion, according to *BusinessWeek* magazine.

Other advantages include greater national employment and influence, increased opportunities for strategic alliances and leverage to open new markets. Compared to the dog-eat-dog world of OEM, OBMs also have greater control over their destiny. More than one OEM has folded after one major customer has sought lower costs elsewhere.

Thanks to long-established relationships with such major Western brands as Texas Instruments, Tommy Hilfiger, Sears and many more, Asian OEMs have the manufacturing, logistical and quality control expertise required to compete in world markets. As a result, expect more OEMs to follow in the branding footsteps of Samsung and others.

Companies that have announced OEM to OBM strategies include the Chinese firm AOC, the world's second largest display manufacturer, and the Thai firms Pranda Jewelry and Saha Union. Several governments, including Taiwan and Malaysia, have funded programs to help companies make the OEM to OBM leap. The Chinese government has also been strongly encouraging domestic companies to create international brands.

However, making the jump from OEM to OBM is not as simple as proclaiming a strategy. It requires a substantial commitment of time and resources to establish channel relationships and share-of-mind in target markets. And the move is not without risk. Look at how Acer had to withdraw from the U.S. retail market after an investment of almost \$10 billion.

Key success factors include:

- **Change corporate thinking:** Although Asian consumers are the most brand-conscious in the world, Asian executives devote much more time to pricing and distribution than branding. Branding is seen as a cost, not an investment, and branding initiatives don't get the investment they deserve.
- **Think long-term:** There is no silver bullet. It took Samsung five years to move from commodity to brand. Five years is a minimum, although specialty B2B markets may only require three.
- **Understand branding:** Many Asian firms believe that a new logo and advertising is branding. Actually, branding requires the ability to develop emotional and experiential as well as economic relationships with customers.
- **Ensure execution:** Quality is a given. But is the distribution broad enough to support a national branding campaign? Where do consumers call for support? How are returns handled?
- **Commit the resources:** Consumer branding doesn't come cheap. Last year, Samsung spent \$220 million on advertising, a 25% increase over the previous year. In one month alone, Samsung served up one billion ads on 330 US Web sites. It has entered into such highly visible partnerships as the *Lord of the Rings* franchise.
- **Start with niche markets:** After extensive research, Haier got its start selling small refrigerators to college students and hotels in the US. Now it sells all types of white goods, and has captured about 15% of the US market.
- **Understand targeting and segmentation:** The mass market is dead. Now there are as many markets as there are satellite TV channels. As a result, one-size-fits-all branding campaigns will not work.
- **Learn from failure:** Honda's first effort to export motorcycles to the U.S. ended in failure when Americans didn't like the design. It incorporated the

feedback and successfully re-entered the U.S. market. Kia did the same thing when its first cars did not meet quality standards.

- **Invest in design and innovation:** Me-too products face pricing and well as branding obstacles. This year, Samsung will introduce an 80-inch plasma TV set, a phone that doubles as a portable satellite television other innovative products.

One Asian executive compared moving from OEM to OBM like “going from sewing wedding dresses to wearing them.” The advantages of going from no name to brand name range from greater profitability to greater national visibility. Inevitably, more and more Asian OEMs will make the move, despite the difficulty, expense and risk. While the OEM-OBM movement doesn’t attract much attention today, in five years the topic will replace off-shoring as the issue that keeps US companies awake at night.

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