

# Research on Abroad Direct Distribution Alliance Strategy for Chinese Garment Foreign Trade SMEs Surviving in the Recession

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## Abstract

The whole world is struggling with the recession. As a significant role in the global economy, China is facing big challenges to keep the stable growth in economy. The Chinese garment foreign trade small & medium size enterprises (SMEs) are continuing to be severely hit these years. The increasing exchange rate of the Renminbi, raising price of raw material, and the rapid growth of cost of labor and capital bring Chinese garment trade SMEs the crisis for survival. This paper is mainly studying on the existing difficulties, the possible strategies and measures which the Chinese garment foreign trade SMEs could adopt to survive during the world economy crisis. The abroad direct distribution alliance strategy and its benefits are introduced. Some suggestions for applying the abroad direct distribution alliance model are provided. This paper identified a feasible and effective solution for Chinese garment foreign trade SMEs compete in the global market and most importantly survive in this world recession.

**Keywords:** Direct distribution alliance, Chinese garment foreign trade, Small and medium-sized enterprises (SMEs), Garment trade center

## 1. Introduction

China always insists on actively exploring and developing relationship among trade members of the world since joining the World Trade Organization in 2001. It keeps stable bilateral and multilateral trade relations with countries and regions.

China adheres to compete through quality and has been constantly pushing forward “made in china” through 10 years tough effort. It is reported by the Ministry of Commerce that the total volume of import and export reached 3642.06 billion in 2011, grow 22.5% compared to the same period of last year. Among them, the total value of export and import were up to 1898.6 billion and 1743.46 billion grow 20.3% and 24.9% respectively.

Therefore, the economic crisis happened recent years in Europe and the United States has a tremendous impact on China’s foreign trade. It brings many unfavorable factors such as weak demand in the international market, the increased operating costs, the rising of RMB appreciation pressure and financing problem of small business.

Under this complicated situation, the Chinese garment foreign trade SMEs are also facing huge difficulties to export their products abroad. Thus, it is necessary to put forward a business model helping expand marketing channels, make enterprises join up, and find a way to better access the international markets for surviving in the recession.

## 2. Current Situation of Chinese Garment Foreign Trade SMEs

### 2.1 Problems of Chinese SMEs

The number of Chinese small and medium-sized enterprises has reached to more than 42 millions in 2008, which accounts for 99.5% of national total enterprises. It is reported that SMEs create 55.6% GDP, 74.7% new industrial added value and 62.3% total exports. (Yan J, 2010)

As for China’s small and medium-sized export enterprises are engaged in producing low-end products and lack of international brand. Most of them are the labor-intensive, low technical content and weak ability to fight against the financial crisis.

Particularly, the exchange rate of the Renminbi has steadily increased since 2008, raw material price rises considerably, and the rapid growth of cost of labor and capital bring SMEs the crisis for survival. According to the survey of Chinese Social Sciences, the financial crisis causes 40% of the total Chinese SMEs collapse, 40% of them

get into difficulties and only 20% enterprises are not affected.

### *2.2 Challenges for Chinese Garment Foreign Trade SMEs*

China is a big country of textile and clothing, so clothing import and export trade occupies the one third of world gross. (Fenghua L, Jing L, Yan C 2010) Hence, it makes great contribution for the growth of China's national economy and also it is the important source of foreign exchange income.

According to the latest statistics, our clothing industry is growing at a rate of 15% per year, but there isn't a garment enterprise that its annual sales reach to 10 billion Renminbi. (Anonymous, 2011) As the majority of the SMEs in China, the Clothing enterprises are relative small scale, low technology content, labor-intensive, and more easily affected by international economic trends.

It is reported that the domestic famous brand Motom, business income is 16.75 million RMB in 2010, the wolf is only 21.98 million RMB, and they mainly rely on the domestic market. In comparison with the Spain clothing brand ZARA which has entered the first-tier cities, with annual sales of nearly 100 billion RMB, and is still in annual growth rate of 10%. (Anonymous, 2011)

The reason why domestic clothing brands have such a big gap with international brands is that China's garment industry development is always in the low end of industrial chain, and majority of them depend on abroad purchase orders as its mode.

The foreign brands providers completely control the clothing design, new product development and other core technologies. The domestic clothing enterprises only undertake incoming, sample processing with foreign brands for sales, which is the so-called OEM.

The mode of OEM made enormous contribution for the start-up of China's foreign trade, but it has not adapted to the current fast development of domestic economy and the world economy wobbling in the new situation. Presently, the small and medium-sized garment foreign trade enterprises are fighting against the rise of costs, weak demand, shortage of labors, hard financing.

## **3. Abroad Direct Distribution Alliance Helps Chinese Garment Foreign Trade SMEs Survive in the Recession**

### *3.1 Direct Distribution Alliance*

A direct distribution is the method that companies directly communicate, sell and deliver products and services to consumers or business customers. It is an alternative to an indirect channel in which companies market their products through intermediaries such as wholesalers, retailers or distributors. (Lan, 2011)

An alliance is a strategic arrangement between independent firms that share common goals for their mutual benefit. Businesses in an alliance agree to share technology, develop products together or market each other's products. Firms rely on alliances to strengthen their positions in the market, access raw materials, enter new market territories and achieve growth. (Alphonse, 2011)

### *3.2 Abroad Direct Distribution Alliance Model*

The director of the WTO Institute in Foreign economic and Trade University of China pointed out at Chinese academic annual meeting for China entry into the WTO ten years anniversary. Small and medium-sized private enterprises should be tied together, with the help of the International Chamber of Commerce, or under the guidance of industry association, to establish trade center in foreign countries, through direct distribution, reduce intermediate links, directly facing consumers abroad. (Hanlin Z., 2011)

The direct distribution alliance model is operated based on integrating the capital, technology, and international network of all the SMEs members and also the guidance and continuous support from government, aims to create a competitive and international recognized union. The union represents all the SMEs to identify the target market in term of the demand, policies for FDI, currency stability, logistic system, financial system in host country, and also its own competitiveness. The Chinese garment foreign trade SMEs can open their stores in the overseas trade center which is constructed under the union. The enterprises export the products from China to the trade center and storage the products in the warehouse. The products will be delivered after purchase orders are placed. Stores well present images of the enterprises can exhibit and directly sell products to consumers. The new model also makes it possible for SMEs to interact with consumers face to face in international markets. That is the process of abroad direct distribution.

### *3.3 Benefits of Abroad Direct Distribution Alliance*

Abroad direct distribution alliance could make it possible for garment manufactures directly interacting with abroad consumers and identifying the trends in the target market and quickly observe changes of consumer preferences. It helps the garment enterprises improve products to fully satisfy customer needs.

The new model also helps garment manufacturers directly export products to consumers rather than through middlemen, which might decrease the cost and enlarge the profits for the manufacturers. On the other hand, cost cutting will be translated into better prices for consumers. Moreover, manufactures can better control oversea sales and pricing.

The garment enterprises could develop their own international recognized brand through abroad direct distribution strategy, which is more important than the cost cutting in the long term. The international recognized brand will help the Chinese garment enterprises expand to the global market and achieve the fast growing market share in the world garment market.

The small and medium sized garment enterprises could improve the competitiveness through the alliance. The integration of capital, capacity, and technology of all SMEs will create a much more powerful organization competing in abroad market, which might attract more new customers and increase the awareness of the new Chinese garment brands.

The alliance also helps the SMEs acquire the supports from the government in home and host countries. As a big FDI project, the government in host countries might offer some special policies such as tax free, cheap land or warehouse to encourage the investment. In order to help the SMEs go abroad, the government in home country also will provide large incentive package for the big overseas investment.

#### **4. Suggestions for Chinese Garment Foreign Trade SMEs Applying the Abroad Direct Distribution Alliance Model**

The abroad direct distribution alliance strategy is setting up trade centers abroad as platforms for Chinese garments access international markets, but also build the “Made-in-china” brand image around the world. In addition, this is a selective way for Chinese garment foreign trade SMEs to adjust export entry mode forwarding export trade. The garment SMEs have to identify some efficient approaches to implement this strategy in order to achieve common goal.

##### *4.1 Exploit the Different Types of Business Relationships*

As the main motivators, the bilateral and multi-lateral business relationships play significant roles in the global economy, which presents tremendous opportunities for the business players. The abroad direct distribution alliance must engage in the large frameworks, such as China-US strategic partnership, ASEAN, Shanghai Cooperation Organization, to enter into different markets in countries and regions.

The Chinese garment foreign trade SMEs should utilize the state or municipal level governmental relationships to develop the distribution centers or shopping malls through alliance. The two side governments will give support in term of regulations and finance so as to promote the economy and trade cooperation relations.

It is also necessary to facilitate construction of abroad direct distribution alliance under the guidance of different levels of garment industrial associations in China. They also need to strengthen the collaborations with the garment industrial associations in host countries, because they are the organizations who set the standards for the industry.

##### *4.2 Select the Right Position and Layout*

The garment SMEs should position themselves wisely due to the market. Under the direct distribution alliance, they have to avoid the internal competition and find or create their own core competencies to achieve real alliance and set up an internal mutual supporting system.

Variety of elements including political environment, the feasibility of entry into the market, the demand of the products in the market, transportation system, financial services, have to be considered to choose where to go. (Yaping H., 2009) As a whole body, the alliance has to analyze its strength, weakness, opportunities and challenges (SWOT).

At the first step, the alliance should follow the principle from easy to difficult, from neighboring countries, gradually to the global market radiation. The garment SMEs also can collaborate with exist trading partners in foreign countries jointly set up the Chinese Garments shopping center and share the warehouse or distribution system with these partners.

As a way of overseas investment by building trade centers in target market, it is much more risky than domestic investment. Therefore, Chinese garment foreign trade SMEs must establish an overseas risk assessment system because of differences on political and economic environment, natural environment, military environment, customs and culture. It will be very helpful to have a professional risk assessment team for Chinese garment foreign trade SMEs implementing the active strategy.

#### 4.3 Provide the Differentiated Products and Services

The market research is the first step and also the most significant part for the enterprises to decide where to start. There are many ways, which the garment SMEs could adopt to do the research, such as employing the international reputed market research companies, sending their own marketing experts to the target market.

A highly qualified design team is required to reach the changing needs in international fashion industry. The alliance can set up the research and design center in the host country. The centers could easily employ excellent foreign designers and expertise, who are facing job-cutting during the world economy crisis, forming a domestic and foreign designers allied team.

It is also essential for the alliance to create a good shopping environment. The inside layout, internal decoration and soft side of the trading center should make the consumers comfortable and exhibit the Chinese traditional and modern culture. The online shopping center, fast deliver system, refund and complain services etc could be offered rely on the local companies.

#### 4.4 Educate the Consumers and Create International Brands

Relying on the abroad trade centers or stores, the Garment SMEs could offer the local consumers information about the products through different marketing methods such as advertising, sales promotion, personal selling. It will educate the consumers understanding more about the characteristics of the garments and develop the internationally recognized Chinese garments brands.

Some special marketing schemes are necessary to help the local consumers to know about China and Chinese products. The marketing teams could focus on the Chinese culture, fashion, custom to design the activities; fashion shows to attract more consumers “fall in love” with Chinese garments.

The alliance also should increasingly realize the importance of developing the world reputed garments brands. In the long run, it is possible for the Chinese garment SMEs to engage in the world famous Fashion festivals such as New York Fashion week, London Fashion week. It will help the whole world to know more about Chinese garment industry, which will be surely facilitating the Chinese garments going global.

### 5. Conclusion

The Chinese garment foreign trade SMEs are struggling because of the world economy crisis. The reduction of world demand, foreign exchange fluctuation, the appreciation of RMB, the rising cost of labor and raw materials, the problems with cash flow bring huge challenges for the surviving of garment SMEs in China. Some garment SMEs already went bankruptcy.

The Chinese government has to take some measures to help the garment SMEs out of the trouble. The abroad direct distribution alliance strategy is one of the effective ways to save the garment SMEs. The alliance can obtain the support from the host country with the help from Chinese central and local government. It also creates the opportunity to directly interact with the target consumers and make it possible to develop the international reputed Chinese garment brands.

The Chinese garment SMEs should join together and expand the business into the global market through strategic alliance. They have to collaborate under the framework and jointly invest on research and design in order to differentiate the products and services. Every member of the alliance has to exploit its own competitiveness to make contributions to the whole alliance. The Chinese garment SMEs will absolutely get out of the recession.

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