

Textiles, Apparel and Merchandising Trip in China in May 2008

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We visited China with 17 students taking the summer intersection class, HUEC 3030 -- Field Study in Textiles, Apparel and Merchandising, from May 20th to May 28th, 2008. This report summarizes what the group learned from the trip.

1. Subjects Learned Each Day

May 20, 2008: Arrived in Hong Kong

- How to Negotiate: Business negotiations occur almost daily. Negotiation skill is required for anyone who desires a successful career. We visited the Ladies' Market in Mongkok, Hong Kong where vendors are selling all categories of products and brands from everywhere (Sample websites: www.12hk.com/area/Mongkok/LadiesMarket.shtml & www.pbase.com/middlehill/mong_kok_ladies_market). Students learned and practiced how to negotiate with Chinese vendors. For example, one student bought the painting on the upper right corner of the picture below with \$100 Hong Kong dollar. The original asked price was \$120 Hong Kong dollar.



- Global Brand, Local Adaptation: Globalization is changing our cultures, our political, legal, and economic systems and affecting our standards of living. Exposing students to different cultures and having them experience global brands in different cultural environments bring first-hand experience of globalization to students, facilitating them to develop a global view for their future career. Some students went to eat at a McDonald's restaurant in Hong Kong. The students learned that McDonald's has to adapt to the local life style. For example, they were amazed that some of the McDonald's restaurants in Hong Kong open 24 hours a day. See a sample figure below:

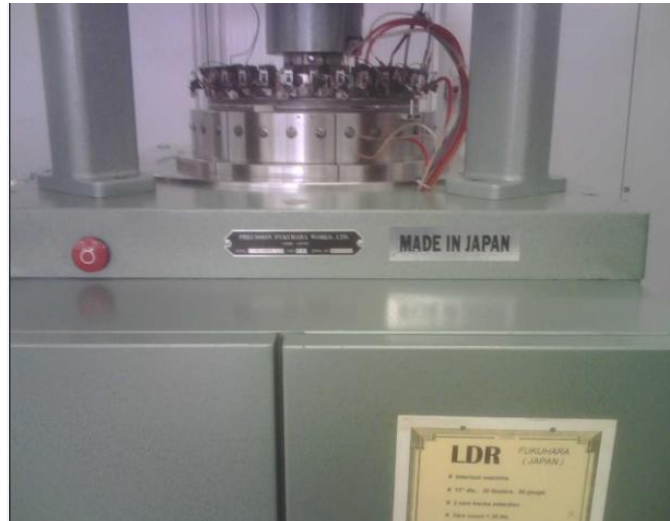


May 21, 2008: Explored Hong Kong; arrived in Guangzhou through 2 hours train from Hong Kong

- Technology Innovation: In today's global business environment, technology innovation is the key to stay competitive. We visited the Institute of Textiles & Clothing at Hong Kong Polytechnic University (www.itc.polyu.edu.hk), a world-class center in the field of fashion technology. This is a premier program with the funding sources from governments and businesses. We were showed the most cutting-edge fashion technology, Smart Dressing System, which recently won top honors in Geneva's Invention Expo (www.polyu.edu.hk/cpa/polyu/hotnews/details_e.php?year=all&news_id=1271). We saw a "Blue Man" mannequin as a demo of the new technology. This mannequin imitates how a person sweats and how the fabric moves and breathes. Students also saw various advanced technologies used in fashion design. A sample figure is shown below.



- Competitive Advantages of Nations: We saw many fashion technologies were made in Japan (see the picture below as an example). As one of the texts¹ indicates, a competitive advantage of U.S. in the textiles and clothing industry is that U.S. is a major provider of raw materials such as organic cottons.



- Business Opportunities: An instructor was in class showing her students how to produce a cloth like what she was wearing (see the picture below). Her cloth inspired Dr. Chen. He immediately came out a business idea, selling clothes of different patterns in different seasons (July 4th, LSU football games, birthday parties) in US. Some students were interested in pursuing the business plan by taking his ISDS 4160 course, Sourcing in China, in Fall 2008.



- Learned from a Role Model: A PhD student, the lady in the middle of the picture below, at the Institute of Textiles & Clothing showed the group her recently awarded fashion design. It

¹ Rivoli, P, *The Travels of the T- Shirt in the Global Economy*, Wiley, 2006.

was an international award which granted her a chance to study at an elite fashion design school in Paris for one year. Students learned that (1) how she took the unique clothing styles of different eras of the Chinese history and combined them to fit today's fashion trends; (2) her fashion design was produced, through several rounds of iterations with the skillful tailors in Shenzhen, China, about 40 minutes north of Hong Kong by train; (3) combining design and capitals in Hong Kong with the productions in mainland China, there are a lot of business opportunities in China and the world.



- Sustainable Competitive Advantage of Hong Kong: We visited the Hong Kong Museum of History (www.lcsd.gov.hk/CE/Museum/History/index.php). The exhibition of Hong Kong industries development showed the sustainable competitive of Hong Kong industries. For instance, the development and transition of the toy industry demonstrates the evolution of Hong Kong's sustainable competitive advantages (see the picture below and the website of Hong Kong Toys Council www.toyshk.org). Facing the rising of mainland China, one has to ask: will this kind of industries survive in the midst of rising China? In fact, the industry has been adapting the rising of mainland China. Companies set offices in HK and move manufacturing plants to Dongguan in Guangdong, about 100 miles of north of HK away. The reasons for many companies to do so are (1) HK has the most updated and quickest market information; (2) there are many different kinds of exhibitions and trade shows in HK every year and many buyers like to come to HK to attend the shows and do the purchasing; (3) most of HK companies have good credit records in international market, e.g., the foreign companies believe that HK industries can produce good quality goods and finish on time; and (4) HK has one of the best financial and banking systems in the world. It looks like HK is still irreplaceable in the midst of rising China.



May 22, 2008: Explored Dongguan, the manufacturing power house in China

- No. 1 Clothing Wholesale market in South of China: We visited Fumin Fashion Wholesale Market (www.fumin.com) in the town of Humen, Dongguan city. It is the number 1 clothing wholesale market in South of China with 1600 wholesale dealers making annual sales of 6 billion RMB. It has the “shop in the front and factory in the back” layout to do quick delivery of newest-styles and lowest-price clothes. It serves as a gateway to interact with customers from all over the world. As such, it also serves as an incubator cultivating brands, such as Yishion which is discussed below. An inside view of the market is shown in the picture below.



- Fashion Technology Innovation Center: We visited the Humen Fashion Technology Innovation Center (www.newhumen.com), opened in October 2006. The services provided by the center include (1) demand and supply chain conferences; (2) training of models; (3) fashion library; (4) designer club; (5) web portal platforms. Five major platforms are: information, design & manufacturing, training & communication, management, and

marketing. The news and some pictures of our visit are available at the center's website (www.newhuman.com/news_show.asp?newsid=1966&newsclass=中心动态). The following picture is taken at the center. More information can be obtained from the above link. The picture shows that Dr. Liu was answering questions from interested students.



- Global Growth through Franchising: We visited the manufacturer of Yishion (www.yishion.com). The brand Yishion was incubated at the Fumin Fashion Wholesale Market mentioned earlier. A picture is shown below. According to the website, (1) it has 20,000 employees and 3,000 franchised stores in China and other parts of the world, mainly in mid-east; and (2) it has been awarded the titles of “famous brand” and “well-known trademark”. The company has a new brand E-Xun (www.exun.hk) with the design in Hong Kong and targeting at high-end women's fashion.



May 23, 2008: We flew from Guangzhou to Shanghai. We stayed at the Shanghai Ludi Holiday Inn (www.expressbyholidayinn.com.cn), a well-known U.S. hotel brand adapted to the local market in China. In the afternoon, the students explored the central fashion retail business center in Shanghai – Nanjing Road (wikitravel.org/en/Shanghai/Nanjing_Road). Many global brands

have store front in this famous commercial street. Stores look much more modern than those in New York or Los Angeles. All the global brands are trying to get their market shares in the world's largest consumer market. Students were surprised with so many up-scale and high end retailers are doing business in China.

May 24, 2008: Explored Shanghai during the day and watched the Acrobatic Show in the Shanghai Center Theater (www.theasiantraveler.com/2007/08/shanghai-center-theatre-acrobatic-show.html) at night.

- Relationship Building with the Next Generation of Top Chinese Designers: We visited the Shanghai Institute of Design, China Academy of Art (eng.caa.edu.cn) located in the Zhangjiang Campus, Shanghai. We were shown their students' designs. LSU students were able to interact with the Chinese students. Discussions between two groups of students went so well that no one realized that an hour had passed. In the end, they took pictures together and exchanged their email addresses for future interactions. To all the students from two universities, this was a very exciting experience. A picture of the campus and a group picture are shown below.



- Tapping into the Networks of Art in China: We visited M50 (Shanghai Moganshan Road 50), China Art Networks in Shanghai (www.chinaartnetworks.com/feature/wen21.shtml). This center was established through remodeling abandoned textile factories. The center has become the biggest market which provides an effective platform domestic artists to establish brands and promote their art products. The picture below showed Robert, a student, was taking pictures in one of the art studios.



- A Modernized Traditional Retail Center: We visited the popular Shanghai Chenghuang Temple, which is a modernized traditional retail center for local people and tourists (www.youtube.com/watch?v=4I8uJnN4vuw). Local people buy all kinds of traditional products at lowest prices here. Tourists find this center attractive since one can also find well-known global brands such as Starbuck and KFC. This center has excellent mix of domestic and global retailers, providing a dynamic example of globalization. Students were fascinated with mix of all types of retailers in this retail centers. They practiced negation skills and enjoyed the broad and depth merchandise. Retail experience was definitely fun and exciting for everyone. The picture below shows that Dr. Liu gave instructions before the students started the explorations.



- Made-to-Order Tailor Market: We visited the well-known Fabric & Tailor Market on Lu Jia Road of HuangPu District in Shanghai (www.madaboutshanghai.com/shanghai_shopping). Similar to Fumin Fashion Wholesale Market, Chinese No. 1 Clothing Wholesaler, this Market serves as a gateway to interact with tourists from all over the world. As such, it is a self-organizing system, adapting to the market needs organically. Unlike Fumin Fashion Wholesale Market, this Market focuses on tailor-made customization. The development of this market provides a live example of vertical integration. The market started as a fabric wholesale market. With the competition getting intensified, more vendors realized that the profits from selling materials are too thin. They started providing tailor service, which may generate higher profits than selling fabrics. Eventually, the center reached scale and has attracted customers from countries around the world by quality, price, and style. The picture below shows that Dr. Liu gave instructions before the students started the explorations.



- Fun—“Team Work”: Living and studying together in a different country make the whole group like a big family. Students develop very good relationships with each other and the instructors. Intensive learning schedule did not affect students’ looking for fun. They found fun things to do during a break. For instance, outside of the Fabric & Tailor Market, there is a public telephone booth in red. Seven students packed into the booth for fun. The following picture shows that Dr. Liu and her colleague, a professor in the Shanghai Institute of Design and our additional tour guide that day, took pictures for them. It took a while for them to get into the booth. What we see here is an exhibit of easy and closed relationships among the group members.



May 25, 2008: In the morning we visited the well known Shanghai Bund with shows of both old and new Shanghai on each banks of the Yangzi River (en.wikipedia.org/wiki/The_Bund). While we were there, we were invited to a tea house to taste various kinds of Chinese teas. The group enjoyed this wonderful cultural experience. Dr. Chen had to say good bye to the group to take the plane back to Baton Rouge. .

Designer Street: After site seeing, the group visited the famous designer street in Shanghai. It has been realized that Chinese textile and apparel industries need to establish their own brands to be competitive in the global economy. Instead of relying on exporting low-value added manufactured goods, promoting domestic designers and establish domestic brands are the key to gain sustainable competitive advantages. With the support from Shanghai city government, the street with several hundreds of designer boutiques has been developed and attracted young designers and customers around the country.

May 26, 2008: Flew to Beijing

Silk Market: Silk Street market is located in Xiushui East Street, Chaoyang district, next to the southeast of Ritan embassy and consulate area. The market has 410 booths selling Chinese traditional silk products and exquisite handicrafts, as well as foreign well-known brands. It is one of the must-visit places in Beijing. The market used to sell counterfeits. Now all vendors are under strict regulations to stop counterfeits. The group viewed how much effort the Chinese government has been putting on protecting intelligent property.



May 27, 28, 2008: Cultural Tour: Tian An Men Square, the Great Wall, the Heaven Temple, and Forbidden City

The last two days were packed with cultural site visits. The group experienced the rich history and culture of China.



2. Lessons Learned by the Students

The students were asked to write up their China journey as a report covering six parts: (1) educational system comparison; (2) apparel manufacturing; (3) retail industry and market; (4) shopping experience; (5) cultural experience; and (6) conclusions. For each part they shall include: (1) their observations, experience, interesting or impressive facts; (2) their analysis: strength, weakness, questions, issues, and any opportunities for both sides (China, or U.S.); and (3) any implications to their own career/experience/learning or knowledge. Shown below are some good samples.

Educational System Comparison

“One major advantage any of the students have in China over design students in the United States is they have direct contact with many manufacturers and other types of outsourcing. This gives them an upper hand, because they can have their designs made by a manufacturer quickly if they are not required to make it by hand themselves. Their quick response is much greater than that of US students, if they wished to outsource. It also makes it easier for Chinese students to start their own lines. Although the Chinese have some greater advantages, it seems that the United States has the upper hand on designers and educational consistency.”

“My favorite part of the trip was getting to communicate with the students at the design school. It was a great way to open their eyes to what we study and how things are different where we live, and I know it completely opened my eyes to how little they know about the United States and how we live day to day.”

Apparel Manufacturing

“The two manufacturers we visited ... showed us the reality of apparel manufacturing. To me, these places didn’t seem like “sweatshops”: they were airy, well ventilated, and comfortable. I was amazed to see how extremely organized the factories were. There were multiple floors, each floor with a specific purpose and step in the manufacturing process. Some sewed seams, cut layers of fabric into the supplied patterns, attached buttons, packaged finished products, etc. There were probably hundreds of tasks going on at once without problems and flowed from station to station.”

“I would have to say that my favorite manufacturing experience was when we went to the silk factory. It was very interesting to see the entire process, starting from the silk worm, all the way to the production of the threads that go into carpets and garments. The silk carpets were incredible and it was very interesting to know that one carpet can take anywhere from three months to a year to make.”

Retail Industry and Market

“If they were to see a sudden trend in a particular style or item, Chinese storeowners could quickly adapt to the market change. On the other hand, American shop owners would have to wait much longer in order to fill this fashion trend and could inevitably receive the product to

late. China also has wholesale markets where you can find the latest fashions for less than twenty dollars. Being so close to the manufacturers, China is able to offer this type of retail to the consumer. The United States does not offer this type of shopping. Many wholesalers in the US are associated with various knick-knacks and lower end apparel and not trendy items.”

“I did get a lot of business cards at the wholesale market in Guangzhou that I do plan on keeping in a safe place. I think that the market there had a lot of things that people would buy in the states. The strength of the market is the low price but the weakness is the quality of the merchandise sold there. I purchased a few things from the market that have already malfunctioned. Some of the straps broke on a dress I purchased and there is a hole in another. When you’re selling a product, quality plays a big role. I would have to make sure that the quality was excellent before I buy anything next time.”

Shopping Experience

“It was fun to see how they would throw a ridiculous price out in yuan, such as \$460 yuan for a counterfeit pair of shoes or a fake Gucci, which most of us on the trip called “Fucci.” Quickly they would come down from that price and ask you what your maximum price was and you would type it in their calculator, they would give you that oh no face with wide eyes and tell you to put in a more serious price. ... But I had mastered bargaining; one lady even told me I was clever. I would never settle for more than what I told them was my maximum price. I would just make a reference to how I would just go to the vendor right down the street and get a better price from him for the same thing.”

“Because the prices are flexible, the sales representatives are in competition with the other vendors (many of which are offering most of the same/same type of clothing at similar costs) and at competition with the shopper-trying to get him or her to pay the highest price they can or will. This motivates the vendors to use attention-getting mechanisms, most of which entail calling out to the shopper to stop in and look at the merchandise for a “special” price. In the market you need to walk quickly and not make eye contact with any vendor or merchandise unless you want to be pounced upon and forced to bargain by the vendors.”

Cultural Experience

“The first cultural difference that stood out to me was the Chinese belief in guanxi. ... The Chinese refer to guanxi in-a-nutshell as “preparing the soil for flowers to grow.” Another cultural difference that I noticed is the Chinese sense of hospitality. ... I mostly noticed this when our group visited the school in Shanghai. As we entered a room filled with students, we noticed that some of the students were leaving the room. These students returned with stools to give to us, and most of the students gave up their own chairs to provide us with a place to sit. ... One more cultural difference that I noticed was the food preparation and meals. At every meal we had, we sat together at round tables with a lazy Susan on each one. The food would come out one plate at a time through the duration of the meal. Each person had a plate and would spin around the lazy Susan in order to sample each dish. By sitting at the round table and sharing all of the food, this brought the group closer together.”

“I am glad that we had a few preparatory classes on the Chinese culture before our intercession expedition. Networking is a main priority of the Chinese, and we were warned about this aspect of their culture in class, but it was obvious from all of the places that we went, that the networking priority is universal. I met at least one person in every city that I was able to get to know, and who wanted to exchange business cards with me when it came time for us to part ways. I had no business cards with me, but when I was handed the business card I graciously accepted it with both hands and studied the card for a minute before placing it in a safe place. I also learned that the Chinese do follow up with their promises. The day I got home, I had already received an email from a friend I met on the plane-ride home.”

Conclusions

“All in all, I feel the trip was a huge success. I learned much from comparing my country to that of a foreign land. The experiences I held will teach me much in my years to come. It was great to see a different point of view other than that of an American.”

“I think this trip got a lot of people thinking about what they want to do with their lives after graduation. The schools really pushed people to think about graduate school in China, especially in Hong Kong. Imagine how much further your talent can go with the resources they have.”

3. How Chinese Brands Go Global

In their recent book on how Chinese cost innovation is disrupting global competition, Zeng and Williamson² identify the evolution of foreign multinationals' business relationship with China in the following four stages: (1) made in China, using China to manufacture their products; (2) market in China, selling products to the rising domestic market in China; (3) innovation in China, investing in R&D, design, and branding to lead in China; and (4) global brands from China, selling products originated and succeeded in China to the global markets. Industries on the frontier of this evolution include textile & apparel, shoes, toys, consumer electronics, home appliances, and personal computers. The need to transform from Made-in-China to Global-Brands-from-China is confirmed by Harney's recent book on China Price³, where she argues that China is losing her cost advantage.

What we witnessed is how the Chinese people are leveraging the four-stage business model of foreign multinationals in China to create Chinese global brands. A model of how it works in the textile and apparel industry can be depicted in Figure 1. In the center is the focus of creating Chinese global brands. For example, the company Yishion we visited is a popular brand in China with about 400 franchise units. It has expanded its business to countries outside of China, mainly in Mid-East (see www.yishion.com/#network). With the success of Yishion in the low end market, the company is creating a new brand E-Xun targeting at the high-end market in clothing. There are three cornerstones to achieve the Chinese global brands agenda.

² Zeng, M. and Williamson, P.J., *Dragons at Your Door*, Harvard Business School Press, 2007.

³ Harney, A., *The China Price: the True Cost of Chinese Competitive Advantage*, The Penguin Press, 2008.

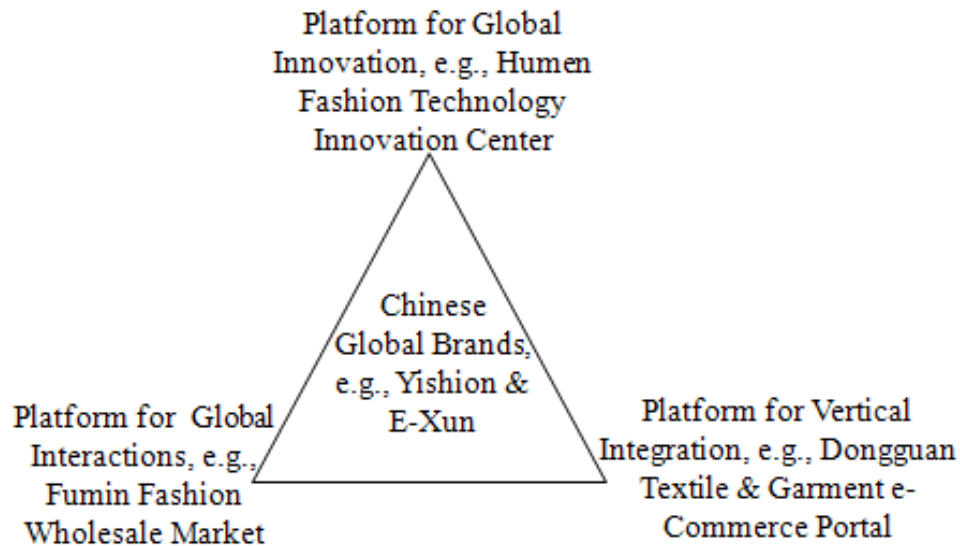


Figure 1. A Model of Chinese Brands Going Global

The first is the platform for global interactions, a window enabling Chinese businesses to constantly interact with global customers. For example, Fumin Fashion Wholesale Market, the No. 1 Chinese Clothing Wholesaler, is an effective platform attracting retailing buyers from all over the world. The heavy competition among the 1600 wholesale dealers enables the platform to organically adapt to the global needs based on the constant interactions with international customers. The second is the platform for vertical integration, a responsive system efficiently addressing the needs reflected in the platform for global interactions. For example, Dongguan Textile & Garment e-Commerce Portal (www.dgtg.com.cn), a component of the Dongguan Textile & Garment Association, provides services (such as B2B e-commerce, supply chain management, human resource management, and textile & garment forum) to fulfill its members' needs from domestic and global customers. The third is the platform for global innovation, a fertile ground for cultivating global entrepreneurs in China. For example, Humen Fashion Technology Innovation Center, working with Fumin Fashion Wholesale Market and Dongguan Textile & Garment e-Commerce Portal, will be able to closely follow the trends and networks of global demands and supplies in the textile and apparel industry. This allows young Chinese designers, who often are the graduates of leading design/fashion schools in Europe and U.S., to quickly build a prototype product for the next market cycle. The Innovation Center also has the environment to perfect the new design and the networked capacity to massively manufacture the end products for the target customers domestically or globally.

The model of Chinese global brands shown in Figure 1 is a hybrid product of two main types of supply clusters in China⁴: (1) hub-and-spoke, a large (mostly state-owned) manufacturer surrounded by many suppliers; and (2) component networks, a large number of small and medium-sized component producers who network promptly to deliver what the market needs. The three platforms depicted in Figure 1 are the “hubs” with the local government as the major investor or sponsor. The Fumin Fashion Wholesale Market hub allows the 1600 wholesale

⁴Wu, L, Yue, X., and Sim, T., “Supply Clusters: A Key to China’s Cost Advantage,” *Supply Chain Management Review*, pp. 46-51, March 2006.

dealers, the component companies, to network among themselves and the global buyers. The Dongguan Textile & Garment e-Commerce Portal hub allows thousands of component companies to network and trade among themselves. The Humen Fashion Technology Innovation Center hub allows young, well-trained fashion designers to promptly respond to consumer trends.

Based on their five-year study of 500 international companies, the MIT Industrial Performance Center researchers⁵ summarize the practices of the front lines of business in one model, “dynamic legacies.” Here legacies refers to a company’s resources shaped by the past, including organizational memory, capabilities, talents, and experiences. The dynamic legacies model refers to the ability of a company to mobilize its legacies as well as new resources accessible around the world to execute its strategy. Figure 1 thus shows the dynamic legacies model of how Chinese brands go global.

⁵ Berger, S., *How We Compete: What Companies Around the World Are Doing to Make It in Today’s Global Economy*, Currency Doubleday, 2005.