

The Large-scale Development of Mature Enterprises Featuring Mashallian Industrial Agglomeration : A case study of large clothing enterprises in Wenzhou City, China

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Introduction

In our research made up to date, we focused on and studied the formation of industrial agglomeration among small-scale clothing enterprises in Wenzhou, Zhejiang Province, China and the influence of stagnation on the social network of entrepreneurs (Duanmu 2017, 2018). The result of research shows that, in recent years, amid the maturity of market economy, the ever fiercer competition among enterprises, and the rise of commodity prices and wage level, and other factors, clothing enterprises in Wenzhou have failed to give play to the role of social network, which was a source of competitive power. In such circumstances, in order to enhance the competitiveness of the industrial agglomeration in Wenzhou, it is necessary to discuss the approach to large-scale, high-quality and brand-driven development. To discuss this question, the writer will cite the cases of some large-scale enterprises and look deeper into them.

Materials and Methods

Research objectives include four clothing enterprises (Semir, Judger, Baoxiniao, and Metersbonwe) of Wenzhou that have successfully finished large-scale development to some degree. The writers will analyze the state of operation of these enterprises, and analyze how the network between them and other Wenzhou enterprises has affected their business performance. As standard enterprises of research objectives, four clothing enterprises of Wenzhou (Judger, Metersbonwe, Baoxiniao, and Semir) that have been listed among national top 25 in terms of the sales in 2010 were chosen. The writers will analyze these enterprises based on their publicized company history, news reports, and other enterprise information. After investigation, the writers found that roughly only the above-mentioned four can be seen as large enterprises among clothing enterprises in Wenzhou. Among them, Judger went bankrupt under the influence of the financial crisis after 2011. There are also enterprises that have survived the financial crisis, and enterprises that face business stagnation, like Metersbonwe. There are also enterprises, like Semir, that have realized obvious performance improvement and feature prominently in China's clothing market.

The writers will give introduction to the four enterprises, and discuss the background of these enterprises when they face bankruptcy, sluggish growth, or performance improvement from the perspective of social network or inter-enterprise network.

Results

1. Judger: the merits and demerits of inter-enterprise network and bankruptcy

Judger was incorporated through the merging of 10 enterprises operating in Wenzhou in 1996. Since its founding, Judger had enjoyed sound performance. As a high-end clothing brand of suit and women's apparel, its performance had been on the rise. Judger was among the pioneers in Wenzhou that, on one hand, worked to enhance product quality, and on the other hand, sought to shape a high-end brand. As a result, it succeeded in expanding sales volume. In 2011, its annual output reached RMB 3 billion, becoming one of the numbered leading clothing producers in Wenzhou. However, its inroad into shipbuilding in 2006 led to heavy losses and deteriorating capital turnover. As a result, Judger went bankrupt in 2015. One reason of its bankruptcy is the unsuccessful shipbuilding business caused by the financial crisis. Another reason is the guaranteed debt contract (contract of “interconnection and mutual insurance”) signed between Judger and other five enterprises, such as Wenzhou Far East Shipping Co., Ltd. Because of the deteriorating performance of these enterprises, debt amount accumulated, dragging Judger into excess debt.

Meanwhile, the bankruptcy led to the successive bankruptcy of the other five enterprises that had signed the contract. All these affected the financing of 80-90 customer enterprises, and delayed the repayment of more than RMB 30 billion of fund of financial institutions. Finally, the clothing business of Judger was purchased by Shandong Ruyi Technology Group Co., Ltd. Speculating. From the sale prices of products, the writers speculate that, after the purchase, Judger will still enjoy a sound brand influence in China's clothing industry. Suppose that Judger had not signed the guaranteed debt contract with other enterprises, it might exist as an enterprise rolling out products with high added value. The bankruptcy of Judger, like the case of Metersbonwe, is an evident example of the negative influence of the social network among Wenzhou enterprises.

2. Metersbonwe Fashion and Accessories Co., Ltd.: the support of inter-enterprise network

Founded in 1995, Metersbonwe Fashion and Accessories Co., Ltd. (hereinafter referred to as “Metersbonwe”) went public in 2008. In 2010, when financial crisis had not aggravated, it had made it to the 6th place among the top 100 Chinese clothing enterprises.

Its founder Zhou Jiancheng, after graduating from middle school in 1982, operated a button factory in Qingtian County, which is near to Wenzhou City. When he was on a business trip to Jingdezhen City of Jiangxi Province, a place famous for ceramics, he secured a garment production order worth RMB 300 thousand from a client. After returning to Qingtian County, he financed around RMB 300 thousand from a local

credit cooperative, with which he opened a garment factory. Yet his products were poor in quality. Clients returned products, making the financing almost all debts. It is said that he had only RMB 9,000 back then. So he visited Wenzhou City, where his uncle and cousin introduced him to some of their acquaintances and clients. With their support, Zhou Jiancheng continued to operate his garment factory. Thanks to the smooth operation, Zhou Jiancheng was able to pay back all debts within a short period of time. In 1993, he renamed his garment factory as Meters Clothing Factory. In 1995, he established a corporate brand “Metersbonwe”¹.

Similar to Semir in the following parts, Metersbonwe is an enterprise featuring a casual fashion brand. The two companies were founded in almost the same period. The two companies share almost the same enterprise strategies. They outsource production to other enterprises, with themselves only managing the brands and circulation chains.

Yet, different from Semir, Metersbonwe did not engage in full cooperation with partners in the purchasing of materials, production outsourcing, and product circulation. As a result, Metersbonwe suffered from sustained losses from 2012 to 2017 (Zhou, 2018). According to media reports, the losses should be attributed to several seasons:

Example one: because of the poor quality of materials provided by suppliers, when design and development departments developed new garment products, the newly developed products were not of high-quality, thus leading to sluggish sales (Modern Logistics News, December 23, 2016).

Example two: the sale of the same product varies among different stores. For the same product, it may sell well in some stores, but perform badly in others. Yet sometime the inventory cannot be transferred efficiently among these stores, leading to large amount of overstocked inventory (source: Modern Logistics News, December 23, 2016).

Judging from the above-mentioned information, we can deduce that the fixed customer relations had limited its capability in more efficient operation. The embedded network relationships among enterprises cannot be restructured, resulting to the sluggish performance. It contrasts sharply with Semir in the fourth part, which has changed suppliers flexibly and realized stable growth.

3. Baoxiniao Holding Co., Ltd.: a corporate chain offering tailor-made high-end suits

As we can see, there are enterprises mired in sluggish growth and business failure, enterprises maintaining competitiveness, and enterprises expanding sales and profits.

Among these enterprises, there are two kinds of business models. The first, during the whole process of product development, production, and sale, some enterprises outsource business segments that they are not good at to other enterprises, and channel business resources to that they do well. The second, some enterprises engage in all the vertical integration.

¹ Source: <https://baike.baidu.com/item/zhoujiancheng/11025959?fr=aladdin>

Baoxiniao is an enterprise featuring vertical integration. Its General Manager Wu Zhize, after graduating from a senior high school, entered a clothing factory in 1980. In 1984, he established Zhejiang Nashi Garment Company. Back then, high school graduation was a relatively high diploma. He valued learning and research, and realized the importance of brand in early days. Therefore, he established a brand called “Jiashili” in 1989. In the latter half of the 1990s, the competition in clothing market became fiercer. In 1996, Wu Zhize proposed a strategy to enhance brand influence. Wu Zhize thought that it was not enough when he had RMB 20 million. So he persuaded the Managers of Baoxiniao Clothing Company and Aosite Clothing Company for merging. Realizing that he himself was not knowledgeable enough, Wu Zhize consulted to a consultant firm. As a result, the new holding company discarded Jiashili and Aosite, both sound western, and used Baoxiniao instead, which has a national flavor. Meanwhile, he learned the shortcomings of family management. So he let the shareholders’ wives to leave Baoxiniao, and employed professional manager.² Now, as the minimum standard, a middle-level manager should hold at least a university degree, and a high-level manager should hold at least a master's degree (mainly MBA). In order to enhance management, Baoxiniao has cooperated with Renmin University of China, and set up Baoxiniao Business School in the company. It has also established financial department and research department. The financial department focuses on employment of capital, profit increase, and cost control. And the research department studies industry, brand, business, and culture. In the future, Baoxiniao intends to establish presence in international market, and plans to set up design centers in Italy and Japan.³

Besides knowledge learning, it has also brought in production system and equipment from overseas. For example, its computer-aided production system is the CAD system of GGT, an American company. And its production line was introduced from Germany, Italy, and Japan.

The company has implemented the above-mentioned strategies of development, production and sale. In 2014, it brought in a network-based system offering tailor-made products for individual clients. Since it adopts a consistent business model from purchasing materials, accepting orders, production, and sale, the products are of high quality, hence high prices. Now the company maintains its position as a producer of high-end suit. It is unclear where the company will go in the future. But currently, by adopting a strategy that shuns the inter-enterprise network of Wenzhou, it has successfully shaped the brand.

4. Semir (it was founded in 1996 as a clothing enterprise, and went public in 2011)

Like Metersbonwe, Semir outsources production, sale, and even design. It only takes charge of supply chain management, resource management, brand management, and logistics management. Amid the economic stagnation of China in recent years, Semir has realized sale increase. Now the company mainly has casual fashion brand

² Source: Dalian TV 2006 Wu Zhize of Wenzhou businessmen
<http://money.cnfol.com/060530/160,1555,1857578,02.shtml>

³ According to interview and survey

“Semir” and children's wear brand “Balla Balla”. In China, its casual fashion brand owns 4,430 franchised stores and direct-sale stores. Its children's wear brand owns 3,308 franchised stores and direct-sale stores, with the largest share of children's wear market in China.

Its founder Qiu Guanghe was born in Wenzhou City in 1951. He acted as the factory director of Agricultural Machinery Factory affiliated to Wenzhou People's Commune in 1983. In the same year, the People's Commune was dismantled. In 1984, he founded an electrical device company. Despite a smooth business, because of the typhoon of 1995, electrical products of the company were soaked in water, entailing a loss of RMB 2 million. So he diverted to real estate industry. But, swindled by his partner, he suffered a loss of millions of RMB⁴.

He entered garment industry by establishing clothing brand “Semir” in 1996. Since the beginning, the brand has not engaged in production, but outsourced it to other clothing factories. But he did not choose local clothing factories of Wenzhou, but those of Guangdong Province, which ensured better technology and quality⁵.

As an enterprise at the peripheral of inter-enterprise network, Semir is well-poised to introduce and build a new business model that does not rely on the strong network of local enterprises. Before entering garment industry, Qiu Guanghe got into disputes with local partners, so he chose enterprises of Guangdong Province as suppliers. That had laid a foundation for him to build more reasonable business cooperation with suppliers of other regions.

To be specific, ① competition system was introduced to the suppliers of materials. Though the company purchased the same materials from multiple clients, it rated suppliers with a grade system of A, B, C, and D, and increased the orders of suppliers with higher grade. Specifically, it gave 60% of its orders to Class A suppliers, 20% to Class B, 10%-15% to Class C, and 5%-10% to Class D. The evaluation benchmark was the quality of materials, and production and delivery speed. Based on the assessment, it would reassess and change suppliers regularly⁶. ② In this way, the company reduced its trade with small factories, and expanded its trade with large enterprises. As rewards for outsourcing factories with high quality, the company adopted assistance policy. It dispatched managers and designers to these factories, and provided them with production equipment and capital. Such an approach also helped enhance the technology of outsourcing factories (Wenzhou Evening News, March 4, 2016).

The company expanded its business by choosing client enterprises beyond those of Wenzhou. But in recent years, it has increased its contact with Wenzhou enterprises in various aspects. In 2012, it built an industrial park in Wenzhou City, and adopted a strategy of expanding business contact with Wenzhou enterprises. Back in 1996 when the company was founded, its outsourcing factories were all those of Guangdong

⁴ Wenzhou Website Startup elites and vanguards of the times in 2006
<http://news.66wz.com/system/2006/06/06/100129512.shtml>

⁵ Baidu Baike 2012 Qiu Guanghe
<http://www.zwbk.org/MyLemmaShow.aspx?lid=233760>

⁶ According to interview and survey

Province. Later in 2012, more than 50% of its outsourcing factories were those of Wenzhou and other parts of Zhejiang Province (Zhejiang Online, June 25, 2012). Against such a backdrop, Semir contributed to enterprises of Wenzhou (Zhejiang Online, June 25, 2012). Since 2000, Wenzhou enterprises have enhanced their technology capability and quality. As a result, Semir has gained more and more trustworthy suppliers.

Conclusion

Judging from the cases of the above-mentioned four enterprises, we can see that during the large-scale development of enterprises, problems may occur if they rely on existing network of a limited scope. As a countermeasure of the scenario, Baoxiniao barely relies on inter-enterprise network. Instead, it relies on a consistent model of production and sale. Meanwhile, it invests heavily on human capital training and R&D. In the production and sale of high-end suit, which ensures high added value, the company works to enhance brand influence, thus increasing profit margin.

In the case of Semir, it adopts a strategy of outsourcing development, production, sale and other business segments. Rather than overlooking Wenzhou local enterprises, it, based on practical conditions, chooses better suppliers, thus enhancing business performance.

As for financing, enterprise clusters within an industrial agglomeration area offer financing to each other. So, for enterprises that had survived the financial crisis of 2010, they still face huge risks. In production and sale, there are enterprises that have realized further development by changing and restructuring suppliers, as well as enterprises that face sluggish sales for failing to changing their relations with suppliers.

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