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Research on differentiated Strategies of technology, brand, and price in the overseas market expansion - Based on China's textile and garment enterprises on different scales

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ABSTRACT

China's textile and garment enterprises are often involved in the competitions of technology, brand, and price in overseas market expansion. Based on differences in large and small-medium enterprises of China's textile and garment, this article proposes differentiated strategies of technology, brand, and price in overseas market expansion, and expects to be able to provide valuable ideas of overseas market expansion for China's textile and garment enterprises on different scales.

KEYWORDS

Technology; Brand; Price; Textile and garment enterprises; Overseas market expansion; Differentiated strategy.



INTRODUCTION

Textile and garment industry in China is labor-intensive, and is also traditional pillar industry that plays a pivotal role in China's national economic development. Textile and garment industry not only plays an irreplaceable role in domestic demand expansion, and domestic market prosperity, but also has the strategic significance which can not be ignored in equilibrium to balance of payment, foreign exchange accumulation and use of international markets. Since the reform and opening up, China's textile and garment industry has played an important supporting role to meet domestic clothing consumption, increase foreign exchange earning, accumulating construction funds, solving the employment as well as providing support for the related industries through undertaking international transfers of the global textile and garment industry. In textile and garment industry all over the world, China is both the largest producer and a major exporter. Textile and garment is China's important export product. In 1995, China ranked NO.1 in the textile and garment export of the world^[1]. This article analyzes the differentiated strategy of technology, brand, and price in overseas market expansion for China's textile and garment enterprises on different scales on the basis of China's textile and garment export situation and overseas market risk assessment.

STATUS OF EXPORT AND OVERSEAS MARKET OF CHINA'S TEXTILE AND GARMENT

High proportion and decline

China's textile and garment export accounted for a high proportion of China's total exports, which has declined in recent years. Total export and that of textile and garment in China have increased year by year, but the increasing rate of textile and garment export, for example, 20.1% in 2001, 19.8% in 2002, but dropping to 12.8% in 2012, was lower than that of total export.

Pivotal position

China's textile and garment export has a pivotal position in the global textile and garment trade. As early as in 1995, China ranked No.1 in the global textile and garment export, accounting for 13.2% of the world export in this industry. With China's accession to WTO in 2001, the export of textile and garment in China accounted for 13.7% of that in the world and it increased to 14.2% in 2002. The export of textile and garment in China reached USD161.3 billion in 2009, accounting for 28.6% of that in the world.

China's textile and garment export rose sharply to USD199.5 billion in 2010, and increased by 23.7%, accounting for 29.9% of that in the world. China's textile and garment exports still rose sharply to USD240.5 billion in 2011, and increased by 20.6%, accounting for 38.2% of that in the world. The growth of China's textile and garment export slowed down in 2012, increased by 2.3% only, but it accounted for a high proportion of that in the world, namely 33.0%. The specific data of China's textile and garment export are shown in TABLE 1.

Distribution of export markets

China's textile and garment export markets are mainly in the European Union, USA, Japan, ASEAN, Hong Kong of China, Africa, South Korea that nearly makes up 70% of China's textile and garment export. Specific data are shown in TABLE 2.

RISK ASSESSMENT TO OVERSEAS MARKETS EXPANSION OF CHINA'S TEXTILE AND GARMENT

Aspect in cost

"Low labor cost, low rental cost and low raw material cost," these words had ever been imposed on Chinese textile and garment industry, but now, it is quite different.

TABLE 1 China's textile and garment export and proportion in the world

Year	China's textile and garment export (billion USD)	The total world textile and garment export (billion USD)	The proportion of China's textile and garment export in the world (%)
1995	359	3,039	13.2
1996	350	3,134	11.8
1997	432	3,504	11.2
1998	405	3,427	12.3
1999	413	3,355	11.8
2000	494	3,600	12.3
2001	498	3,506	13.7
2002	578	3,686	14.2
2003	733	4,249	15.7
2004	888	4,767	17.3
2005	1,077	5,048	18.6
2006	1,381	5,557	21.3
2007	1,661	6,150	24.9
2008	1,797	6,284	27.0
2009	1,613	5,398	28.6
2010	1,995	5,222	29.9
2011	2,405	7,292	38.2
2012	2,461	6,331	33.0

Source: United nations department of trade statistics database

TABLE 2 : China's textile and garment export to major markets in 2012

The major export markets	Export Value (billion USD)	Year-on-year growth(%)	major markets' share(%)
EU	483.43	-11.68	18.4
USA	410.74	3.77	15.6
Japan	283.67	0.81	10.8
ASEAN	270.41	35.02	10.3
Hong Kong, China	164.33	6.29	6.3
Africa	161.73	16.96	6.2
South Korea	60.12	-8.91	2.3

Source: China Textile Industry Association China Textile Industry Development Report 2012-2013 [M] China Textile Press, 2013.

As the fluctuation of raw materials cost, the comparative advantage of low cost factors is unsustainable. For example, the cotton price difference between domestic and foreign has been increasing since August 2011. And that has been widened since 2012 as the price in domestic was higher than that overseas by 4-5 thousand US dollars per ton, which results in increasing pressure to cotton spinning enterprises, and seriously affecting the export competitiveness of their products. Chemical fiber, leather and other raw materials have shown greater price fluctuation.

Labor cost advantage of China's manufacturing disappears. According to China National Bureau of Statistics, the number of working-age population in China was reduced by 345 million in 2012 for the first time. Therefore, in the next 10 years, the labor shortage and labor cost rising will plague the traditional labor-intensive manufacturing, such as clothing, footwear, and other simple manufactured goods industry. The report of Boston Consulting Group (BCG) states: In 2000, skilled workers in China Yangtze River Delta region earned USD 0.72 per person per hour, now earn USD 6.31. It also predicts that labor cost in China Yangtze River Delta region will grow at a rate of 18% p.a. in the next few years,

and the wage of skilled workers in the region will be similar to the wage of U.S. skilled workers after 5 years^[2]. The data shows that the number of employment in China textile industry declines. In December 2012, the number of employment in China textile enterprises above designated size was 10 million, dropped by 1% compared with the same period of previous year. The per capita wage in China textile enterprises increased generally 10% -20% in 2012^[3,4].

Aspect in industrial transfer

United States gradually returns to the local manufacturing, and the local textile and garment industry in United States shows warming trend. In early 2012, president Obama talked in the third State of the Union address, “America manufacturing, domestic energy, labor skills training, and America value” four pillars were established for country’s sustainable construction. The orientation of U.S. policy is bringing adjustment to the textiles, machinery and transport equipment in the Sino-US trade which accounted for the largest proportion of China’s export to U.S. In 2011, the R & D investment of U.S. accounted for about 33% of the global share. And it could be predicted that high-end textile and garment industry in the United States will accelerate the return^[1].

The newcomer catching of India, Nepal and Southeast Asian countries might lead to the transfer of industries. For example, Nepal give cash awards to garment export. Exporters who exports value-added products with 30% -50% will be eligible for a cash incentive of 2%; while exports value-added products with 50% -80%, exporters can get 3% cash incentives; while exports more than value-added products with 80%, exporters can obtained 4% cash incentives^[1,5].

DIFFERENTIATED STRATEGIES OF TECHNOLOGY, BRAND, AND PRICE IN OVERSEAS MARKET EXPANSION

General idea and perspective

In addition to a substantial increase in the cost of raw materials, labor and energy, China textile and garment industry is facing reduction of export orders coupled with the risk of foreign industry transfer, the RMB exchange rate rises and environmental constraints, so production and processing enterprises must improve the technical content, quality and original brand value to maintain the development and possession of the market because the market relying on technology and brand has the sustainability and profitability^[6,7]. The expansion of overseas markets mainly depends on technology, brand and price, but China's textile and garment enterprises on large-scale and small-medium scale should adopt differentiated overseas expansion strategy, which is due to the different characteristics of enterprises on large-scale and small-medium scale, so the difference is related not only to overseas market expansion strategy of enterprises on large-scale and small-medium scale, but also technology, brand, and price. It means that emphasis choice among technology, brand, and price should be made. Specific situation are shown in Figure 1 and Figure 2.

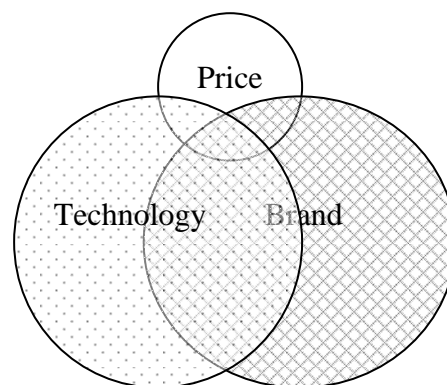


Figure 1 : Schematic of the differentiated strategy on overseas market expansion of China's textile and garment enterprises on large-scale

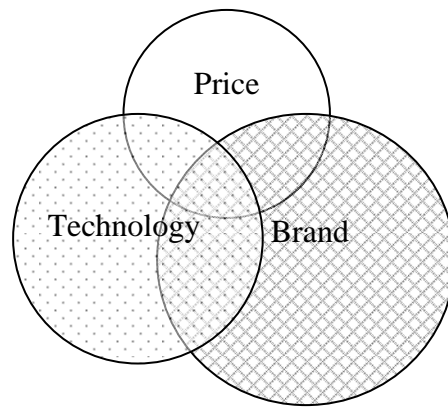


Figure 2 : Schematic of the differentiated strategy on overseas market expansion of China's textile and garment enterprises on small-medium scale

In Figure 1, the price circle is significantly less than the technology circle and the brand circle, and technology circle has the equal size with brand circle, which means that the overseas market expansion strategy of China's large-scale textile and garment enterprises should: reconstruct the technological advantage of textile industry; and maintain and create market with science and technology; highly attach great importance to brand cultivation; appropriately weaken price competition.

In Figure 2, the price circle is the smallest (more than the price circle in Figure 1), the technology circle is slightly larger (smaller than technology circle in Figure 1), brand circle is the biggest (less than brand circle in Figure 1), which means that the overseas market expansion strategy of China's textile and garment enterprises on small-medium scale should be: based on the price advantage; appropriately conduct technology research and development; attach great importance to brand cultivation from a long-term strategic vision.

Differentiated strategy on overseas market expansion

We'll discuss the differentiated strategy on overseas market expansion of textile and garment enterprises on large scale and small-medium scale

Technology

(1) Textile and garment enterprises on large-scale: reconstruct the technological advantage of textile industry, maintain and create market with science and technology

China's textile industry has the technical advantage which some competitor countries do not have, and could not be developed in a short period. Over the years, China textile industry has complete, advanced industrial chain, so it has stronger ability of high-end clothing textile fabric production. For example, Professor Xu Weilin of Wuhan Textile University developed the "High efficient short process embedded composite spinning technology" which can spin the lightest and thinnest fabric, and can spin cashmere with silk-like handle. The technology that broadens the scope and variety of spinning fabric can use cashmere, linen and other valuable finer fiber to spin thinner yarn. This technology can take advantage of some raw materials which can not be used in the past, and let some expensive materials have higher added value. This technology is China's breakthrough in the field of spinning. It is in the international forefront, and even marvel Italian manufacturers who once represented the highest level of the world spinning marvel. It eventually won the first prize of the State Science and Technology Progress Award and created hundreds of millions economic benefits.

China's textile and garment enterprises on large scale have unparalleled technical advantage which small-medium-scale textile and garment enterprises don't have, therefore, the scientific advantages of textile industry should be reconstructed by making full use of the advantage of large-scale textile and garment enterprises relying on science and technology to maintain and create markets.

(2) Textile and garment enterprises on small-medium scale: appropriately conduct technology research and development

In China's textile and garment industry, most of enterprises are on small-medium scale. These enterprises are lack of funds for technology development.

Small-medium-scale enterprises impossibly invested heavily in technology research and development as same as large-scale enterprises, and should not conduct research and development as large-scale enterprises, but if small-medium-scale enterprises don't conduct technology research and development at all, they will gradually be abandoned by the market, therefore rational small-medium-scale enterprises should be appropriately involved in technology research and development. Their technology research and development should focus on research and development to improve product characteristics rather than high technology research and development.

Brand

(1) Textile and garment enterprises on large-scale: attach great importance to brand cultivation

Brand cultivation makes products have higher added value and get more recognition in overseas markets, thus the overseas markets could be maintained. The success of world-renowned fashion brands such as Zara, H & M, and Uniqlo are the most powerful proof. These brands are mass consumer brands in apparel fast fashion field rather than luxury ones. According to statistics from China Textile Industry Association, most of China's textile and garment enterprises are for licensing, OEM-based, only 10% own independent brands. Although China's brands such as Lily, Vigoss, Li Ning, and so on, have shops in the U.S. and European markets, but failed to be with sufficient influence and recognition in the world. The large-scale domestic textile and garment enterprises based on technology have the potential to foster international brands, therefore international brand cultivation should be one of the task and direction for such enterprises.

(2) Textile and garment enterprises on small-medium scale: attach great importance to brand cultivation from a long-term strategic vision.

Brand is also important to textile and garment enterprises on small-medium scale. Brand cultivation requires a lot of capital, technology and professionals to support, and this support should be sustainable. Due to the limitations of textile and garment enterprises on small-medium scale, they often can not immediately implement brand cultivation in the short term, but they need to have a long term plan for brand cultivation, and try to arrange the pre-planning and research.

In particular, both of large-scale and small-medium-scale enterprises need to cultivate international brands rather than purely domestic brands for overseas markets. An international brand often matches with economic status and political status of a country. Before China's economic status and political status have not yet reached a sufficient height, the successful cultivation of international brand will be very difficult, and there is a long way to go.

Price

(1) Large-scale textile and garment enterprises on large scale: appropriately weaken price competition

It will be more and more difficult to keep the market relying on the traditional OEM products with lower prices, and profits will be fewer. Large-scale textile and garment enterprises should appropriately weaken price competition, but not completely abandon price competition, because price competition will be eternal in the textile and garment market.

(2) Textile and garment enterprises on small-medium scale: based on the price advantage

As small-medium-scale textile and garment enterprises are weaker in product quality, technology, brand cultivation, sales channels than large-scale textile and garment enterprises, therefore the competitiveness of the small-medium-scale textile and garment enterprises is mainly from price in the overseas markets. Without price competitiveness, they will not completely have the survival chance, so these enterprises need to compete based on the price competition in overseas markets.

CONCLUSIONS

In short, the enterprises expansion of overseas markets mainly relies on technology, brand, and price. There are large differences between China's large-scale textile and garment enterprises and small-medium-scale textile and garment enterprises; therefore it is unfeasible to use the similar overseas expansion strategy. The rational overseas expansion strategy should be differentiated.

(1) The overseas market expansion strategy of China's large-scale textile and garment enterprises should: reconstruct the technological advantage of textile industry; and maintain and create market with science and technology; highly attach great importance to brand cultivation; appropriately weaken price competition.

(2) The overseas market expansion strategy of China's textile and garment enterprises on small-medium scale should be: based on the price advantage; appropriately conduct technology research and development; attach great importance to brand cultivation from a long-term strategic vision.

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