

Master's Thesis

- Fashion Made in China, the leverage to succeed or the doom to fail in the globalized world -

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This master thesis represents the end of my Double Degree, of Master of Science in Business and Economics at BI Norwegian Business School. The process of accomplishing this thesis has demanded motivation, hard work and dedication, resulting in a much greater development of my academic skills and knowledge of how to apply strategic frameworks, to analyze an industry and its relevant players.

This has been an all-absorbing and enriching journey. Accordingly, I would like to thank to my thesis supervisor Debbie Harrison for guidance and useful input. And also, I would like to thank all my strong ties, with special emphasis to my family, for social support and motivation to end this period of my life.

Francisca Fernandes

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Abstract

Key Words: Apparel Industry, China, Fashion Retailers, Porter's Diamond Model.

Context of study: The rise of China's labor costs, and the fact that lower-wage countries have now manufacturing capacity, has pushed domestic apparel manufacturers to emphasize on two more profitable sectors: product development, and retail. This reflects a shift from Original Equipment Manufacturer (OEM) to Original Brand Manufacturer (OBM), which brings challenges for the Chinese apparel companies, since domestic apparel manufacturers didn't invest much in product development and design ability. Chinese fashion retailers do not play a leading role in the global industry, having only a few influential international brands. However, efforts have been made in order to innovate their merchandise distribution channels and improve promotion policies, to frame the domestic retail networks, appealing to consumers' attention, and attain market share (Li 2002).

Statement of Purpose: The aim of this paper is to firstly identify the difficulties that these private labels can face due to the typical Chinese consumer profile that is characterised by high spenders in haute couture in foreign markets rather than in the domestic market. Secondly, this phenomena might influence these private label brands to expand to international markets, which creates new difficulties due to the world's perception of the low quality of products manufactured in China. Finally, how these Chinese private-label companies will create a brand equity, in domestic and foreign markets, in order to positioning themselves in the fashion market.

Methodology: A multiple case study involving three Chinese apparel companies was employed. The information collected had as final aim, to apply each company to a Porter's framework, and realize if they gathered the sustained competitive advantage factors necessary to succeed according to its strategy adopted.

Contribution: This study has attempted to contribute to the research field of types of strategy and firm performance within an industry recent trend. Hence, the findings in this study should provide a criticism to Porter's theory of sustained competitive advantage factors and firm's type of strategy, in the sense that

companies can perform well, even when they pursue more than one type of strategy, or when they don't accomplish all necessary factors, stated by Porter, to achieve competitive advantage.

Abbreviations

This page provides a summary of the abbreviations applied in this thesis. Most of them are related to technology used in apparel industry.

ASEAN - Association of South East Asian Nations

BOC – Brand of Origin Confusion

CAD – Computer Aided Design

CAM - Computer Aided Design Manufacturing

CNCIC - China National Chemical Information Center

COO – Country of Origin Confusion

CSR – Corporate Social Responsibility

NIC – Newly Industrialized Countries

OBM – Original Brand Manufacturer

OEM - Original Equipment Manufacturer

POS – Point-of-Sale

R&D – Research and Development

SKU – Stock Keeping Unit

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1. Introduction

China is recognized for its low cost manufacture of worldwide distributed retail products, whether of non-Chinese global brands and successful foreign retailers. Some relevant authors have found that, in the last 20 years, fashion trends in industrialized countries have moved from an emphasis on practicality, simplicity, and standardization to a collapse of conventional standards of dress, through freedom of expression, and individuality (Gereffi 1994; Lardner 1988). This trend made automation become difficult, because forced manufacturers to offer a wide diversity of styles and colors. As a consequence, sourcing offshore apparel production to low-wage countries became denominative to lower the labor costs (Gereffi 1994; Hsu 1993; Jan Chan 1993; Ladner 1988). The low labor costs made China one of the most appealing countries to manufacturing products for years, and the reason why many foreign companies outsourced their production to China. This phenomena allowed the Chinese manufacturing factories to become highly specialized in apparel products (clothing and footwear). Despite labor may have been a Chinese competitive factor to date, other indicators may be relevant to explain China's competitive advantage.

Due to the value of this industry sector for the global Chinese Economy, and also, through the high level of specialization that Chinese manufacturing factories have in producing apparel, a new trend arise recently in this market. The national manufacturing factories are applying their acquired tacit knowledge to create and produce their own private label apparel.

A. Research Question

This paper research question is based on the link that is created between the countries and the national companies/brands. When a company is linked to a country it immediately reveals certain national characteristics in consumers' according to the countries' stereotype they have in mind.

In this specific case, the most important features of the Chinese brands are: low price, poor value and quality, unreliable and unknown, unsophisticated, innovative, lack of historic, old fashion, and aggressive (Swystun, Burt and Ly 2005). Facing these characteristics, the question is

How can we analyze the Chinese Apparel Private Label Industry in the Global Fashion Market? Do Top 3 Chinese Brands have relative competitive advantage in terms of the market?

B. Empirical Problem

China as a manufacturing country is currently facing diversified problems that are consequences of the Global position that the country adopted previous years ago. The first problem is that, although China is a manufacturing country, it imports the majority of the raw materials, and with the increase of these raw materials' prices, the cost of production increased, driving up the cost of the Chinese products. This problem is followed by the increase of labor-cost in China, which places China's position under threat, and made ASEAN countries (such as Vietnam, Cambodia, and Indonesia), appealing low cost alternatives to move out from China. Furthermore, a trend being witnessed recently, the "reshoring" phenomena, consists in the moving of production closer to the larger end markets, particularly from China and Mexico.

China has also a brand problem, explained by the Country-of-Origin Theory and the consumers' perceptions. "Made in China" too often aggregates the image of cheap goods of dubious quality. Much of China's economic growth has been based on low-cost production for foreign brands, but now the economic gap is decreasing as labor and other costs are rising. China also has a brand problem, mainly based on a lack of integrity, which is vital to build loyalty. In fact, Chinese made goods have succeeded more for their low price rather than for quality (Taylor 2013).

The main problem to address is if the Private Label can succeed in the domestic market where the preference of the consumers is haute couture clothes or, if the brands goal is to target the foreign market, will they be able to succeed in a market where consumers' don't have the best impression about the Chinese products.

C. Thesis Structure

This master thesis is organized in three main chapters. The first chapter, the literature review, gives insights about how nations' and firms' can gain competitive advantage, summarizes the main aspects of the apparel industry, and finally, what are the consumers main related issues in terms of purchasing apparel. The second chapter, the analysis, applies the Porter's Diamond Model introduced before, to the Chinese Apparel Industry, then elaborates if Chinese apparel firms

have sustained competitive advantage in this industry, and ends with the last trend of apparel industry in China, the boom of private labelling and internationalization. The third and last chapter, explores in detail three Chinese apparel companies that are interest to study, where the main goal is to see how they are doing in terms of the new trend, and serve as a criticism to Porter's factors of sustained competitive advantage and firms' performance.

2. Literature Review

Globalization has altered the competitive dynamics of nations, firms and industries. In this section, the theoretical review will start from a broad point of view in terms of nations' and firms' competitive advantage, and how to sustain it and types of strategy, followed by analysis of apparel industry and consumer behavior, and later on, narrow to how companies can strengthen their own brands.

2.1 Understanding Nation and firms' competitive advantage

A. Porter's Diamond Model of National Advantage

A nation's competitiveness depends on its industry capacity to innovate and upgrade. Competitive advantage is created and sustained through a localized process, whereas every factor contributes to success, from differences in national values, culture, economical structures, institutions, to history. According to Porter, in "The Competitive Advantage of Nations", "no nation can or will be competitive in every or even most industries" (M. E. Porter 1990).

Porter (1990) also has identified four attributes of a nation, that individually, and as a system, constitute the diamond of a national advantage: (i) factor conditions, the nation's position in production factors, such as skilled labor or infrastructure, required to compete in a specific industry; (ii) demand conditions, nations get competitive advantage in industries where the domestic demand anticipates the buyer needs, and when demanding buyers pressure firms to innovate quickly and achieve more sophisticated competitive advantages than their foreign rivals. Meaning that, if home demand size is large, firms invest to reach scale economies (Jin 2004); (iii) related and supporting industries, the presence or absence in the nation of supplier and other related industries that are internationally competitive.

Suppliers and end-users located near each other can take advantage of communication lines, rapid and constant information flow, and an ongoing brainstorm and innovations; and finally; (iv) firm strategy, structure, and rivalry, meaning the conditions that influence the creation, organization, and management of companies, as well as the nature of domestic competition. Porter, in the “Competitive Advantage of Nations”, suggested that the industry benefit from “constructive forms of government support, such as assistance in opening foreign markets, investments in educational institutions or other specialized factors” (M. E. Porter 1990).

To Porter (1990), in the same article, the specific government policies that guide nations looking for competitive advantage include: (i) focus on specialized factor creation; (ii) avoid intervening in factor and currency markets; (iii) enforce rigorous’ product, safety, and environmental standards, to anticipate rules that might spread internationally, giving a head start in developing goods that will be globally valuable; (iv) promote goals that lead to sustained investment in human skills, in innovation, and in physical assets; (v) deregulate competition. Rivalry regulation through policies, such as holding a state monopoly, controlling industry entries, or fixing prices, has two heavy negative consequences: it strangles competition and innovation, because companies become worried to protect what they already have, becoming a less dynamic industry, and less desirable buyer or supplier; (vi) enforce strong domestic antitrust policies which are fundamental to innovation. National competitiveness demand governments to disallow mergers and acquisitions, and industry leaders’ alliances. Furthermore, the mergers and alliances’ standards should apply to both domestic and foreign companies. Lastly, government policy should (vii) reject managed trade, pursuing open market access in every foreign nation. Porter, in “The Competitive Advantage of Nations”, concluded that a country succeeds in a given industry if it owns a relative competitive advantage to the best worldwide competitors (M. E. Porter 1990).

However, not everyone agrees that the diamond model is without its faults. Some literature casts doubts on the diamond framework in the context of Eastern Asia (Fitzgerald 1994). Others criticize that Porter focuses exclusively on home-based economic activities and does not capture inbound and outbound foreign direct investment (Moon et al., 1995, 1998). Some evaluate that while the model can assist the investigator in arranging the evidence by the frame, it is not enough to

explain what exactly determines the competitive advantage of one nation (Singleton 1997).

B. How firms achieve competitive advantage?

According to Porter (1990), in “The Competitive Advantage of Nations”, “It often takes more than a decade for an industry to create competitive advantage; the process entails the long upgrading of human skills, investing in products and processes, building clusters, and penetrating foreign markets” (M. E. Porter 1990).

Porter (1990), in “The Competitive Advantage of Nations”, suggests that companies obtain competitive advantage through innovation acts, which can be manifested in a new product design, production process, marketing approach, or a new way of conducting training with the intention of perceiving an entirely new market opportunity or by serving a market segment that others have ignored (Porter 1990). In addition to innovation, Johnson and Scholes (2002), add technology, effective organizational management, brand, quality of products and services, and human capital, as vital sources of firms’ competitiveness. Further, it is also important to enforce and exploit external knowledge through networks and inter-firm relationship (e.g. alliance and partnership) in a fierce global competition environment (Castells 1996; Child and Faulkner 1998). For Lasserre and Schutte (2006), in “Strategies for Asia Pacific: meeting new challenges”, brand management is also essential to sustain and increase organisational competitiveness, especially in a competitive ambience where product differentiation is not easy to achieve. Similarly, Drucker (1988), in “The coming of the new organization”, has recognized that competitive advantage is more likely to be achieved through human resources’ development and deployment (Drucker 1988).

C. How firms sustain their competitive advantage?

Sometimes early-mover advantages, such as customer relationships, scale economies in existing technologies, or distribution channels, are enough to enable a company to retain its entrenched position for years. However, according to Porter (1990) in “The Competitive Advantage of Nations”, more dynamic competitors will, sooner or later, find a way to innovate around these advantages, or create a better or cheaper way of doing it (Porter 1990).

Porter (1990) also stated two additional prerequisites for sustaining competitive advantage: (i) a company must adopt a global approach to strategy. It must sell its product worldwide, under its own brand name, through international marketing channels that it controls; and (ii) the company must make its existing advantage obsolete while it is still an advantage.

D. Porter's Firms Type of Strategy

According to Kim (2013), in "Competitive priorities and supply chain strategy in the fashion industry", when a firm chooses its competitive priorities (i.e. low cost, quality, aesthetics) "influences and is also influenced by its choice of target market (i.e. market segmentation)", therefore heavily decided by corporate strategy (Mintzberg 1978). Other strategy authors, have found this correlation between firm's target market and competitive priorities. Porter (1980), in "Competitive Strategy", established three general strategies that were linked with a specific competitive priority, i.e. cost leadership and differentiation that were for the general industry – wide market were respectively linked with low cost and quality, and focus related to one segment only was linked with aesthetics.

In order to achieve a precise adjustment of product and marketing efforts the process begins with the identification of target market (often based upon demographic, geo-demographic, psychographic bases), prior to the allocation of organizational resources (McDonald and Dunbar 2004). Grover and Srinivasan (1987), in "A simultaneous approach to market segmentation and market structuring" defined a market segment "to be a group of consumers homogeneous in terms of the probabilities of choosing the different brands in a product class". In fact, when a company defines its market segment (e.g., premium/niche market), its competitive priorities are linked with excellence and quality. On the other hand, when a firm targets a wide range of market, its competitive priorities are linked with low cost, functionality and performance. Therefore, an apparel retailer focuses on a specific, specialized market segment when it has unique and valuable proprietary knowledge or experience consistent with its competitive priorities.

2.2 Understanding the Apparel Industry

According to Christerson and Appelbaum (1995), in "Global and local subcontracting: Space, ethnicity, and the organization of apparel production",

apparel production is “vertically disintegrated, transactions-intensive, and involves extremely volatile demand conditions and highly specialized niche markets”.

A. Apparel Industry-Specific features

Gereffi (1994, 1999) has been studying the global apparel industry by focusing on how the organizational governance differed by product when involving global production. The author also introduced two types of governance structures, in the global commodity chain¹: producer-driven vs buyer driven (Gereffi, 1994, 1999)². In his research, apparel production is a concrete example of a buyer driven commodity chain, where the brand name (or design, marketing), and the ability to organize the decentralized and horizontal production system by managing production and trade networks and to make sure all the pieces of the business come together as an integrated whole are the most important assets (Gereffi 1994, 1999). Even more researchers have supported the idea of having an efficient supply chain strategy, as vital for an apparel firm to respond quickly to dynamic market conditions (Christopher et al., 2004; Masson et al., 2007).

Indeed, according to Kim (2013), in “Competitive priorities and supply chain strategy in the fashion industry”, every apparel firm has to make decisions about its supply chain strategy, regarding sourcing and channel (Swoboda et al., 2009). This sourcing decision process, decides how much of the process to make its products a firm should internalize (i.e. inside its own plants or facilities) or adopt an outsourcing strategy (i.e. use external suppliers) (Kim 2013). Regarding the company’s channel decision in the downstream, the options are centralize or decentralize (McCann and Galbraith 1981). By centralizing, the firm has a strict control of the key decision making factors (i.e., price, product mix, and inventory). By opposite, decentralizing means a more flexible distribution channel, responding faster to the local market needs. A third strategy designated by (Kim 2013) as concentrated strategy, gathers both in-house sourcing and centralization of distribution channel. By opposite, Kim’s (2013) fourth strategy

¹ A commodity chain concerns all the activities involved in the design, production, and marketing of a product - Gereffi (1999) in “International trade and industrial upgrading in the apparel commodity chain”.

² Summary table with the characteristics of the two global commodity chains in appendices A.

designated by dispersed supply chain strategy, gathers outsourcing and decentralized distribution.

Kim (2013), in “Competitive priorities and supply chain strategy in the fashion industry” suggests that these strategy decisions are especially important for apparel firms. Firstly, it’s a global market with fierce competition from raw material suppliers to retail channels. Secondly, responding to buyers’ needs is becoming harder, because their requirements are always changing.

According to Jin (2004), in “Apparel industry in East Asian newly industrialized countries”, the apparel industry has six unique features: (i) market instability as a consequence of seasonal and fashion factors, which make the apparel demand volatile, and the forecasting extremely important. As such, producing an accurate volume of apparel products becomes difficult; (ii) numerous SKU³s in a season. Jin (2004), in the article mentioned above, alleged for apparel products, a SKU “represents a unique product with a specified manufacturer, color, fabric, style and size”. According to Abernathy *et al.* (1999), an apparel company may develop an average of 15.000 SKUs in its collection at a particular season; (iii) subjective evaluation criteria, due to its dependence on buyers’ taste, culture, and aesthetic standards, and also its willingness to pay the product price. However, according to Leigh and Gabel (1992), price has a relatively unimportant role in apparel products compared to electronic products; (iv) automation and computerization are limited. Apparel is made of flexible materials, and the needed technique of cutting and sewing apparel makes it harder to introduce labor-saving technology. As such, Computer-Aided Design (CAD) and Computer-Aided Manufacturing (CAM) technology have been developed, but are not used by all manufactures; (v) combination of high and low technologies in order to be possible plan and coordinate the production and merchandising of all SKUs in a season, at all development phases. This contradicts the stereotype of apparel as an entirely low-tech industry; (vi) wide variety of products from basic to fashion items. According to (F. Abernathy, et al. 1999), in “A Stitch in Time: Lean Retailing and the Transformation of Manufacturing: Lessons from the Apparel and Textile

³ Stock Keeping Unit (SKU) is the most detailed level of product specification.

Industries”, apparel items can be labeled in three categories: fashion, fashion-basic products, and basic products. Depending on product characteristics, items like socks can be viewed as a commodity with standardized volume production. On the other hand, business suits production is less successful as the production volume increases. Meaning scale economies are not applicable to all apparel items.

According to Sen (2008), today’s apparel industry is characterized by high level of market demand uncertainty and short product life cycles. In the following section, will be addressed which are the competitive advantage factors to succeed in apparel.

B. Competitive advantage factors in Apparel

After years of studying hundreds of American apparel firms, Abernathy et al. (1995), found that direct labour content is not the primary issue in apparel industry, instead of that, the companies that have adopted new information systems and management practices, participating in a well-integrated channel, are the ones with the strongest performance. Indeed, apparel industry is driven by price-based competition among generally small manufacturing and contracting establishments where labor costs represent a significant portion of cost for many garment categories (F. Abernathy, et al. 1995).

In his research, Abernathy et al. (1995), concluded the apparel industry has been affected globally by better communications, faster transport, speed to market, increasing product proliferation and lean retailing. In fact, product proliferation and shorter product cycles (i.e., collections), are a consequence of buyer’s changing demand, and also constant styles’ change. In today’s world, the key success factors, to be able to supply the increasing number of fashion products in apparel, are: speed and flexibility (F. Abernathy, et al. 1995). The lean retailing have forced apparel manufactures to rethink the way they work, from customer and supplier relations, to distribution, and to forecast and plan production (F. Abernathy, et al. 1995).

However, this study can be criticized due to the limited research sample, only the US apparel market, which can have different “new” competitive advantage from the other geographical apparel markets.

More recently, Jin (2004) in “in “Apparel industry in East Asian newly industrialized countries”, stated both global brand and sourcing as “vital tools of firms seeking to be competitive in the global apparel market”. Furthermore, with the exception for underwear and stocking, the majority of apparel items are affected by seasonal and fashion changes (i.e., style preferences), making agility, to meet the changing market demand, a third vital tool to succeed in apparel.

According to Jin (2004), having a global brand is critical nowadays in every product due to highly competitive markets, but is even more vital in apparel industry since “differentiation and evaluation among items often depend on the items’ brand”. A brand communicates symbolic meaning or unique design. As mentioned previously, apparel represents a buyer-driven commodity chain, where the main profits are correlated with marketing, retailing, and design. Related to the second Jim’s vital tool, global sourcing in apparel, meaning “the integration and coordination of procurement across worldwide business units”, is a case of success, being one of the largest industries involved in global sourcing. For instance, multiple apparel firms with brand-name labels source globally without owning any production plants (e.g., Gap, Nike), allowing the firm to focus on other activities (e.g., marketing). Thirdly, to Jin (2004) agility means more than speed, it means fast response like canceling lines that do not sell, avoiding clearance sales, and operating with low stock levels and lower inventory holding costs, and thorough merchandising management (McGuire, 2001; Vitzthum, 2001).

How do apparel firms manage the apparel competitive factors with the purchasing choices of consumers?

2.3 Understand Consumer Purchases in Apparel

According to Lysonski, Durvasula and Zotos (1996), a consumer that intends to purchase apparel, spend some time evaluating the “alternatives in terms of brand, style, design, color, price and country-of-origin”

A. Managing brands in apparel

Kotler (2000) has defined brand as “a name, term, and/or symbol” that represents the unique characteristics a firm may give to its buyers, through its products or services, in terms of value and culture.

“Brand Management is the process of controlling the equity of the brand in a market by means of various strategies intended to increase the positive perceptions of the brand and to minimize the impact of any negative associations with the brand” (Keller 2003; Rubinson and Pfeiffer (2005)).

Apparel is a buyer-driven commodity chain, as such branding is considered by Gereffi (1999) its main asset. The decision process of developing a global brand or using a local brand specifically adapted to the local market conditions, is ambivalent (Usunier & Shaner 2002), and empirical studies demonstrate it when multiple researchers concluded that local brands are more effective (Pecotich et al. 2007), while others alleged a global brand as more effective.

Simultaneously, there is support for both global and local strategy, as long as the “firm effectively communicates the nature of the attributes that should be valued by the consumers in each national market where the firm conducts business” (Roll 2005). The same author claims the brands’ proliferation in the apparel industry at both levels is due to an intangible attribute, “the self-expressive nature of clothing”. As a consequence, every brands it’s connected with a unique attribute that gives a sense of personal image to people through their clothes. This is the reason why brand management is so relevant in this industry, since the impact on the apparel brands’ competitive positioning can be greater when compared to other industries.

However, empirical research have conceptualized consumer’s purchasing behaviors as having three components: (i) cognitive, knowledge about specific products and brands; (ii) affective concerned with feelings, evaluations and emotions; and (iii) behavior/conative, related to actual purchase of a foreign brand (Fishbein 1975); Hawkins et al. 2004; Papadopoulos et al. 1993). Moreover, studies show that buyers’ recognition of the majority apparel brands can be easily

substituted based on consumers' perceptions of influencing factors such as: packaging, brand, advertisement, and country-of-origin (Papadopoulos, 1993).

B. Country-of-Origin Effects (COO) / *Made in*

The Country-of-Origin Effect has been studied since the earlier 90s by many researchers, and refers to the potential bias in product evaluation that results from the knowledge of the country in which the product was made (Hong and Wyer, 1989). This knowledge may be used to infer the quality of the product being evaluated and also affect purchase and consumption behavior. (Hong & Wyer, 1990).

Furthermore, Nagashima (1970) suggested the country image is created by variables as products, national characteristics, economic and political background, history, and traditions. In Roth and Romeo study (1992), four dimensions⁴ of country image became apparent: (i) innovativeness, use of new technology and engineering advances; (ii) design, appearance, style, colors, and variety; (iii) prestige, exclusivity, status, brand name reputation; and (iv) workmanship, reliability, durability, craftsmanship, manufacturing quality. In addition, Iyer and Kalita (1997) suggested that the higher the perceived level of industrialization of a country, the more positive is the perception of the quality of its workers (Li et al. 1994), which was reflected in the perceived quality of its products. If a country is perceived as having a positive image, and this image is important to a product category, consumers will be more willing to buy the product from that country (Roth and Romeo 1992).

Indeed, Pecotich et al. (1996) found that developed countries such as Japan, Germany, and USA are associated with high quality products, whereas newly developing nations such as Korea, China, and Philippines are associated with poorer quality products. Confirmed later, by Loo and Davies (2006), products from less developed nations are seen as inferior (Wang and Lamb 1983). Meaning that country names amount to brands and help consumers evaluate products and make purchasing decisions (Chao 1989; Kotler and Gertner 2002).

⁴ Check appendices B for more research in Countries' Dimensions.

Most previous studies treated COO as a multidimensional construct that evokes various product-attribute-related responses construct (Jaffe and Nebenzahl 1984; Han and Terpstra 1988), however, some critics can be made: (i) studies frequently use a single measure of product quality rating to understand the impact of "made-in" stereotypes (Hong and Wyer 1989), and (ii) the dimensions found to underlie country image are all production and marketing oriented (Crawford and Garland 1988). Moreover, some recent studies have shown that COO is not a merely cognitive cue for product quality, but an affective image attribute that relates to emotions, identity, pride, and autobiographical memories that directly influence consumers' decision making (Verlegh and Steenkamp 1999).

However, a multitude of empirical studies, indicate that most country images are in fact stereotypes, reality simplifications that are not necessarily accurate and, then, are used for product evaluation and purchase intentions – brand of origin confusion (Hong and Wyer 1989; Kotler & Gertner 2002). In fact, simple modifications have been observed in order to influence consumers' attitudes, such as manipulation of the country-of-origin or "made-in" label (Kotler & Gertner 2002). Indeed, previous research alleged that local brands benefit from using brand names or advertising with foreign elements, because consumers get confuse about the origin of the brand and perceive them as foreign (Zhang 2001; Zhou and Hui 2003; Zhou et al., 2007).

Two factor categories may cause brand confusion (Howard and Sheth, 1967; Engel et al., 1994). First, consumers' cognition processes, such as their cognitive ability, attention paid to the brand and its origin, and memory. Second, when a firm intentionally causes brand origin confusion.

Furthermore, research has reported that, because developed countries are perceived as producing items with superior quality (Pecotich et al. 1996); Loo and Davies 2006), in developed countries there is a clear preference for local brands and a consequent resistance to foreign brands (Albaum and Peterson, 1984; Netemeyer et al., 1991), while in most developing countries, consumers tend to prefer foreign brands (Batra et al., 2000; Steenkamp et al., 2002; Wang et al., 2004), especially when purchasing luxury brands (Zhou and Belk, 2004).

Besides all the effects presented above, consumers' purchases are also influenced by the fact that apparel is a mature industry with stores' overcapacity, resulting in an oversaturated market, where consumers have a wide range of purchasing options, and apparel players find it difficult to differentiate themselves (Deloitte 2008).

C. Emergence of own brands (i.e., private label)

In order to differentiate themselves, apparel players (i.e., manufactures and retailers) have started their own product development teams to create exclusive designs and brands (Ryan 2004; Plunkett Research, 2007).

Designs and brands that are exclusive to one store and owned by the retailer are referred to as own brands or private labels (Dickerson 1995; Stone 2004).

By designing, sourcing, and distributing all items in-house, thereby eliminating the middleman, the retailers are able to provide the same good of equal or superior quality for less money than a comparable national brand. Retailers can then sell the good at a lower price to the consumer while still making a higher profit margin, creating a sustainable competitive advantage (Coolidge 2003; Parker and Kim 1997). Further, private label margins, on average, run 6 percent to 10 percent higher (Ryan 2004), due to costs reduction, such as in licensing of names and trademarks, involved in the purchase of other producers' brands (Keiser and Garner 2008).

By 2008, private labels estimated to account for 15 to 25 percent of a retailer's merchandise assortment (Keiser and Garner, 2008), and according to a Price WaterCoopers study, in 2015, will account for 70 percent. This may create a risk of cannibalization⁵ (Parrish 2009), and in order to prevent it, apparel players should concentrate on differentiation and focus within their private label lines. Previous research concluded that by having a thorough understanding of the product and the consumer, those companies will be better positioned to compete in the global marketplace and achieve higher margins for products while yielding

⁵ When one product offering "eats" away at the current market of an established product (Raynor 1992).

greater profitability (Dalgic and Leeuw 1994; Linneman and Stanton 1991, Porter 1998).

This means, they have to be able to create a brand equity in their private labels. A definition of brand equity is a set of assets and liabilities linked to a brand that create value for both customers and the firm (Aaker 1991), or the incremental utility and value that a brand name adds to a product, such as Coke, Kodak, Levi's, and Nike (Farquhar et al., 1991). Ailawadi and Keller (2004), gave multiple ways how retailers could built a brand image within their private labels, as promoting the quality of their service, the brand range of products and merchandising, price and credit policy.

The set of assets and liabilities could be classified into five categories: brand loyalty; awareness; association; perceived quality; and other brand proprietary assets (Aaker 1991). Moreover, other factors regarding a marketing strategy, such as advertising costs, sales' team, public relations, slogans or catchphrase, symbols and packaging, warranties, and social events, have been proposed as brand equity contributors (Simon and Sullivan 1993; Keller 2002).

3. Methodology

A. Research Strategy

The research strategy consisted in a non-experimental method, which means that there will not be explicit manipulation of the information. Further, the nature of the relationship between theory and research is deductive, in other words, the theory guided the research.

For the literature review, the research strategy was based in an archival research (documents analysis) in the EBSCO database, as well as, Google scholar that provided some chapters of relevant books. The criteria to select the secondary source material were: the number of citations, the year of the publication, and the relevance of the academic journal. The majority of the journals used were related to the management and marketing fields, had on average more than 70 citations in EBSCO, and were published a few years to provide up-to-date insights to the analysis (with exception of Porter's Diamond Model).

To complement the academic articles, some tertiary source material was reviewed, such as Statistical Compendiums from Euromonitor International, industry reports from relevant consulting firms (e.g., BCG, PWC, and Deloitte), and relevant firm news in the online version of Financial Times. The reason why Euromonitor International was chosen as a preferable source rather than IBIS World, is because it provides more data in terms of years analyzed and countries' variables, and also due to easier access to information.

Furthermore, some periodical articles about firms were consulted in EBSCO.

In terms of time planning, I worked on this paper on my days without classes, which were Monday and Friday, and respecting the working calendar already established that can be found in appendices.

B. Research Design

This paper will be based in an Action Research Design intended to foster deeper understanding of the Chinese Private Label Apparel in the Fashion Market, starting with conceptualizing the Apparel Global Market and particularizing the problem of the Chinese Domestic Market. The paper ends with a multiple case study design to analyze if the domestic apparel firms actually follow Porter's sustain competitive advantage to succeed or adopt other strategies, in the sense that, firms can perform well, even without accomplishing some of the Porter's requirements, and can also follow more than one type of strategy simultaneously. Three key Chinese apparel retailers were chosen (Youngor, Merters/bonwe, and Giordano) based on specific criteria explained in detail in the case studies' chapter.

This analysis was conducted to allow me to have a broader basis to compare and contrast the findings deriving from each of the cases, and in the final stage to conclude about firms' strategy, and to be able to criticize Porter's Diamond Model.

C. Research Methods

This paper uses both quantitative and qualitative methods. For the literature review chapter only qualitative data was used, from the academic articles. For the analysis and multiple case study chapters, the qualitative data was complemented with some quantitative sources, related to the statistics provided from the

Euromonitor International, to support the qualitative analysis done through the selected academic articles, and industry reports.

4. Analysis

In this chapter, I will analyze Porter's Diamond Model, nation and firm's competitive factors, applied specifically to China's apparel industry and firms.

A. Porter's Diamond Model and Chinese Apparel Industry⁶

Porter's (1998) diamond model of national competitive advantage is based on four determinants: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry.

In fact, the importance of the apparel industry for the Chinese economy cannot be overstated. In 2011, China produced half of the world total number of apparel items⁷, representing more than US\$2 Bn of apparel export revenues.

Table 1 – China volume and value of apparel, in terms of sales.

Sales	2008	2010	2012	Forecast		
				2014	2016	2017
Volume (mn units)	25,962.2	31,533.8	37,344.0	43,611.4	50,634.8	54,430.3
Value (US\$ bn)	177.46	217.95	274.49	320.16	377.91	411.28

Source: Euromonitor International, 2013.

i. Chinese factor conditions

Porter (1998) asserted that new competitive factor conditions in apparel industry rely in advanced or specialized factors, such as highly educated workforce (e.g., creative designers), and production and process technology that are specific to global sourcing and management (e.g., Electronic Data Interchange, information technology, etc).

The competitive advantage factors for the Chinese apparel industry has been cheap labor, taking advantage of their low-cost and mass production, rather than innovation and quality. However, according to Euromonitor International (2013), wages have increased 18–20% over the last three years which has lowered the nation's competitiveness. Further, there is a reduction of the number of skilled

⁶ Appendix A.

⁷ Table in appendix B.

workers in the Chinese apparel manufacturing industry, in fact, the majority come from rural areas, and do not have enough education to perform specialized tasks. (IBISWorld 2012).

Acknowledging that unskilled labor is not a viable factor, especially since is no longer the cheapest, since 2002 the Chinese Government has been supporting Education, creating an educated labor force that is able to expand the economy beyond simple manufacturing (Bustillo 2013).

Indeed, according to the World Bank Data, in 2011, China produced more than 6 million four-year college, which amount to the total work force of Denmark and Norway together. Furthermore, the Chinese Government requires that firms use part of their profits for continuing education. CEOs, managers, supervisors, engineers, and technicians have short business courses in universities to learn occidental management systems, and have the vital tools to compete in the global market (L. Li 2013).

This shows a huge investment in human resources as determinant factor to have competitive advantage (Drucker 1988).

In terms of direct impact in the apparel industry, one of the examples, is the partnership between Shanghai University of Engineering Sciences and IFA Paris – IFA's Shanghai School - the first-ever Sino-French joint venture in fashion education approved by the Chinese government. Today, there are eleven leading fashion schools in China.

For specialized production and process technologies that are specific to global sourcing and management, China's State Council approved, in 2009, the Three-Year Textile and Clothing (T&C) Stimulus Plan. The aim of the plan was to ensure stable development and to upgrade the infrastructures by eliminating obsolete capacity, reducing energy consumption, improving efficiency, and encouraging a shift to higher value-added products plus improvements in product quality and variety. Moreover, concerns regarding a slowdown in global exports, made China as a leading apparel supplier, to focus on domestic market. This allowed to speed up the innovation process associated with moving beyond assembly and full-package supply to original design manufacturing (ODM) and original brand manufacturing (OBM). Today, the most successful factories in China work with Production Line, Information and Communications Technology

(ICT) that are also the machines and software used by developed countries to manufacture apparel (McNamara 2008).

According to the “Textiles Manufacturing – “Made in China” Tag Under Threat?” report, China is the worldwide leader in apparel production, with a capacity to process roughly 41.3 million metric tons of fibers in 2010 (about 52 % of the global total), and has developed capabilities that permit a completely vertical integration in apparel. Furthermore, Gereffi (2010), described China’s apparel functional capabilities as a Full Package Provider (ODM), and as a Strategic and Steady Growth Supplier.

The benefits obtained through such investments are significant. First, according to Euromonitor International (2013), the Chinese apparel industry grew 10 percent from 2007 until 2012, this represented a market size of US \$280 Bn in sales (2012). Furthermore, the sales’ forecast from 2012 to 2017, is to grow 8.4 percent, representing a US \$422.8 Bn industry. Secondly, the apparel firms are targeting bigger markets by expanding internationally, therefore the technology is important to handle efficiently large volumes of orders (Technopak 2012).

Porter (1990) affirmed that, sometimes world-class suppliers become new entrants in the industry they have been supplying. That’s the phenomenon that is happening, today, in China. According to Li (2013), China is shifting from low-tech manufacturing to high-tech manufacturing, as is evidenced by high-tech exports as a percentage of manufacturing exports in the period 2002 to 2010 (17%), by the R&D expenditure that increased 37% from 2002 to 2008, and by the fact that, in 2010, was the world leader in patent applications (L. Li 2013). And by 2012, China alone had a share of around 45% of world’s total installed capacity for spinning and weaving machinery (Technopak 2012).

ii. Chinese demand conditions

As stated before, the size of the home market is more than a reason for firms to invest in reaping economies of scale. Although, Porter (1998) acknowledge the size of domestic demand in a particular industry as being important to national advantage (e.g., economies of scale or learning), he considered the presence of sophisticated and demanding buyers more relevant (Jin and Moon 2006).

In countries where apparel industry is less developed, functionality and availability may be enough to satisfy the consumers, however, as it evolves,

consumers demand a certain premium design level to please their taste (e.g., time, place, occasions) (Jin and Moon 2006).

Chinese apparel consumers became more sophisticated and demanding after the economic reforms. They tend to choose clothes that reflect their personalities (Kwan, Yeung and Au 2003).

Chinese consumers are known for their exquisite taste, especially for luxurious foreign brands (Zhou and Belk, 2004). Indeed, China's total consumption of luxury goods such as jewelry, fashion apparel, leather products and perfume reach \$8 billion in 2007, accounting for 18% of global spending in this area. The forecast for 2014, is that China is likely to be the biggest luxury market (China Retail News 2008).

However, there is a multitude of studies about the apparel Chinese consumers. For instance, a study conducted by Hiu et al. (2001), identified three types of Chinese apparel consumers: (i) Trendy; (ii) Traditional; and (iii) Confused by overchoice. The following table summarizes the results.

Table 2 - Summary table of Chinese Apparel Consumers

	Trendy/Perfectionistic Consumer	Traditional/Pragmatic Consumer	Confused by Overchoice
Gender	Female	Male	Female
Monthly shopping frequency	≥ 5 times	< 5 times	< 5 times
Monthly apparel spending	≥ 300 RMB (US\$50)	< 300 RMB (US\$50)	< 300 RMB (US\$50)
Characteristics	<ul style="list-style-type: none"> Associate foreign brands with high quality and styling; Prefer foreign brands in every clothing segments. 	<ul style="list-style-type: none"> Price conscious; Choose local brands for both casual wear and formal dressing; Not interested in styling. 	<ul style="list-style-type: none"> Prefer local brands that they are familiar with.

Source: Elaborated by the author based on (A. Y. Hiu, et al. 2001).

According to CBRE, in terms of store numbers, China has already become the most important international market for major fast fashion brands. It is the largest international market for Zara (125) and Uniqlo (211), and the largest international market in Asia for H&M (135) and C&A (52).

Domestic brands dominate the mass market, especially in lower-tier cities and the rural market. Generally they have more extensive sales channels than their foreign counterparts (Fung Business Intelligence Center 2013).

Chinese apparel firms have started to internationalize their own brands/private label to overseas to maintain growth, because the domestic market has suffered with the slowing global economy and rising (Fung Business Intelligence Center 2013).

For example, Bosideng, the largest down apparel company in China, in June 2011, acquired an UK retailer, Greenwoods menswear, for approximately 40 million yuan (\$6.4 million), where it plans to house its down apparel and men's wear flagship store, and the group's European headquarters (company website). Also Meters/bonwe, China's leading casualwear apparel companies, opened a flagship store in London in July 2013, and plans to open more stores in Paris, New York, and Tokyo (Fung Business Intelligence Center 2013).

While the above examples are a start, there are some challenges for the Chinese apparel industry. First, regarding the tastes of diverse international consumers. Second, how to establish strong brands and effectively expand.

From 2002 to 2011, there was a 346% increase of net foreign direct investment in China which allow to grow internally, based on an export-driven manufacturing (Bustillo 2013).

iii. Chinese related and supporting industries

In 2008, China exported 33.2% of the world total amount of apparel exports translated into a US\$120 Bn industry, which means that China was the top apparel exporter country (Gereffi 2010), whereas the second place was occupied by UE – 27 that produces 31.1% (US \$112.4 Bn). Unlike some of its competitors, China produces raw materials, being the world's biggest cotton producer. However, the Chinese garments factories' demand for raw materials often exhausting the country's own domestic supply, forcing them to acquire it from other countries to meet their sourcing requirements. This is the reason why is estimated that about half of China's exported clothing is made from imported textiles (The Global Textile and Garments Industry Report, 2008).

Jin and Moon (2006), don't agree with Porter (1998) related to the fact that apparel raw materials are source globally, for them having a competitive national supplier is not important, but it's essential to be able to coordinate the production and communication with suppliers.

For example, Hong Kong's first and largest buying office, Li & Fung, was founded in 1906 and provides an integrated service, called "virtual factory" or "private label manufacturing program", which incorporates product design assistance, through materials sourcing for its production to the handling of logistics (George 1998, Magretta 2000).

iv. Chinese firm strategy, structure, and rivalry

Domestic brands collectively lack technology innovation and fashionable designs, whereas their strengths come from advantages in widespread, distribution networks and low prices (Euromonitor International 2013). The majority of Chinese apparel companies focus on cost leadership, and are currently investing in inventory and forecasting control systems to better manage their stocks, and lower their costs. Others try to differentiate their brand by higher international design teams.

Chinese apparel retailers which are not full package provides, usually have in-house design teams, but outsource production to foreign countries that have cheaper raw materials and labor force.

In 2012, the main distribution channel utilized in China was store-based retailing (92.5%), and e-commerce represented 7.4%. In stores based, department stores and mixed retailers are the main channels with 36.8% share each (Euromonitor International 2013).

Foreign players acting in the domestic market still represent the main interest for domestic consumers, since Chinese consumers perceive international brands as having superior quality.

Table 3 - China Apparel Diamond Model – Summary table

Porter (1998) determinants	Traditional competitive advantage factors	New competitive advantage factors
Factor conditions	Labor: unskilled and low-cost	Disciplined and skilled workforce. Specialized factors production and process technologies: full package provider and strategic supplier. Labor rate: \$1.88-\$1.44/hour. # Employees: 30 million.
Demand conditions	Functionality and availability of apparel items. Domestic and international markets: low-cost apparel items.	Acquiring marketing competencies to support their own brands (ODM, OBM, and ICT). Domestic and international markets: Product Quality and fashionable design.
Related and supporting industries	Imports raw materials due to demand	Imports raw materials due to demand. Distribution network
Firm strategy, structure, and rivalry	Organization and strategy of most apparel firms are suited to industries' source of competitive advantage: high quality design. Cost Leadership Low competition from international players	Organization and strategy of most apparel firms are suited to industries' source of competitive advantage: high quality design and agility (seasonality). Cost Leadership, Focus, and Differentiation; Fierce competition from international players

Source: Elaborated by the author based on (Porter 1998).

However, China's dominance in apparel is likely to be in danger. As a result of increasing manufacturing, distribution, and labor costs, the price of apparel in China continued to experience an on-going upward trend in 2012. Furthermore, increase in average apparel unit price is likely to continue. Even if raw material costs stabilize, the rising labor and rental costs will continue to propel the growth of apparel in China. Therefore, instead of simply price cutting, players will increasingly focus on price-adding features such as fashionable designs and technology innovation to attract consumers.

In addition, multiple Southeast Asian countries are using China's rising labor costs, to change their governmental policies and incentives. For example, on every Chinese apparel item exported to Japan a 10% tariff is charged, while Vietnam does not charge any tax yet. As a consequence, Japanese apparel manufacturers have made invested approximately \$190–200 million. Also, apparel produced in Cambodia enjoys duty free access to the EU, Canada, Japan and China.

Consequently, apparel manufacturers are moving out their operations from China to other places with lower raw materials costs and to avoid currency appreciation. As Porter (1990), in "The Competitive advantage of Nations", affirmed "where

government finds a trade barrier in another nation, it should concentrate its remedies on dismantling barriers, not regulating imports or exports”.

v. Governance

China has, for long, been the worldwide manufacturing hub for a broad products’ range, mainly due to the low labor cost. Since the economic reform program initiated by Deng Xiaoping and the open door policy to foreign investors, China has moved away from an agriculture-based economy into an industrial economy, that processes or assembles 90% of the worldwide manufactured goods, and by the end of 2012, was the world's leader in manufacturing operations and the second largest economic force (L. Li 2013).

The knowledge of how China deployed its manufacturing strategy to become a manufacturing powerhouse is limited. Ling Li (2013)⁸ has identified three periods in this path: (i) the Incubation Years (1978-1991), when Deng Xiaoping and the government dismantled a strict centrally planned system to incubate a model with free-market principles - the Open-door policy of Chinese Government (1980-90) encouraging rapid development of all trades and professions, economic reform, policy formulations and major structural changes; (ii) Navigation Years (1992-2001), when China came out of its isolation by its historic accession to the World Trade Organization (WTO) and reached out to the nations of the world. The major focus of this period was on manufacturing infrastructural development with soft competencies: flexible, low-cost workforce, value-added manufacturing capability, and R&D investment (Li 2012). Furthermore, in 1999, the Chinese Government initiated a ‘Go global’ strategy, to enforce nation’s most promising state-owned firms to become international relevant players, aiming to create between 30 to 50 national champions by 2010; lastly, (iii) Dynamic Years (2002-present), when China became the second largest economy in the world. In this stage, China enter in a soft capability development to change the worldwide manufacturing paradigm, by investing in education, developing workforce, value-add manufacturing capacity, and R&D.

⁸ Summary table in appendices C.

Table 4 – China Strengths and Threats in apparel industry

Strengths	Weaknesses/Threats
Labor: High Productivity, Competency, and experience: China excels at improving productivity in light of rising inflation. Cost: Labor & Quota Elimination Quality: fabric and garments Reliability Technology Investment (logistics) Product Diversity: fabric and finished goods Mentality & Management: “can do” business approach Government Support	Inflation (increases producer prices), and labor competition from higher paying, non-apparel sector industries Labor Costs & Labor Laws: rising domestic wages, expected to increase further as a result of new labor laws Currency Appreciation Energy Costs: increasing Shipping cost: major increases Product Safety

Source: Elaborated by the author based on Gereffi (2010).

Will ASEAN countries match China’s dominance in supply chain efficiency, distribution networks and technical knowhow? While China’s labor costs have risen, the 12th Five-Year Plan (approved in March 2012) focuses on domestic consumption growth, and in high value-added manufacturing.

B. Chinese firms’ Competitive Advantages in Apparel industry

The factors identified as needed for firms to have competitive advantage in an industry were innovation, early mover advantages, and global approach (Porter 1998), and brand management (Lasserre and Schutte 2006). More recently, Jin (2004), posit three competitive factors regarding apparel industry and Asian NIC-specific success factors: global brand; global sourcing; and agility.

i. Innovation

Chinese private businesses easily adapt to market trends, due to their simple product structure and technology, and operating mainly in the niches unexplored by larger firms (Cooke 2008).

With the increasing level of operational freedom, the cheap workforce, the potential for market growth, the high level of technology, and the ascending number of Chinese entrepreneurs have led to a considerable number of good private firms (Nolan 2004).

Although, Product Life Cycle theory (Vernon 1966) explains the production shift of many innovative products, some categories, such as products with short life cycles (e.g., fashion items), cannot be adequately explained (Dickerson 1999).

Innovation in Chinese firms takes two forms: in products and services, and/or in technology and techniques (Cooke 2008). Companies strive to be market leaders in exploring new markets and compete in the upper end of the product market. Many of them have in-house R&D facilities and collaborate with external partners, domestic and international, to obtain faster product development (e.g., universities and research institutions). For these firms, investing in advanced technology is the key to their global competitiveness, and assurance of product quality (Cooke 2008).

In point of fact, the Asian NIC firms' success has been attributed to their "agility, the capacity for meeting changing demand volumes, for prompt and precise commercialization of new styles, and for fast and timely delivery" (Jin, Apparel industry in East Asian newly industrialized countries. Competitive advantage, challenge and implications 2004), but at the same time, without investing in technology. In fact, unlike developed countries, NIC have other unique success factor regarding agility: social networking.

ii. Early Mover Advantages

As the constant fake and poor-quality products made in China have become a serious issue, the top privately owned enterprises have shift their strategy to build their reputation on product quality, honesty and trust. This new strategy englobes product and corporate branding, and CSR, in order to communicate quality the production quality, as starting to build a relationship with consumers based on trust and business ethics. A good example is the Kangna Group that was considered the "Best Chinese Shoe Maker" in 1993, and since then has struggle to keep this reputation.

iii. Global Approach

Although domestic mergers and acquisitions have been the common form to expansion, a significant number of the top-50 private enterprises have also adopted an internationalisation strategy to grow, by improving technological and managerial competence, brand image, and by acquiring distribution network from foreign firms, with a little help from the international capital market (Cooke 2008).

According to Jin (2004), without a powerful global brand, Asian NIC⁹ cannot add value to products rather than trust on manufacturing skills, which will lead to a constant competition with other emerging NIC. In fact, Asian NIC's possibility to expand worldwide is based on their sourcing network expertise by building a global brand through design and manipulation of consumer's taste across advertising. These brand creation requires wealthy advertising budgets and promotional campaigns to sustain it, and benchmark trends in developed countries, such as private labels (Wilson 2000).

Concerning global sourcing, Asian NIC countries are in a privileged position when compared to other emerging NIC (i.e., Mexico), this is mainly because for a long time they have been investing in setting up manufacturing facilities in lower-wage countries and using triangle manufacturing¹⁰ to export for developed countries. Although Mexican firms have been exporting products to North America under NAFTA agreement, they have never experienced systematic integration like triangle manufacturing. For developed countries with high market size, as USA, global sourcing has been a competitive advantage, benefiting with lower sourcing costs. However, a firm with a great global strategy may not obtain the expected outcome (i.e. cost leadership), if it does not assure the global market. Therefore, Jin (2004), in "Apparel industry in East Asian newly industrialized countries", alleged if Asian NIC are to utilize global sourcing strategies, "establishing a global brand should come first, so that the firm can reap the benefits from economies of scale".

iv. Brand Management

The main objective of Consumer Style Inventory (CSI) framework, developed by Sprotles and Kendall (1986) in the Chinese market, was to measure consumer decision-making styles. In the study, eight decision styles were identified: (i) quality conscious; (ii) brand conscious; (iii) fashion conscious; (iv) recreational

⁹ China, India, Taiwan, Singapore, Indonesia, Malaysia, Philippines, Thailand, and South Korea.

¹⁰ Triangle manufacturing is a mechanisms that facilitates Asian NIC shift to higher value added activities. The East Asian NIC initiated triangle manufacturing in the 1970s and 1980s. Under this arrangement, US buyers place their orders with the NIC manufacturers they have sourced from the past. Those manufacturers, in turn, subcontract some or all of the requested production to factories in lower-wage locations to reduce production costs (Bonacich and Appelbaum, 2000; Christerson and Appelbaum, 1995; Gereffi, 1999). Triangle manufacturing allowed Asian NIC to move beyond OEM production and into a facilitator role in organizing global production, which is an asset in the buyer-driven commodity chain.

and hedonistic orientation; (v) price conscious; (vi) impulsive and careless tendencies; (vii) confused by overchoice; and (viii) brand loyalty.

As such, it is interesting to see the relationship between consumer decision-making styles and the choice made between imported and domestic brand apparel (Wang, Siu e Hui 2004).

According to the study conducted by Wang, Siu e Hui (2004), consumers who had unique lifestyle and shopping orientation, had a clear preference for purchasing imported branded apparel. In point of fact, they were not necessarily from the highest income group, indeed they tended to be in the younger range, but were heavy spenders on apparel and were willing to pay higher prices for brand, quality and image, what makes them loyal to some concrete brands.

The main conclusion of this study, and the most relevant for apparel retailers, is in order to target this segment of consumers, the best way is through “fashion magazines, mass media for young people, and window displays with promotional themes” enforcing the fashion trends.

Although this study has discriminated between consumers who frequently buy domestic brand opposing the ones that purchase imported clothing, it did not classify the both-brand group, which is comprised by consumers most likely to be older and often confused by overchoice. This ambivalent group is still important for multinational retailers, due to its high level of income and potential to shift to the imported brand group, if the promotional campaigns are made more appealing to them (Wang, Siu e Hui 2004).

i. Country-of-Origin and Brand Confusion in China

In China, foreign brands from more developed countries represent status, cosmopolitanism, and modernity (Zhou and Belk, 2004), due to its social distinction that outperform the garments' utilitarian, and determinants the buyers' purchase decision (Zhou and Hui, 2003). Another factor taking into account is the rising income in China, and the influence of occidental values and advertising, that enable Chinese consumers to achieve greater self-esteem (Kim et al., 2002; Wei and Pan, 1999). However, current research states that foreign brands' status is decreasing in China (Zhou and Hui, 2003), which represents an opportunity for local brands to increase their market share in the domestic market, through the

utilization of foreign-sounding brand names, and/or the foreign advertising elements to confuse consumers.

“Brand origin recognition depends largely on associations of brand names with languages indicating country origins” (Samiee et al., 2005).

China is the largest emerging market in the world, and domestic consumers have a clear prefer for foreign brands (brand origin effect) because of an origin stereotype, where foreign brands from more developed countries are quality superior, have more technology, and are fashionable (Zhou and Belk, 2004). Therefore, when consumers suffer from origin confusion caused by a local brand that is trying to be perceived as a foreign, they will likely prefer and buy more of this local brand. By opposite, when a foreign brand tries to be local, consumers will have a negative preference for it, and buy less.

ii. Managing COO effects: Product-Country Match

Several studies show consumers from developed countries favor products from developed countries. This consumers' preference in favor of domestic goods may be due to familiarity, and because of the belief that it helps the economy and provide jobs, as well as, due to national pride (Pecotich and Ward 2007).

A multitude of reasons have been offered to explain why COO influences purchase decisions, including product category involvement, animosity (knowledge of a particular country), patriotism, and ethnocentrism (people view their own in-group as central and rejecting what is unfamiliar). However, only one study, conducted by Han and Terpstra (1988), has investigated the product-country matches. Their main conclusion was when unfamiliar with a country's product, consumers infer product information into country image, which then influences consumers' attitudes toward other attributes.

A product-country match should occur when important dimensions for a product category are also associated with a country's image (Roth and Romeo 1992). The following table, identifies the four possible scenarios and their strategic implications.

Table 5 - Product-Country (Mis)Match Framework and Strategic Implications

		Country Image Dimensions	
		Positive	Negative
Dimensions as Product Features	Important	i) Favorable Match <ul style="list-style-type: none"> • Brand name reflects COO • Packaging includes COO information • Promote brand's COO • Attractive potential manufacturing site 	ii) Unfavorable Match <ul style="list-style-type: none"> • Emphasize benefits other than COO • Non-country branding • Joint-venture with favorable match partner • Communication campaign to enhance country image
	Not Important	iii) Favorable Mismatch <ul style="list-style-type: none"> • Alter importance of product category image dimensions • Promote COO as secondary benefit if compensatory choice process 	iv) Unfavorable Mismatch <ul style="list-style-type: none"> • Ignore COO – such information not beneficial

Source: Elaborated by the author based on Han and Terpstra (1988).

A favorable match (i) would indicate to managers the dimensions on which they should promote their product's benefits. In addition, it suggests that a brand that positively correlates with the country-of-origin would be beneficial. Likewise, the presence of an unfavorable match (ii) would indicate that COO information should not be part of the communications strategy. In fact, it may be the case that negative COO effects could occur when the promoted product benefits are not consistent with the country's perceived strengths (Roth and Romeo 1992). A favorable mismatch (iii) would occur when the image dimensions for a country are positive, but they are not important for the particular product category.

Strong product-country matches along with the image dimension(s) do seem to predict willingness to buy products. (Roth and Romeo 1992). By understanding (un)favorable (mis)matches, managers can use the information to select or omit specific product or country information in their marketing communications.

iii. How strong is “Made in China” Apparel?

There are few studies on this topic. Therefore, this analysis will be based on a study to the Iran's Market in order to analyze how they perceive the apparel products “Made in China”. It was possible to conclude that although most Iranian consumers use Chinese products, these products usually do not have a positive reputation, which means that Chinese apparel manufacturers should pay attention to design, packaging and communication.

In the domestic market, foreign apparel brands are not well positioned in China to compete with domestic apparel brands (Chen and Lin 2013), because they can be seen as more fashionable among some demographic groups, but for the majority they are not sufficiently differentiated from domestic brands that have a competitive advantage in pricing. This means that foreign brands don't have as much value added as domestic brands, and the current foreign marketing strategy in China is not enough to align their brands with the attributes desired by the Chinese consumers'. For an effective apparel marketing strategy in China, the early identification of attributes valued by Chinese consumers it's essential to succeed, followed by a clear explanation on their differentiation from domestic brands, and effective communication of their advantages through personal relationships (Chen and Lin 2013). Consequently, in order to face the overseas competition, the Chinese apparel companies have to promote their design and marketing capacity by establishing a brand system, defining a brand image, and strengthen brand culture, since they are already well equipped and have strong product capacity.

In 2006, the 5th Plenary Session plead the need for a fast development of globally competitive firms with self-owned intellectual property, and strong brands names (Economic Daily News, 2006). However, China does not have it yet. Instead, is well known for its low cost OEM, rather than for its innovativeness and leadership in developing strong brands.

On the other hand, rising income levels in China and the increasing investment by international premium players will increasingly underpin the upward trend of apparel prices period, since more consumers will have the purchasing power and willingness to buy international brands with more fashionable designs and better quality (Euromonitor International 2013).

These facts establish a new era of doing business for Chines apparel companies. People disregard information that challenges their knowledge structures in a process known as confirmation bias (Kotler and Gertner, Country as a Brand, Product, and Beyond 2002). Therefore, the perception of "Made in China" as cheap, low quality products, might be lasting and difficult to change. It's the time to make strategic decisions: Should Chinese apparel companies target local or global consumers? Should they penetrate the market locally or globally? If globally, how to change a "Made in China" bad quality mind set?

iv. Emergence of Apparel Private Label in China

Gereffi (1999) stated that the ultimate phase for apparel industry evolution in Asian NIC is branded marketing. A number of firms in Asian NIC that pioneered Original Equipment Manufacturer (OEM) are now pushing beyond it to the OBM system by integrating their manufacturing expertise with the design and sale of their own branded merchandise. Evidence shows that Chinese apparel companies started in the 1950s and 1960s as OEM production, where they were just following the design specified by the foreign buyer. This system allowed the companies to gain tacit knowledge (i.e. foreign buyers' preferences, including international price standards, quality, and delivery of export merchandise), evidenced by the presence of own brands, such as Youngor and Giordano, developed for the domestic and international markets (Jin 2004).

According to Li Fung (2012), China manufactures, retailers and department stores began to develop their own private labels, in order to eliminate the middleman associated with national brands, increase profit margins due to cost savings, improve differentiation, and strengthen customers' loyalty. Generally, retailers that develop own brands use in-house design team, but outsourced manufacturing capacity to foreign countries (Delener, et al. 2012). According to PLC theory, "as an innovative product goes into the growth stage, the production is likely to shift to less economically developed countries, while developed countries continue to focus on developing an innovative product" (Vernon 1966).

v. Branded Marketing and Internationalization

In order to succeed in this last stage of evolution identified by Gereffi (1999), Chinese apparel firms have to adapt their strategies to both domestic and foreign markets.

In the domestic market, there is a trend for young Chinese consumers, to purchase expensive brand name products, in order to pursue a modern lifestyle and keeping fashionable (Bow and Ford, 1993; Li and Gallup, 1995). This represents challenges for domestic players to succeed with their own brands. Moreover, advertising (especially traditional media advertising) is not as effective in the Chinese market as it is in Western markets (Tong and Hawley 2009). Besides cultural factors, the traditional mass media is no more effective in attracting China's younger generations because of its lack of content/innovation, and

absence of audience interaction (Liu 2002). In fact, the results of Tong and Hawley (2009) study show that TV advertising are no longer efficient, because of the high volume of ads that made consumers avoid to buy those brands. Moreover, the increasing amount spent in traditional publicity, does not assure a return on sales (Tong and Hawley 2009). In fact, the key success factor is web advertising with quality and to invest in an official company's website. For traditional media, it is possible to conquer Chinese young audiences by catering to niche consumer with interactive advertising (Tong and Hawley 2009). Furthermore, price promotions only have short term financial gains and, eventually, wear out the brand equity (Yoo and Donthu, 2002). Therefore, marketers should focus on non-price incentives (Liao 2006).

Foreign market expansion is not a new phenomenon in the apparel industry, but it is a new phenomenon for the majority of Chinese apparel firms.

Today, operating within a foreign market is essential to apparel firms' reputation and significant contribution to overall turnover. However, in the past two decades, the international expansion of fashion retailers has been unprecedented, and has been fuelled by a variety of facilitating factors, as the emergence of fashion retailer super-brands (e.g., The Gap, Benetton and Gucci), whose image positioning makes them appealing to customers across the globe, regardless of their cultural background and ethnic origin.

Dawson (1994) identified a number of factors which serve to explain why internationalizing fashion retailers enjoy considerable success abroad. They are small format and require limited capital and management set-up costs; ease of entry and exit compared to manufacturing; single brand stores format enables internationalization because give unique advantage; suitable for franchising; and economies of replication.

The adoption of a perceived as English brand name, is one of the best strategies apparel Chinese firms can pursue to succeed abroad and avoid the lower quality problem associated with garments made in China. The second strategy, is to find local partners or acquire existing firms in the countries where they want to operate, to avoid cultural issues and facilitate the understanding of customers' local needs.

In the next chapter, three companies cases will be explored in order to understand how Chinese apparel firms that actually developed a private label are performing in domestic and foreign markets. And in which way do they challenge or not Porter's theories of nation and firm's competitive advantage factors', and firm performance.

5. Case Studies

In this chapter, I will analyze the strategies and positioning of three Chinese apparel companies that were apparel manufactures and developed their own private label brands.

A multiple case-study design was chosen in order to have a broader basis to compare and contrast the findings deriving from each of the cases, so it was possible to criticize Porter's Diamond Model, in the sense that, companies perform well, even without accomplishing some of the Porter's sustain competitive advantage requirements, and can also follow more than one type of strategy simultaneously. The units/level of analysis are fashion retailers/organizations. For the case studies, three key Chinese fashion retailers were chosen: Youngor, Metersbonwe, and Giordano. Since the theory of Porter's Diamond Model proposes that being innovative, having a global approach (e.g., sell products worldwide), and an existing obsolete advantage, are especially relevant for an organization to have a sustained competitive advantage, and that Jin's theory states three NIC-specific competitive factors (global brand, global sourcing, and agility), the selection of the cases was based on three criteria: (1) Porter's type of strategy followed, (2) positioning in the apparel market (i.e., target, brand portfolio, sourcing strategy and production volume, etc) and (3) presence in other countries. These 3 cases have in common the fact that, each one of the Chinese apparel companies chosen, follow a different type of strategy based on Porter's theory described before (i.e., focus, cost leadership, or differentiation), and the uniqueness is the organizations' decisions based on the type of strategy they pursue. The data collection followed the idea of 'triangulation, validity, reliability' (Flick, 2004) – the research issue is analyzed from different perspectives by including highly knowledgeable informants who view the focal phenomena from diverse perspectives (Eisenhardt and Graebner 2007). The data collection process comprised three steps:

The first step was to investigate which were the Top Chinese Fashion Brands in 2012¹¹. *The second step* was to collect information and data from multiple publicly available sources of evidence, such as general industry reports, companies' case-studies, as academic articles, and company's annual reports in English (when available) and official websites, from the Top 8 fashion brands, in order to determine their Porter's type of strategy¹². Finally, *the third step* consisted in selecting the three most attractive companies, each one with a Porter's different type of strategy, based on the amount of information available.

i. The three cases

A. Youngor: Focus Strategy



The Youngor Group was founded in 1979, and its core businesses are menswear garment manufacturing and marketing.

The group operates as an OEM of fabrics and apparel for multiple international fashion brands such as Polo, Calvin Klein, Adidas, Cortefiel, H&M, Lacoste, Nike, PVH Corp, and Puma (Greenpeace Dirty Laundry Report), and since 1993, also has its own product lines - including shirts, t-shirts, suits, trousers, casual jackets, and ties - under its private label Youngor.

In order to benefit from economies of scale, in 2003, the Youngor Group invested US \$147 million (1bn yuan) to build the *Youngor Textile Complex* in Ningbo, a large-scale production facility for items such as high-quality dyed yarn cloth, wool fabric, printed fabric, dyed fabric and knitwear, which is one of the major production facilities in China for high-end clothing and textiles. The complex contains the headquarters, as well as a number of individual manufacturing plants, a research center, a warehouse, and a showroom.

According to Youngor's official website, by 2007 the firm had established a completely vertical integrated industrial chain, from the upstream of textile and fabric manufacturing, to midstream of garment creation, and to the downstream of

¹¹ Except Giordano, which is based in Hong Kong and is not possible to compare the brand value but I found it relevant.

¹² Summary table in appendix E.

marketing and sales. Also according to the website, has recently achieved an annual production capacity of 15 million shirts, 2 million suits, 2.2 million trousers, 1.1 million leisure coats, 15 million knitted items, and 3 million ties. Further, its domestic fabric production capacity are 72 million meters of yarn-dyed fabric, 6 million meters of worsted woolen cloth, and 20,000 tons of knitted fabric. Moreover, its annual overseas production capacity are 40 million items. Still according to the brand's official website, Youngor has become the world's largest menswear manufacturer, with an annual production capacity of 80 million garment items.

According to the China National Commercial Information Centre (CNCIC), in 2012, it were sold 6.88 million of pieces of men's suits and 5.4 million of men's shirts. This means that, in the same year, Youngor produced 30% of the total men's suits sold in China, and produced almost three times more the number of shirts sold, showing the clear overcapacity the company has.

Due to its market positioning and performance, in 2010, the company was able to add five more brands to its portfolio. The brand strategy segments the market into *Mayor*, targeting public officials; *CEO*, for business executives; *GY* for the young and trendy; and *Hemp Family*, a "green" brand of apparel made from a natural fiber grown with minimal impact on the environment. And, in addition, Youngor also sells merchandise, in the domestic market, from *Hart Schaffner Marx*, an American brand of classic men's apparel.

Challenging Porter's

The focuser strategists rests on the choice of a narrow competitive scope within an industry, by selecting a segment or group of segments and tailors its strategy to serve them excluding all others (M. E. Porter 1985). Through this process, the focuser seeks to achieve competitive advantage in its target segment even though it doesn't have an overall advantage. This strategy has two variants: cost and differentiation focus (M. E. Porter 1985). To succeed, the target segments must either have buyers with specific/unusual needs or else the production and delivery system that best serves the target. The essence of focus is the exploitation of a narrow target's differences from the balance of the industry.

Youngor focused its target segment on men aged between 20-55 years, and succeed. According to CNCIC, in 2012, it was the top domestic apparel enterprise by sales revenue, and had the largest domestic market share in of both, men's suit (7.8%) and shirts (7.4%). Youngor is outperforming its competitors in a way that exploits a real difference that exist in the market, especially in the suits and shirts segment where the nearest competitors only have, respectively, 2.8% and 2.9% market share.

Since the group's sourcing strategy is completely done in-house, it allows the company to have control over costs, but mainly, allow to focus on differentiation from competitors, through its "push, pull, and quick response supply chain" (Song and Fan 2012). Youngor has the advantage of low planning intervals (one every three months), of having three types of production modes: (i) the order-based push-type mass production mode, where they accept an order, arrange the material, manufacture the garment, and then distributes it to the point-of-sale (POS); (ii) the pull-type just-in-time production mode without orders, where it integrates all the systems' information, from the retail POS, distribution, finished garment, to material, which allows the system to clear the inventory account of each store every day and transfers the data to the distribution center, enabling products to be delivered when needed without orders; and (iii) the quick response supply chain, by making weekly rolling estimates on basis of monthly plan. Furthermore, attempts mass customized production, and designing based on costumers' physical figure, social status, price endurance and dressing condition, in order to satisfy the needs of different consumers.

Table 6 - Youngor's Market Share

Market Share (%)	2009	2010	2011	2012
Youngor Group Co Ltd	30	30	30	30
Youngor brand	30	30	30	30
Men's suits	14	12.5	13.4	7.8
Men's shirts	8	13.2	13.2	7.4

Source: Elaborated by the author based on Euromonitor International and CNCIC.

Although the group's and brand market share are steady since 2009 (30%), the men segments have suffered a decrease due to customers' financial situation and fierce competition. Further, this apparel segment is expected to decrease 8-10% from 2012 to 2016 (A.T. Kearney 2013), due to segments' maturity stage and consolidation, intense competition, and price wars.

According to the brand expert, Dr Paul Temporal, the brands' "design and quality will be quite at home on the streets of London and New York. They could have gone global". Although, Youngor's executives claim their target are "the 200 million middle-aged Chinese men", and the company focus is to establish a strong position in the domestic market through its more than 160 subsidiaries, which manage nearly 300 wholly-owned specialty stores and 2000 outlets (Li, Wang and Cassil 2004).

The following table determines if Youngor gathers the necessary factors stated by Porter to have a sustained competitive advantage.

Table 7 - Porter's CA Factors: Youngor

	Description	+/-
Innovation		+
• Product design	Owens design teams in Italy, New York, Shanghai, Hong Kong, and Ningbo, and the Research and Development institutions are in Beijing, Shanghai, and other parts of China	+
• Production Process	Invested US\$73.5 million in advanced apparel production technology from Britain, France, Germany, and Italy to become one of the largest and most advanced textile producers in China	+
• Marketing Approach	Invested a total US\$300 into the opening of self-run retail chain stores. It's Flagship Store is located at Nanjing East Road, recognized as the most prosperous business street in China, and is the largest of its kind in China	+
• Serving a niche	Only target men aged 20-55 years old	+
Global Approach		+/-
• Sell worldwide	M&As in USA: Xinma Group (2007), and Smart Shirts (2008). Joint Ventures: Itochu Trading Company - Japan (2001) and Yaxin Shirts Company Limited - USA (2005). Open brand offices abroad: USA (2004)	+/-
• Own brand name	Youngor established an international joint venture to offer in-house apparel materials and accessories for shirt production, and also set up stores with a brand name in premium locations	+/-
• Int. marketing channels	There's no international marketing operations.	-
Early Mover advantage		+
• Scale economies	Yes, resulting from operational efficiencies in a completely vertical integrated system, with scale and capacity benefits	+
• Customer relation/Loyalty	Youngor brand was voted as the consumers' favourite brands and industry trade mark in China (1997)	+/-
• Distribution channels	Started to build its own marketing and sales network in 1994. Invested USD\$220 million on deployment of self-run retail chain stores located on major cities, also has retail shops in shopping malls, franchising and outlet stores	+
Make it obsolete	Innovation can be protected through patents	+

Source: Elaborated by the author based on (M. E. Porter 1985, 1990).

Youngor challenges Porter's theory in the sense that it doesn't accomplish all the factors to have a sustained competitive advantage, and still succeeds. On one hand, it invested in all fronts of innovation, especially since the Ningbo textile complex was built. The technology advantage is clearly reflected in the number of patents, and in the number of product launch, whereas the complex helped developing thirty-two new products and technologies, whereof twenty-eight are considered national level advanced technologies, and eight international level. But on the other hand, the company has only started a serious global approach since 2004, when decided to open an office in USA and started to acquire established players. Furthermore, the 23% of revenues from international business correspond to the operations for international fashion brands, and not from revenues of Youngor' private brands sold abroad.

In addition, it does not only pursue a focus strategy, but also cost leadership, through its operational efficiency and capacity, which allow Youngor to be prepared to withstand pressures when prices are driven down by the competitive forces of the market, and fulfils agility, one of Jin's (2004) Asian-NIC specific factors, by being prepared to respond to apparel's seasonality.

B. Meters/bonwe: Cost Leadership Strategy



Metersbonwe Group was established in 1933 as a private owned company focused mainly in production of sportswear. Today, its core businesses are casualwear apparel designing, and retailing.

While Metersbonwe is the company's main brand, there are also other four sub-brands: *Me&City*, a label targeting young urban middle-class consumers with European styling and European models in advertising; *Tagline* an urban wear brand; *CH'IN* a top-grade sportswear brand, and MooMoo, an unisex children aged from 3 to 12 years wear launched in 2012.

The Group was the first to adopt "Virtual Operation" business model in China's apparel industry, and develop chain stores under the brand of Meters/bonwe. Further, the group has developed and implemented an ERP system, linking all supply chain in the end-to-end chain including design, production, logistic, management and POS, to enable them to share internal resource and systemize management process.

Metersbonwe have also managed to transform from manufacturers to retailers and brand marketers by using globalizing city functions of management and trade. For example, Metersbonwe relocated its design center and R&D functions to Shanghai in 1998 and moved its headquarters there in 2005 (Essays Uk 2013).

Challenging Porter's

According to Porter (1985), a firm that follow a Cost Leadership strategy sets out to become the low-cost producer in its industry, has a broad scope and serves many industry segments, and its sources of cost advantage might include the pursuit of economies of scale, proprietary technology, preferential access to raw materials, among other factors. Low-cost producers typically sell a standard product and emphasize reaping scale or absolute cost advantages from all sources. However, it must achieve proximity in differentiation relative to its rivals to be an above-average performer.

Meters/bonwe has a wide breadth, created a down-market version of H&M and Zara, targeting unisex college students and recent graduates, aged between 16 to 25 years old, with a brand that many think is European due to its name (Waldmeir 2012). With its sub-brands, the target increases, from children to sportswear. As a cost leader, the brand has a team of international designers that customize the portfolio, and then outsources the production to its 300 suppliers, offering to its final customer's basic and inexpensive apparel.

Although it doesn't achieve differentiation, the brand was still able to rank 10th in the world for "brand momentum" (by Millward Brown Optimor), and China's largest casual apparel company since 2012 (Hurun Research Institute 2013), all this achieved without global expansion. However, is planning, within three to five years, to push into the fashion markets of London, Paris, New York, and Milan (Waldmeir 2012). In order to give international visibility to the brand and succeed abroad, the marketing strategy started by placing a Meters/bonwe t-shirt on Shia LaBeouf's character in the Transformers movie.

The company has 4000 stores in China, which is twice the number of shops globally of H&M. However, it makes just 10 percent of the Swedish group's

earnings. It is true that shifting large volumes of tracksuits and T-shirts has supported operating margins just below those of international peers at about 15 per cent. But even each of Meters/bonwe's most upmarket shops generates 14 times less revenue than H&M's shops in China.

The following table determines if Meters/bonwe gathers the necessary factors stated by Porter to have a sustained competitive advantage.

Table 8 - Porter's CA Factors: Meters/bonwe

	Description	+/-
Innovation		+
• Product design	International design team with world-class designers from France, Italy, and Hong Kong. Over 8,000 new designs of styles are launched to the market every year	+
• Production Process	The first apparel company in China to adopt the international practice of outsourcing all manufacturing to >300 suppliers (Waldmeir 2012)	-
• Marketing Approach	Spend US\$6.4 million to build flagship stores; Create 4 sub-brands.	+
• Serving a niche	No, mass market	-
Global Approach		-
• Sell worldwide	No. Only opened a flagship store in London (2013)	-
• Own brand name	Yes.	-
• Int. marketing channels	-	-
Early Mover advantage		+
• Scale economies	Yes, resulting from location and suppliers network.	+
• Customer relation/Loyalty	In 2003, "Metersbonwe" woolen sweater was named the "Famous Brand" of China. In 2004, the brand "Metersbonwe" has been recognized as the "Most Favorite Apparel Brand to the Youth" in China. In 2005, the Group won the "Annual Sales Prize of Chinese Apparel Brand" ¹³	+
• Distribution channels	Franchised stores, chain of proprietary network, and specialty stores, and recently, e-commerce	+
Make it obsolete	Cost reduction is easily imitable by competitors	-

Source: Elaborated by the author based on (M. E. Porter 1985, 1990).

Meters/bonwe achieves cost leadership, outperforming competitors through efficiency rather than product quality or service, mainly due to its efficient logistics through "Zero Inventory" policy, low cost base through outsourcing, and franchising stores. However, it doesn't gather all Porter's necessary factors to achieve sustained competitive advantage. First of all, even though it's one of the most valuable apparel brands in the world, is still planning to go global. Secondly,

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Source: http://www.usachina.org/english/entre/detail.asp?filename=/develop/vhosts/vhosts2/usachina.org/web/english/entre/text/440_zhouchengjian.txt

it offers basic with no innovation apparel, and outsources its production not having any R&D department responsible for making technological innovation. Finally, as a cost leader firm, making this cost advantage obsolete is very difficult, due to easy imitation by competitors. Further, not having an integrated supply chain, might make this task even more difficult to Metersbonwe Group, since their dependence on suppliers is high, and have no control on both proprietary technology and access to raw materials.

Regarding Jin's (2004) factors, agility might be difficult for Meters/bonwe because they are dependent on their manufacture suppliers' speed to adapt to seasonality and last minute changes in garments production.

C. Giordano: Differentiation Strategy

The logo for the brand Giordano, consisting of the word "GIORDANO" in white capital letters on a black rectangular background.

Giordano was founded in 1981 by Jimmy Lai, and started out selling manufactured apparel for the US market as a wholesale trade. It sold exclusively men's casual apparel until 1987, when to respond to slow sales and increasing number of female customers, decided to reposition toward a retailer of value-for-money casual unisex apparel, with the goal of maximizing unit sales instead of margins.

Today, the company's brands are Giordano, Giordano Junior, Giordano Ladies, Concepts One, and BSX (former Bluestar Exchange). Giordano Ladies is the high-end premium brand, targeting working women aged between 20 – 40 years old, and priced 30 percent higher than the Giordano brand. The core brand Giordano and Giordano Junior are the mass market brands offering good quality casual wear. The BSX, targets the price conscious customers, and is priced around 30 percent lower than the core brand.

The company had its own apparel manufacturing division where many of its own apparel styles are produced, however it was divested in 2008 (Saxena and Khandelwal 2010). With this move, now about 95 percent of its merchandise is outsourced to countries that have depreciated currencies, such as Malaysia and South Korea (Bloomberg 1999). But it still maintains a small manufacturing operation which serves about 5 percent of Giordano's merchandise needs (Saxena and Khandelwal 2010). This allows the brand to manage the entire product portfolio by classifying it in three categories: (i) core items (40 percent) such as t-

shirts and trousers are sourced, manufactured and distributed centrally; (ii) movable items (40 percent of the portfolio) consist of approximately 200 SKUs of seasonal fashion products, centrally designed and developed and from which regional teams select based on local market preferences; and (iii) icing items (20 percent) are developed by regional and country markets. Regional teams have independence to elaborate region adapted promotional activities taking into account the local culture and mindset.

Information technology is used to facilitate inventory management and demand forecasting. Moreover, Giordano is able to respond effectively to ever changing trends, due to its strict just-in-time management of inventory and stock levels.

Challenging Porter's

According to Porter (1985), a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. Selecting attributes that buyers in an industry perceive as important, and positions itself to meet those needs. A premium price is the reward for its uniqueness. Furthermore, differentiation can be based on the product itself, delivery system, marketing approach, among other factors.

In Giordano's case, its founder Jimmy Lai, adopted a strategy that differentiated the brand from its competitors and took it on the road to success to become Hong Kong's most famous apparel brand (Granitsas 1998). Although, his strategy included value pricing, frugality, computerization, good customer service, effective advertising and promotion, Giordano's top priorities and key elements of differentiation are customer service and marketing approach. For instance, the stores, with well-designed, creative displays, strong visual merchandising and good ambience, are strategically located at most of the malls, residential areas and business districts in order to be easily accessible to its customers. The corporate website is used effectively to communicate with the customers on new merchandise, seasonal campaigns, promotions, and various other activities. In addition, regular contact is made through personal calls, SMS, e-mails, and newsletters. The brand has also the World Without Strangers (WWS) program, that rewards customers with discounts and special offers, and points whenever they purchase any regular priced merchandise at Giordano stores.

The following table determines if Giordano gathers the necessary factors stated by Porter to have a sustained competitive advantage.

Table 9 - Porter's CA Factors: Giordano

	Description	+/-
Innovation		+/-
• Product design	3,000 styles and +10 collections per year	+
• Production Process	95% of its merchandising is outsourced. Introduced innovations: DryTech and CoolMax (2005)	-
• Marketing Approach	Localized micro-marketing Re-branded Bluestar Exchange to BSX (2007) Local marketing and celebrity crossover campaigns Multiple-market and multiple-brand strategy	+
• Serving a niche	No, mass market	-
Global Approach		+
• Sell worldwide	Present in more than 40 countries with +2400 stores. Main markets are Mainland China, Hong Kong, Japan, Korea, Singapore, and Taiwan, Australia, Indonesia, Malaysia, Middle East, and North America.	+
• Own brand name	Sells under its own name. Established five different brands, each with its own individual market positioning and retail identity.	+
• Int. marketing channels	The name Giordano was chosen intentionally to add an international dimension to the brand. Stores have budget to refurbish and adapt to local mind-sets	+
Early Mover advantage		+
• Scale economies	Yes, due to low infrastructure costs, location and product R&D.	+
• Customer relation/Loyalty	Is a "recognized leader in service, a reputation backed by the many service awards it has won" over the years (Chinadaily 2003). Customer Loyalty Program – World Without Strangers (WWS). One of the Top 100 Companies Making a Difference in the Arab World by Forbes magazine. The company also received the 2013 Global Emerging Market Retailer of the Year award in London, UK from Retail and Leisure International (RLI).	+
• Distribution channels	Franchise and group' owned stores, located in prime shopping centres and department stores all over the world, e-commerce	+
Make it obsolete	The service is the main advantage, but other brands can build the same brand heritage.	-

Source: Elaborated by the author based on (M. E. Porter 1985, 1990).

Although, Giordano is clearly seen by its customers as a provider of superior products and service, it's also concern about its costs has the shift from manufacture to retailer showed.

In addition, it also challenges Porter by not being able to make its customer service quality obsolete, as its competitors, especially the foreign fashion retailers, can easily build strong ties with the domestic market.

As Meters/bonwe, since Giordano only controls 5% of their garment production, to achieve agility might not be easily if, for example, Giordano is suddenly dependent on a key supplier to change a collection, or to finish an apparel line.

6. Conclusion

My empirical context is especial in the sense that the apparel industry is a maturing industry characterized by an overcapacity of stores, resulting in a highly oversaturated market (Deloitte 2008). Further, consumers have a wide assortment of shopping possibilities, which has created an extremely competitive business environment among fashion retailers which consistently pursue for ways, others than price, to compete. Differentiation through creation of private labels is one possible strategy, since private labels act to set the retailer apart from the competition by offering the customer an item which is available only in that particular store, and increase their profit margins (Parrish 2010).

Through an in-house strategy (i.e., design, sourcing, and distribution) that eliminates the other intermediaries, retailers are able to provide a similar of superior quality product for a lower price, creating a sustainable competitive advantage (Coolidge 2003; Parker and Kim 1997).

However, differentiation strategy is not the only strategy type followed by the Chinese apparel companies. Indeed, cost leadership is the most common, with companies focusing on ways to reduce their expenses and provide basic garments with no innovation.

Porter (1980) explained that a firm either must take the steps necessary to achieve cost leadership, or it must orient itself to focus, or to differentiation, arguing that successful businesses should only compete in the basis of one type of strategy.

Although, I agree with Porter in the sense that companies should avoid to be trapped in more than one type of strategy, because they can easily loose the focus on their mission and goals, I also disagree with the fact that, in order to perform above average, firms have to choose only one type of strategy.

In fact, what successful Chinese apparel companies actually do, is to get advantage by following some strategies' features, without really pursuing an exclusive type of strategy. The companies that are able to manage well this trap, as the three case studies presented before, are the ones that perform well in the domestic market.

Furthermore, I disagree with Porter's necessary competitive advantage factors. As my findings demonstrate, companies can have advantage in an industry without

perceiving an international expansion, especially in China when the local market represents 1.4 billion consumers (19.3% of world total population).

My findings challenge this theory in varied ways. Firstly, the three companies are mainly following one type of strategy, but they still accomplish others' type of strategies requirements. Secondly, in terms of sustained competitive advantage factors, not all of them either have innovation as a present aspect of their brands, or global approach/intention to sell worldwide. Finally, customers' loyalty for domestic brands in China is quite difficult, since customers prefer to acquire foreign brands perceived as having superior quality.

Youngor succeeds and has mixed strategy focus and cost leadership. Youngor doesn't want to become global.

Other examples, as Li-Ning the sportswear brand of the former Chinese Olympic gymnast, fail to succeed in its segment within the domestic because couldn't positioned correctly and didn't emulate foreign competitors' tactics (e.g., Nike and Adidas). For instance, because Mr. Li was his brand's biggest ambassador, consumers began associating Li-Ning only with gymnastics goods, later on in 2010, the brand tried to position itself in the premium segment charging higher prices, following a differentiation strategy, but this segment consumers found the quality of Nike and Adidas superior, while lower and mid-price-segment consumers chose cheaper, local brands (Hellmut Schütte 2013). Furthermore, its logo and slogans were too similar to competitors', which led consumers to think it was an imitator.

Based on the analysis of the case studies, I concluded that the top 3 companies selected do have relative competitive advantage in terms of the market. However, they don't follow exclusively one of Porter's type of strategy, and not all firms gather the necessary factors, stated as necessary, to have sustained competitive advantage. This raises a few possible questions for further study presented in the next section.

My finding might apply to other empirical contexts, as industries in mature stage that suddenly demand for companies to adapt to a new paradigm in order to survive. Moreover, may apply to industries where e-commerce has a high potential

in terms of the industry size and growth, demanding for companies to adapt their strategy in order to face the demand and cover the market. This fast changes may be difficult for companies, because they can easily be stuck in the middle of more than one type of strategy, which expresses the firms' unwillingness to make choices about how to compete (M. E. Porter 1985).

7. Limitations and Future Research

This Master Thesis has some limitations in terms of scope of the study, since is based on the analysis of three companies. Furthermore, some of the information was difficult to find, because the certain key information was written in Chinese, inclusive some companies' annual reports and official websites happened to only exist in Chinese.

For future research it might be interesting to study in depth if there is a time frame that companies should follow to apply each one of Porter's type of strategy. For instance, may be that companies have specific timings where they should pursue a certain strategy of the three present by Porter. If do, which are the factors or signs that managers should be alert for? Other relevant question is if companies' size affect the type of strategy they should pursue, because of their sourcing strategy and access to resources? Regarding internationalization, it would be interesting to understand if there is a right time for the international expansion to occur, and if there is a more effective type of strategy in that process? Finally, since companies can perform well without following exclusively on of Porter's strategy, and without gathering all competitive advantage factors, are there other factors that affect firm performance that have not been stated before? And if those factors are conditioned and specific to each industry?

Answering those questions will contribute for the strategy field, by giving managers the knowledge and tools to act accordingly to their best interest, which is adopt the right strategy in order to increase their companies' performance.

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9. Appendices

A. Porter's Diamond Model

Porter (1998) determinants	Traditional competitive advantage factors	New competitive advantage factors
Factor conditions	Basic factors: such as unskilled labor and raw materials	Advanced factors: skilled human resources such as creative designers. Specialized factors such as production and process technologies that are specific to handling global sourcing and management (e.g. EDI)
Demand conditions	Demanding functionality and availability of apparel items	Demanding higher levels of needs such as brand name and service
Related and supporting industries	Presence of internationally competitive back-end supplier industries (e.g. raw materials producers)	Presence of internationally competitive front-end industries that efficiently coordinate global supply chain management (e.g. buying office, advertising, information technology)
Firm strategy, structure, and rivalry	Organization and strategy of most apparel firms are suited to industries' source of competitive advantage: high quality design	Organization and strategy of most apparel firms are suited to industries' source of competitive advantage: high quality design plus agility

Table I. Traditional versus new competitive advantage factors using Porter's diamond model (1998)

Source: Ling Li (2013,)

B. China's share of Global Production (2011)

World MS	Fiber	Yarn	Fabric	Garment
China	40%	64%	41%	50%

Source: The Fiber Year, Textile Intelligence, UN Comtrade, Secondary Research, Technopak

Analysis

C. Characteristics of two global commodity chains

Commodity Chain	Buyer-driven	Producer-driven
Typical example industry	Labor intensive industries (apparel, footwear, toys, electronics)	Capital and technology-intensive industries such as: automobiles, semiconductors, computers, aircraft
Who takes the pivotal role	Large retailers, brand-named merchandisers, and trading companies	Transnational corporations or other large integrated industrial enterprises
Production system	Decentralized and horizontal	Centralized and vertically integrated
Source of profit	Design, value, services and marketing	Economies of scale, volume and technological advances

Source: developed by Byoungcho Jim (2004, P. 235), based on Gereffi (1994)

D. Summary table of Chinese Manufacturing Path

Periods	What was done?	How was it done?	Attributes to success
Incubation years (1978–1991)	<ul style="list-style-type: none"> - Structural reform; - Established special economic zones along the coastal area; - Allowing private firms 	<ul style="list-style-type: none"> - Capitalizing low cost labor resource; - Taking advantage of convenient logistics between SEZ & HK; - Implementing tax benefits; - Branching out to market economy in a planned manner 	<ul style="list-style-type: none"> - A combination of state planned economy with market economy wisdom; - Strategy for growth and development; - - Avoided putting all eggs in one basket
Navigation years (1992–2001)	<ul style="list-style-type: none"> - Infrastructural development; - Established financial special zone within China; - Accession to the WTO in 2001 	<ul style="list-style-type: none"> - Absorbing foreign investment & cumulating capital; - Navigating from low cost, low tech content products to high-tech oriented products; - Integrating western managerial systems 	<ul style="list-style-type: none"> - Capitalize on foreign investment; - Omni-directional and diversified economic development strategy; - Diffused coastal areas development to less-developed inland areas
Dynamic years (2002–present)	<ul style="list-style-type: none"> - Soft power development; - Global manufacturing supply chain development; - Recognized as a manufacturing powerhouse; - Becoming the 2nd largest economy in the world; - Moving from low labor cost to high-tech content production 	<ul style="list-style-type: none"> - Created a flexible manufacturing workforce; - Increased investment in education; - Started to focus on value-add manufacturing capability - Increased investment in R&D 	<ul style="list-style-type: none"> - Human capital investment; - Resource integration; - Low-cost labor paired with top-notch engineering capacity

Source: Ling Li (2013,)

E. Chinese Apparel main firms

	Youngor	Metersbonwe	Semir	Septwolves	Li-Ning	Anta	Giordano	Bosideng
Assortment/Product Portfolio	Suits and casualwear	Casualwear	Casualwear	Suits and casualwear	Sportswear	Sportswear	Casualwear	Formal and casualwear Outerwear
Target Segment	Specific: Men	Wide range: Unisex, 16-to-25 age		Wide range: Men and children	Wide range	Wide range: Anta Specific: Fila - High-End	Wide range: Unisex wear for all ages	Specific: Men
Type	Design, manufacturer and retailer	Design, manufacturer and retailer	Design, manufacturer, marketing and distribution	Design, manufacturer and retailer	Design, manufacturer, and retailer	Design, manufactures and markets	Ex-manufacturer and Retailer	Design, distribution and retailer
Brand Portfolio	6	CH'In – sportswear Me&City MooMoo - children wear	BalaBala – children	-	5	1: FILA	5	8
Main suppliers	-	Manufacturing: Well Dyeing Factory Limited		-	1.Well Dyeing Factory Limited (fiber supplier) 2.Guangdong Li Ning Sports Development Company Ltd (manufacturing) 3.Other independent 3rd party manuf.	-	Outsource manufacturing (Joint Ventures)	Manufactured in Italy, elsewhere in continental Europe and China and will feature fabrics from Italy, and England
Production volume	Annual domestic garment production capacity of 15 million shirts, 2 million suits, 2.2 million trousers, 1.1 million leisure coats, 15 million knitted items, and 3 million ties, along with an annual overseas garment production capacity of 40 million clothing items, and a	Long-term relationship with over 200 apparel manufacturers in China, which are able to supply over 30 million pieces/sets of casual wears totally to Metersbonwe Group every year.	Annual distribution capacity of 100 million garments and has reduced the error rate of order distribution to less than .005% Designed	54 production assembly lines and 2,600 workers. Turnout of each year reaches 3, million pcs of jackets, 2million pcs of casual trousers and 1million pcs of leisure shirts.	n.a.	Approximately 16.1 million pairs of ANTA footwear and 7.4 million pieces of ANTA apparel were produced in-house (2012) New styles	3,000 styles/year 10 collection/year	53 million units (sales)

	domestic fabric production capacity of 72 million meters of yarn-dyed fabric, 6 million meters of worsted woolen cloth, and 20,000 tons of knitted fabric		8,446 garments (2010)			(2012): 2,000 (footwear), 3,000 (apparel) and 1,400 (accessories)		
# stores Mainland	1,500 - 2,000	4,582 (owned 1306 direct-sale stores and 3914 franchise)	4,300	3,800	7,000 vs 2,173	7,807 (2012)	1,255	13,932 12,665
# total stores worldwide	n.a	-			8,163	8,075	2,600	1
# Countries	Go to over 20 countries	In 3-5 years, plans to push into the fashion markets of London, Paris, New York	Only Operate in China	Only Operate in China	2 (USA and Indonesia)	15	40	1 (UK)
Revenue % from International Business	23%	\$75 million (2010 online)			<5%	n.a	57% (2012)	n.a
Sourcing strategy	In-House Upstream components of textile and fabric production, midstream component of garment creation, and the downstream components of marketing and sales.	Outsource Production (300 suppliers) and combined retail of company-owned and franchisee sales	Outsource	In-House	Outsource >30 subsidiaries in China, 1 in US, 1 in Germany and 1 in Spain	In-House, 15 sales' distributors in overseas (45 concept stores and 200 sales corners)	Outsource	Outsource
Brand value growth	n.a.	-21%	n.a.	44%	-69%	-50%	n.a	n.a
Brand Value (US\$ Millions)	US \$ 446 Mil.	US \$ 1.198 Bn	US \$ 286 Mil.	US \$ 651 Mil.	US \$ 316 Mil.	US \$ 314 Mil.	n.a	3US \$ 3.4 Bn (2011)
Porter's Type of Strategy	Focus Youngor offers garment-making services "tailor-made" to suit	Cost Leadership inexpensive designs	Cost Leadership	Differentiation increase product line in children wear	Differentiation increase product line in children wear	Focus (FILA) and Differentiation	Differentiation excellent customer service, quality merchandise, product innovation and a value-for-	Focus

							money positioning	
Channel Strategy	Centralized	Decentralized	Decentralized	Centralized	Decentralized	Decentralized ANTA follows the channel strategy of brand store networks and boasts more than 7,500 franchise brand stores in the world	Centralized no franchise stores	Decentralized
Supply Chain Strategy	Concentrated Supply Chain	Disperse Supply Chain	Disperse Supply Chain	Concentrated Supply Chain	Disperse Supply Chain	*Concentrated Supply Chain	Disperse Supply Chain	Disperse Supply Chain

Source: Elaborated by the author based on companies' websites.

F. Case studies additional information

Figure 1- Youngor's timeline

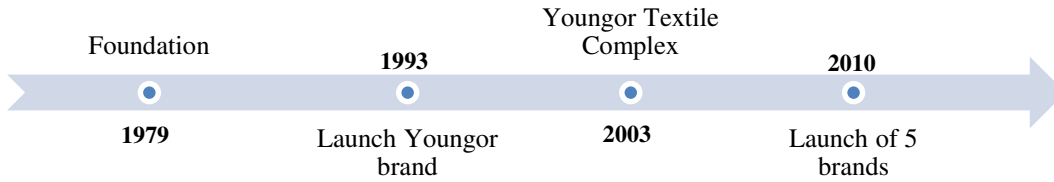


Figure 2 - Meters/bonwe's timeline

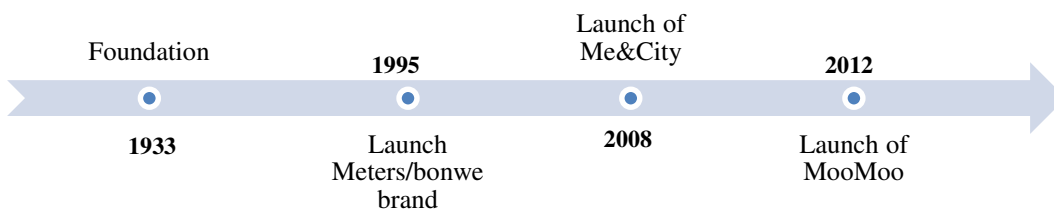


Table 10 - Meters/bonwe Market Share

Meters/bonwe Market Share (%)	2009	2010	2011	2012
Metersbonwe Group	50	70	80	70
Meters/bonwe brand	50	60	70	70

Source: Euromonitor International, 2013.

Figure 3 - Giordano's timeline

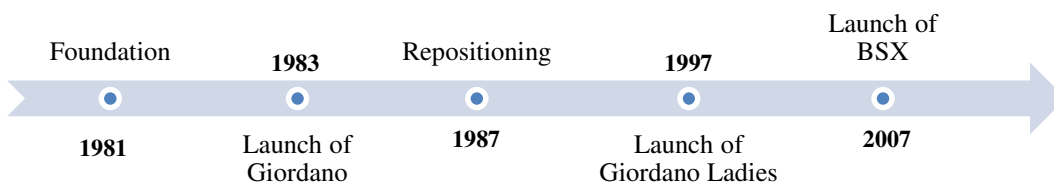
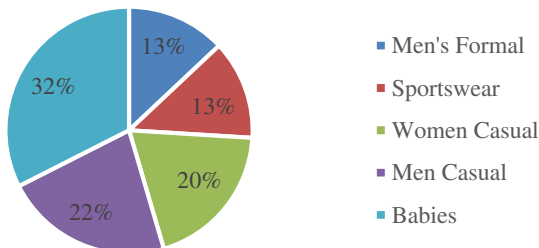


Figure 4 - Growth Forecast (CAGR 12-16)



Source: A.T. Kearney, "Winning China's Apparel Market", May 2013