Road of Brand Innovation for Private Enterprises in Main Tea Production Area
--Analysis on “Herding effect” in Mingshan County, Sichuan Province

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Abstract—The current situation of miscellaneous brands in the main tea production area has become a troublesome problem for the government and enterprises, and the “herding effect”is one of the main reasons. This paper analyses the “herding effect”syndrome on the brand building of private tea enterprises in Mingshan County, Sichuan Province, and also proposes an “aircraft carrier”brand innovation and development path from angles of causes and effects.

Keywords-main tea production area, private enterprises, brand strategy, herding effect

I. INTRODUCTION

China, well known as the hometown of tea, has a long history of tea production in the world. Tea, as well as its subsidiary products, is one of the special agricultural products in China, which has large resources advantages and consuming traditions, and also is one of the agricultural exports which occupies comparative advantages in the international market. Over thirty years since reform and open-up, the Communist Party and the government have been taking a series of comprehensive measures to encourage and support the tea industry, especially in adjusting the agricultural structure, increasing peasants’income, and earning foreign exchanges by export. Through these steps, our tea industry has gained rapid recovery and overall development, and a lot of regional famous brands have emerged, such as “Long Jing”, “Pu’er”, “Tie Guanyin”, “Bi Luochun”, and “Zhu Yeqing”, which symbolises our tea industry has bounced up onto a higher step and reached a new level.

Right under such background, many regions which have advantages in producing tea or in market have started tea project, many local governments have even considered the tea industry as key point of agricultural industrial structural adjustment, and the tea industry has also been regarded as leading industry, given strong support and great encouragement to develop. Large quantities of private enterprises just followed suit, and the gorgeous phenomenon of “blossoming everywhere”has appeared. However, problems just followed up, such as how to create famous brands, how to actively join in the market competition and even how to rush into the international market. First of all, we should make clear the concepts, standard, and connotation that the brand reveal, and let the brand’s carriers, such as logo, concepts, image representative, vision, behavior recognition, match the brand’s contents. Ding Yong(2006) discussed the brand’s marketing strategies in the tea industry from market development, products’packaging, distribution, sales promotion, and price inspection etc. Li Lubao(2006) thought once the tea price is set up, there is no need to change it, nor to give a discount. What’s more, the price should be the same nationwide, so as to give prominence to the high value and the good quality of the tea. In addition, adopting one-price system was useful to cultivate long-term stable consumer groups, and also was a kind of characteristic mode of operation.

So far, domestic studies most focus on the importance of brand building, brand’s marketing strategies etc, which doubtlessly provides theoretic guidance for the tea industry. However, more troublesome problems confronting many local governments and tea enterprises are: although owning the resources, brand foundation, and production technology, the added value is low, the popularity is not high, and the market competitive ability is not strong, and vicious competitions exist among regional areas, forming an embarrassing situation—miscellaneous, loose, chaotic, low-leveled, and unprogressed, ie “herding effect”. That is to say, a large number of tea enterprises and local governments are facing challenges in innovation during the new industrial development period, and the tea enterprises are the very efficient carriers and new force in brand’s innovation.
II. BEHAVIOR OF HERDING EFFECT

"Behavior of Herding Effect" derives from biological studies on animals' clustering feature. Herds are a kind of miscellaneous and disordered animal groups. They always bump into each other blindly even though they get together. However, once one of the goats moves, the other goats will also follow suit, totally regardless of wolf ahead or better grass elsewhere. Later on, such concept is used to explain the "following-suit" behaviors. Psychologically, it refers to a kind of behavior features with incomplete information and under indefinite conditions. From Massnot’s Demand Theory, it could be illustrated as the necessity of individual pursuing for the sense of safety and social sense of belonging. It easily appears in a field with fierce competitions, and if there is a leading enterprise (leading goat) in such field, well, other enterprises will constantly imitate every move of this leading goat, ie, psychological group behavior of following-suit appears.

1. Reasons of Herding Effect

"Behavior of Herding Effect" is a complicated social phenomenon, which is caused by many factors. Philosophers think it is caused by limitation of human’s sense, psychologists think it is caused by human’s psychological following-suit phenomenon, socialists think it is caused by human’s law of collective unconsciousness, while economists and management scientists explain it from the angles of incomplete information and the minimal regret law. Their chief points of view are as follows:

(1) Analogous Herding Effect Caused by Similar Information

Froot, Scharfstein and Stein (1992) pointed out that if the chief market entities have the high homogeneity, they will usually search and handle the same market information, and adopt the similar decisive rules and behaviors. Under such circumstances, herding effect comes into being because of the similar reaction based on the same exterior information.

(2) Herding Effect Caused by Incomplete Information

Information could reduce uncertainty. Obtaining accurate, timely and efficient information, enterprises would get high profit or avoid great economic loss. Therefore, herding effect is more likely to happen when enterprises make decisions according to the information. On one hand, strong large-sized enterprises own advantages in funds, technology, and human resources, while most middle and small-sized enterprises could only pay far less than those large-sized enterprises for information cost, therefore, they prefer to imitate the behaviors of large-sized enterprises so as to reduce operation cost and possible risks caused by uncertain behaviors. On the other hand, middle and small-sized enterprises couldn’t directly obtain exterior useful information because of low information cost, but they could infer the private information by observing others’ operation behaviors. At this time, if many enterprises behave convergently, the herding effect could easily happen.

(3) The Need for the Minimal Regret Law

"Regret and loathing" is an important factor caused by "herding effect". Thaler (1980) raised the concept of "regret and loathing", then Loomes and Sygden etc. supplemented it. It means that after making a mistake, man will all be regretful, and the pain caused by the sense of regret could be even greater than that caused by the mistake itself. In order to avoid the pain caused by regret, enterprises all choose to make the same decision with the other enterprises. In that case, even though the market prospect is not good enough, as not only one enterprise suffer from the loss, the pain caused by regret will be reduced.

(4) The Need for Safeguarding Reputation

Keynes, the great economist, pointed out early that compared with success caused by breaking down old conventions, failure caused by conforming to the old conventions could safeguard reputation better. Under the influence of such ideas as "resting content with a little riches" and "economic individuals", enterprises are inclined to safeguard their reputation rather than adventure and challenge, and they are more likely to take "behavior of herding effect" under the influence of the idea "making progress while maintaining stability".

2. Influence of Herding Effect

Under the background of the market economy, the herding effect will bring about the following influences:

(1) Because those who commit the behavior of herding effect always prefer to follow others’ steps regardless of their own private information, it will interrupt the transfer chain of market information, and this will lead to two-side influences. On one hand, because of certain convergence, the behavior of herding effect will weaken information’s influence upon enterprises’ decisions. On the other hand, because of single information, enterprises are urged to pursue for the quality and efficiency of the information, so the level of information will be improved, and enterprises will use the convergent information more efficiently.

(2) If herding effect exceeds a certain limit, it will cause another important market phenomenon—overreaction, which would easily lead to regional vicious competitions and imbalanced structure.

(3) Behavior of herding effect has instability and fragileness. Because its foundation is incomplete information, once the information state changes, for example, the arrival of the latest information, the whole herding effect will collapse, and those enterprises which commit herding effect will face larger risks of market adjustment, and those enterprises with weak reaction will lag behind and become the “goat” that will be eaten.

III. HERDING EFFECT PHENOMENON IN BRAND BUILDING AMONG PRIVATE TEA ENTERPRISES IN MINGSAN COUNTY, SICHUAN PROVINCE

1. Overview on Tea Industry Development in Mingshan County, Sichuan Province

From the recorded history, Mengding Mountain, in Mingshan County, Sichuan Province, is the place where people planted tea at the earliest time. In BC 53 years, Wu Lizhen, an herb farmer in Western Han Dynasty, discovered the medical functions of wild tea in Mengding Mountain, so he transplanted seven tea trees right there, which was the beginning of man’s...
tea planting. By the end of 2009, the area of tea gardens in Mingshan County has reached 261,000 Mu, the area of input tea gardens has reached 215,000 Mu, and the output has reached 36,200,000 kilos, and the output value has reached RMB739,220,000 Yuan. The average area of farmers’ tea gardens has reached more than 1 Mu, the total area of tea gardens and average area of farmers’ tea gardens all ranked top one nationwide, and such indicators as output, output value, rate of good seeding, mechanization rate, and rate of cultivation all ranked ahead. Nowadays, there are 209 leading tea-processing enterprises in all, and the industrial profile has come into being, which is specialized in excel green tea with full ranges, fine processing, various production and operation scales as well as different operation levels, and Mingshan County has become the true top county of Chinese green tea.

2. Herding Effect Phenomenon among Private Tea Enterprises in Mingshan County, Sichuan Province

At present there are 209 tea-processing enterprises, of which there are 22 tea-processing enterprises whose fixed asset investment exceeds RMB 1,000,000 Yuan, and 181 enterprises whose annual sales volume exceeds RMB 50,000 Yuan. There are municiple leading enterprises such as Mingshan Tea Industry, Mengding Royal Tea, Langsai Tea Factory, and there are also tea-producing enterprises with certain scales, such as Mengfeng Tea Factory, Mengshan International, Mingshan Zheng Da, Ming Yuan Tea Industry, Excel Tea Breeding Farm, Yue Hua Tea Factory. By 2008, there have been over 30 famous brands, over 100 registered brands, and the Table 1 is the statistics of the main enterprises and their brands.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Statistics of Part of Tea Enterprises and Brands in Mingshan County</th>
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</thead>
<tbody>
<tr>
<td>Company Name</td>
<td>Main products</td>
</tr>
<tr>
<td>Mingshan Zheng Da</td>
<td>green tea, flower tea, Oolong</td>
</tr>
<tr>
<td>Da Zhong Tea Industry</td>
<td>green tea, roasted tea</td>
</tr>
<tr>
<td>Yue Hua Tea Factory</td>
<td>green tea, flower tea</td>
</tr>
<tr>
<td>Lang Sai Tibet</td>
<td>pressed tea, brick tea</td>
</tr>
<tr>
<td>Unique Flavor Tea Industry</td>
<td>green tea, flower tea</td>
</tr>
<tr>
<td>HongYuLei Tea Industry</td>
<td>green tea, pressed tea, roasted tea</td>
</tr>
<tr>
<td>Dun Meng Tea Factory</td>
<td>green tea</td>
</tr>
<tr>
<td>Blue Sky Tea Factory</td>
<td>green tea</td>
</tr>
<tr>
<td>Meng Feng Tea Industry</td>
<td>green tea</td>
</tr>
<tr>
<td>Yu Gong Meng Shan</td>
<td>green tea, roasted tea, flower tea</td>
</tr>
</tbody>
</table>

From Table 1, we could see that most enterprises have registered their own brands, and their main products are all green tea, which is the sign of stronger brand concepts, and also demonstrates the natrual advantages of tea in Mingshan County, meanwhile it’s an indication of typical herding effect, move following others’ move, and the brands are miscellaneous, loose, chaotic, without unified brands and strategies. In addition, the target market mainly aims at domestic large or middle-sized cities, seldom overseas. Except that Tea of Mengding Mountain has certain popularity, other brands have low popularity, and the enterprises are still weak and feable.

According to another market research (see Table 2): From the questionnaires in Sichuan Province, nearly 80% consumers only know Tea of Mingshan County, but cannot tell its brands. Products’homogenization makes brands cannot reveal their own features, and the market demand is quite flexible, so it is difficult to maintain consumers.

<table>
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<tr>
<th>Table 2</th>
<th>Consumers' Cognition to Brands of Tea in Mingshan County</th>
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</thead>
<tbody>
<tr>
<td>Varieties of Consumers</td>
<td>Ya’an City</td>
</tr>
<tr>
<td>Know both Tea of Mingshan County and its brands</td>
<td>34%</td>
</tr>
<tr>
<td>Only know Tea of Mingshan County but not the brands</td>
<td>80%</td>
</tr>
<tr>
<td>Know neither Tea of Mingshan County nor the brands</td>
<td>0%</td>
</tr>
</tbody>
</table>

From this table, we could see that the tea enterprises in Mingshan County are facing a dilemma that they have famous tea while they don’t have famous brands. As a whole concept, tea in Mingshan County is quite popular, while it is no longer the case when referring to the specific brand. 99% consumers think that tea in Mingshan County should strengthen brand propaganda, while 69.2% private tea enterprises think their own brands are popular, and none of the enterprises think that their brands have low or no popularity. Such phenomenon reflect a reality that the popularity of tea in Mingshan County is only limited inside the tea industry, and it hasn’t improved up to vast consumer market.

Through analysis, it won’t be difficult to presume that it’s the result of herding effect. Many private tea enterprises (goats) see other enterprises have all established their own brands and carried out differentiated marketing, they just also establish their private brand to take part in the market competition (behavior of herding effect), and the result should be that they just carry out their own policies for their own interest, and single wood could hardly hold the house. They are short of strength in brand design and propaganda, and they don’t have
unified guarantee in products’ quality, so it’s difficult for them to obtain trust from consumers, and it’s difficult to cultivate the brands. Another reason for the continuance of miscellaneous, loose, and chaotic situation of tea in Mingshan County is that many private tea enterprises have invested large amount of energy and money in the brand building, and they don’t want to give it up half way. With the influence of the traditional ideas that resting content with a little riches and just following the mainstream, the syndrome of herding effect is especially prominent. The tea industry in Mingshan County has been staying low-level and repetitious building, and they can’t succeed in the market and make great profit like West Lake Longjing, Da Yi Pu’er, Ermei Zhu Yeqing etc, which hinders the county economy from becoming stronger. Therefore, we must seek a way of reform and innovation for the brand strategy of tea industry in Mingshan County.

IV. INNOVATION ROAD FOR BRAND STRATEGIES OF PRIVATE TEA ENTERPRISES

In view of miscellaneous, loose and chaotic brands in main tea production area, local governments and tea enterprises should stand at the height of strategical operation, integrate resources, concentrate advantages, break through in the major point, make brand operation large-scaled and standardized. Therefore, they should also concentrate their strength to create a famous heterogeneous brand as aircraft carrier, other enterprises are fighters on this aircraft carrier. In this way, join forces are formed, the enterprises will succeed in the fierce market competition, and the tea economy in the main tea production area will realize healthy, sustainable development. They should start out from the following three concrete aspects:

1. Focus on the Resources Advantage, Create Own Culturally Influential Brands, and Improve Brands’ Popularity and Reputation

There are a lot of tea production areas, with each having correspondent natural advantage in resources, so we should stress this advantage and turn it into their feature, meanwhile we should combine it with the cultural source of the tea development, because tea is not only a kind of drink consumption, but also a kind of cultural consumption. On its foundation, we should concentrate our strength to create a unique famous heterogeneous brand. For example, tea in Mengding Mountain, Mingshan County has a long history and good reputation as gods’ tea and royal tea, while the meaningful poem of “water of Yangtse River, tea in Mengding Mountain” makes it even more famous and popular. And consumers have been quite aware of tea in Mengding Mountain, so it is a wise and intelligent choice to choose Mengding brand as aircraft carrier. Besides, during the creation of unique brand, we should give prominence to improving brand’s popularity and reputation so as to improve the influence, radiant ability and value-adding ability of the aircraft carrier.

2. Establish the System and Mechanism that Governments Guide, Leading Enterprises Play an Exemplary Role, and Radiant Enterprises Support, Integrate Resources, Form an Interest Community

It is a doubtlessly large and difficult project to establish brand aircraft carrier among miscellaneous and loose tea production areas. Therefore, governments should make full use of their functional advantages, actively support and guide promising leading enterprises to blaze a trail of unified and unique brands. At the same time, they should radiate this concept to the other enterprises, set up this brand as the center, and seal up their own brands. It is a difficult course, however, only in this way, they could integrate resources, create the interest community, forming overall competitiveness. The experience of brand Anta in Jingjiang County, Fujian Province, can be used for their reference.

3. Carry Out Large-Scaled, Standardized and Group Operation, Making Bands Truly Famous

Brand strategy itself is a course of large-scaled and group operation. The quality discrepancies in tea products are obvious, and consumers can easily recognize them. Brand is the symbol of products’ quality, therefore, in order to ensure the creation accomplishment of the brand aircraft carrier, we should guarantee the eternally same and good quality, and it is the industrialization development to carry out large-scaled, standardized, and group production, which also has been proved by practice as an efficient industrial organizational mode. As long as we ensure the good quality of the products, we could make the brand truly famous and popular, and obtain consumers’ trust, so that we would walk further in the market competitions and industrial development, the whole tea industry would develop better.