

# How to improve competitiveness of cashmere industry



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## 1. INTRODUCTION

China is the largest cashmere producer in the all over the world, with the sum total output approximately accounting for over 75% of global production, followed by Mongolia, Iran, Afghanistan, and South Africa. Meanwhile, China is the top cashmere exporter with about 80% of global exports---nearly 75% of cashmere products in global cashmere consumption market are produced in China. ('Report on the first Asian conference on cashmere' 2007; China International Cashmere Forum 2005) Additionally, China has the unique geographical advantage which is beneficial for raising cashmere goats, among which numerous and fine varieties are herded due to the continuous and complicated ecological environment and long-term artificial selection. Furthermore, the cashmere fibre which exhibits good property in fineness, strength, elongation, is of best quality, and thus is called as 'gold soft' or 'fibre diamond'. Although Chinese cashmere industry owns unique resource competitive advantages, however, with the development of economic globalization, the industrial competition among countries is intensified and the dimensions of Chinese cashmere industry dilate rapidly, due to which a great number of serious problems have been exposed to the Chinese cashmere industry, These problems have become the restricting factors of favourable development of the industry, and the industry is inevitably faced with enormous challenges.

Therefore, how to enhance the overall competitiveness and gain competitive advantage is of great importance to Chinese cashmere industry, which is the major content of this paper. This paper begins with the description of the theories on competitiveness, in particular the competitive advantage and <https://assignbuster.com/how-to-improve-competitiveness-of-cashmere-industry/>

Porter's National Diamond Model. Then the paper analyzes the current situation of cashmere industry in China by means of Porter's National Diamond Model, along with the case study of successful cashmere industries in other countries and some successful Chinese cashmere companies, to identify the key lessons that could be learned by Chinese cashmere industry and thus win the industrial competitive advantages and improve the sustainable development of the industry.

## **2. LITERATURE REVIEW**

For each country, industrial competitiveness is of great importance because it determines the industrial development level and status in the global market competition, and thus it is one of subjects of wide concern from nations to firms.

### **2.1 Definition of Competitiveness**

The insights into the question 'what is the competitiveness' can be gained from the works of Johnson (1992), Hammer & Champy (1993), Murths (1998), Barney (2001) and Esty (2001). From the point of view of Johnson (1992), competitiveness is the capability of an entity to provide more value to and better satisfy the customers than its competitors. Murths (1998) identified that competitiveness is used to demonstrate the economic strength of an economic entity with regard to its rivals within the global market where goods, services, people, skills and ideas are not subject to geographical restriction and could freely displace (Murths 1998). According to Esty (2001), competitiveness is demonstrated from the aspects of assets and processes. Assets are categorized as inherited one such as natural

resources and created one like structures, which are transformed into economic returns by processes. ,

## **2. 2 Theories of competitiveness**

The theoretical foundation of industrial competitiveness could be classified into two theories: comparative advantage theory and competitive advantage theory.

### Comparative Advantage Theory

David Ricardo, the classical economist, put forward the comparative advantage theory as the foundation of international trade. Comparative advantage theory demonstrates that a country should focus on the industries which have relatively higher production efficiency to exchange the goods from the industries with lower production efficiency. (Chacholiades 1990). Heckscher-Ohlin modified and extended the theory, and explained that 'cross-country variations in relative factor endowments could also shape the pattern of trade' (Gankhuyag & Ser-Od 2009).

### Competitive Advantage Theory

In his book 'The Competitive Advantage of Nations', Michael Porter addressed a question: 'Why do some social groups, economic institutions, and nations advance and prosper?'(Porter 1990). On the basis of analyzing the characteristics of national environment, Porter addressed the theory of national competitive advantage. Michael Porter pointed out that traditional economic theories including comparative advantage theory cannot explain the sources of competitiveness. Further he stated that industrial

competitiveness should be analyzed with the competitive advantage theory which indicates the different competitiveness presented with respect to the same industry in different countries or areas under the same competitive environment (Porter 1990). The main difference between comparative advantage theory and competitive advantage theory is that the former one emphasizes the comparative relationship between different industries within one country; however, the competitive advantage theory is about the same industry within different countries. Grant (1991) assessed the book 'The Competitive Advantage of Nations' and expressed that 'at all three levels--- the firm, the industry and the nation, Porter offers new insights into the determinants of competitive advantage'.

### **2.3 Michael Porter's National Diamond**

Michael Porter pointed out that the ability to establish or maintain competitive advantage within international market is determined by four direct variables and two indirect variables which formed the framework of National Diamond (as seen in Figure 1) The four direct determinants are factor conditions, demand conditions, related and supporting industries and firm strategy, structure and rivalry, and the two indirect variables are chance and government. The six variables combined determine that whether a country could have a strong diamond---the competitive advantage. (Porter, 1990)

A brief description of the six variables is as below:

Factor condition is analyzed from 'the characteristics of factors of production, the processes by which they are created, and their relationship to firms'

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competitiveness' (Grant 1991). The factors are categorized as 'basic factors' such as natural resources, climate, location and demographics and 'advanced factors' such as communications infrastructure, sophisticated skills and research facilities (Porter 1990).

For demand conditions, Michael Porter presented that home demand could provide driving force for enhancing competitive advantage, because customers' demands could exert pressure to the firms (Porter 1990).

Source: Porter M, *The Competitive Advantage of Nations*, The Macmillan Press LTD, London, 1990

Figure 1 Michael Porter's National Diamond

With respect to related and supporting industries: Porter stated that whether an industry has competitive advantages is closely associated with its related and supporting industries. Usually a successful industry would collectively develop with a cluster of related and supporting industries instead of standing alone (Porter 1990).

Concern firm strategy, structure and rivalry, Porter identified that the different industrial characteristics within different countries determine the competitive advantages (Porter 1990). The characteristics include 'strategies, structures, goals, managerial practices, individual attitudes and intensity of rivalry within the business sector' (Grant 1991).

Chance plays a role in influencing the four direct variables and thus affects the competitive advantage. Additionally, government could provide chances

and make challenges for industries even though it does not directly participate in industry competition (Porter 1990).

### **3. ANALYSIS ON CHINESE CASHMERE INDUSTRY WITH CASE STUDY**

#### **3.1 Factor Conditions**

In the book of Competitive Advantage of Nations, Porter noted the variable of factor conditions could be hierarchically categorized as basic factors and advanced factors. The importance of basic factors is gradually reducing because the demands for basic factors have decreased along with the market globalization, which means multinational companies could purchase within the globalized market. Therefore, it is unstable to build competitive advantage on the basic factors (Porter 1990).

From the point view of basic factors, China is preponderant in cashmere resources with the best quality of raw cashmere and strong product processing capacity. Meanwhile, China is a labour-intensive country thereby that is helpful in reducing labour cost and other integrated cost. In comparison with China, Scotland also possesses the advantaged cashmere resources, and the Scottish cashmere product is highly admired for its quality and finish. Although the labour cost in Scotland is not as low as in China, the Scottish cashmere industry performs much better than that in China. Therefore, basic factors are less important in determining the industrial competitiveness.

While advanced factors are of importance to gain competitive advantage.

Advanced factor require ambitious and continuous investment to

sophisticated labour and technology expenditure. If a country would like to establish formidable and sustainable industrial competitive advantage through the variable of factor conditions, it must develop the advanced factors rather than basic factors. Unlike basic factors, advanced factors cannot be purchased but have to be developed through investment (Porter 1990).

From the point view of advanced factors, in China the capacity of independent innovation needs improvement for cashmere firms. Because the Chinese cashmere industry has only developed for a short time, comparing with the European long-term established firms Chinese cashmere firms has large disparity in the aspects of technical innovation and product marketing. Meanwhile, the capacity of independent innovation is imbalanced across cashmere firms in China---large firms put considerable investment on technical innovation whereas small and medium ones invest inadequately and lack of creativeness. Although some Chinese cashmere firms has started the research in the field of dyeing and spinning, some key technologies still have not been grasped unlike in developed countries.

In contrast, Todd & Duncan provide the evidence that advanced factors is significant for gaining competitive advantage. Todd & Duncan was founded in 1867, and now it has become the European leading cashmere yarn knitting firm, which provide cashmere yarn with most fashionable colours to luxury brands such as Louis Vuitton , Gucci, Prada, Chanel, Herms and Christian Dior. Todd & Duncan are well known for its production technologies. As far back as it was founded, Todd & Duncan were in the lead in the field of cashmere blending yarn. Now it is still well known for its <https://assignbuster.com/how-to-improve-competitiveness-of-cashmere-industry/>



manufacturing technique in single strand. Collaborative with the most advanced textile technologies, it produces the finest and noblest yarns. In addition, in Todd & Duncan, computer assisted programmes are used in dyeing procedure such as colour management. High-tech facilities like colour matcher are also used to check the colour accuracy, which is in the lead position of the industry (todd-duncan 2010).

Review back to 1980s, it is because paying attention to the advanced factor such as processing technology, Chinese cashmere industry could take a turn. In 1980s, some cashmere firms led by Erdos Cashmere Group and Snowlotus Cashmere Group first introduced the most advanced cashmere carding machines and carding process from Japan. After learning the process and making further processing technology improvement, Chinese carding technique of goat cashmere made a qualitative leap, and the dehaired cashmere made-up rate and quality exceeded the international level. Thus, it enhanced Chinese cashmere industry into a new age (China International Cashmere Forum 2005).

From the examples of Todd& Duncan and Erdos Cashmere Group, it can be seen that Chinese cashmere industry should not only rely on the resources advantage. The rapid development of Chinese cashmere industry in the past 30 years mainly manifested the growth of cashmere firm numbers. When the industry enters into autumn, this kind of growth will be certainly restricted by the finiteness of the cashmere resources. The industry will be increasingly detailed classified into small sections which ask for higher production specialization degree. Therefore, Chinese cashmere firms must enhance the technology innovation capacity and improve the scientific and technological

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contents and added value for the cashmere products in order to gain competitive advantage in global competition. However, there are some barriers for Chinese cashmere industry enhancing the technology innovation. For small and medium cashmere firms, they have blockage in financing channels that cannot obtain adequate innovative resources. Additionally, the constructions of technology innovation infrastructure, investment policy and favourable legal environment are lagging behind. Only when a beneficial environment established, Chinese cashmere industry can develop technology innovation in order to produce high add-valued products.

### **3. 2 Firm Strategy, Structure and Rivalry**

In terms of firm strategy, structure and rivalry, Porter identified that the competitive advantage is influencing by the different industrial characteristics which include 'strategies, structures, goals, managerial practices, individual attitudes and intensity of rivalry within the business sector' (Grant 1991).

From the point view of firm strategies, it includes competitive strategy, marketing strategy, branding strategy, etc. According to Philip Kotler, 'Each company must find the way that makes most sense, given its situation, opportunities, objectives and resources' (Kotler 1999).

At present, however, in the global market a great many cashmere products are produced in China whereas less Chinese cashmere brands could be found in the high-end market. Zhang Zhi, executive director of Erdos Cashmere Group, stated that lacking of brand building is the root cause of blocking up the development of Chinese cashmere industry (China

International Cashmere Forum 2005). Most of the exporting cashmere products enter international market through OEM production, however the products in own brands are less than 10% of the total exports. Chinese cashmere industry has become the processing workshop for foreign companies. Lacking of brand build-up is the most conspicuous weakness of Chinese cashmere industry.

Referring to brand building, Loro Piana provides a good example. Founded in 1924 in Italy, Loro Piana now is the largest and foremost cashmere manufacturer in the western world. On the basis of sourcing finest fibre from Northern China and Mongolia and understanding customers' needs and lifestyles, Loro Piana produces cashmere goods in Italian company's own mills, creating and delivering value to consumers (Loro Piana 2010).

According to Luxury Institute Survey, in European high net-worth consumers rank, Loro Piana was ranked as the 'best of the best' luxury brands in the category of men's fashion, followed by Ermenegildo and Giorgio Armani (luxury institute 2010).

One Chinese cashmere brand also performs well. 1436 Erdos, a brand belongs to Erdos Cashmere Group. Although the brand of Erdos is regarded as the most well known brand in China, it cannot arouse attention in the global high-end market. Therefore, establishing a global brand is the pursuit of Erdos Group. 1436 Erdos, taking its name from the features of its prestige cashmere fibre which is ranked as highest grade, develops finest cashmere products with top quality. On the basis of drawing up the brand strategy--- serving high-end markets and positioning itself as the world's leading luxury brand in China, makes other responding firm strategies such as product and <https://assignbuster.com/how-to-improve-competitiveness-of-cashmere-industry/>

marketing strategies to improve its competitiveness in the international market. Erdos cashmere products were given to Mikado, Japanese Prime Minister and other ministers as official national gift when China's national leader's visit to Japan in 2008 when it was only one year since the brand established (1436 Erdos 2010).

In addition, according to Porter (1990), the driving power enhancing firms to participate in international competition is of significant importance. The driving power could be raised from international demand, or local competitions or market thrust. The most relevant factor in creating and maintaining industrial competitive advantage is the powerful rivalry. In the international competition, successful industries must have got through severe domestic competition, and were forced to reform or to renovate.

However, in China there are over 2000 cashmere products firms, among which most of them are incapable of developing new products or exploring new techniques. Most of the firms only can process inferior quality products on the base of imitating other brands' style. The competitions among most of the cashmere firms mainly are the price competition. Thus, the current situation of Chinese cashmere industry poorly performs---unreasonable redundant low-level production and disorderly competition. In contrast, taking Ballantyne cashmere as example, it presents that rivalry competition could stimulate competitiveness improvement. Ballantyne Cashmere was founded in 1921 in Scotland, now it is enjoyed by increasing consumers. At present, fashionable cashmere products developed by the fashion firms such as Ralph Lauren, Chanel, Christian Dior and Givenchy are increasingly widely praised by consumers. Therefore, as the traditional cashmere

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manufacturer, Ballantyne has begun to consider the new competitors. From the performance of the competitors, Alfredo Canessa, the chairman of Ballantyne has noticed consumers' changing demands thus he led Ballantyne to improve the product design by means of combining cashmere with other different textiles like silk fabric (Ballantyne 2010). Likewise, Erdos Group has begun transitions. Erdos cashmere products were complained for outdated design in the past. However, now it is making efforts to rebuild product identity. Gilles Dufour, as former art director of Channel for twenty years, has been invited as the new art director of Erdos Group to develop new cashmere product collections. Gilles Dufour introduced Erdos a 'semi-fashion' trend which 'advocates the beauty of simple luxury', aiming to establish a leading luxury brand in China in order to improve the competitiveness. (Erdos 2010).

Through the examples of Loro Piana, Ballantyne and Erdos Group, it could be found that the firm strategy and rivalry is significantly crucial to enhance competitiveness for both firms and industries. However, cashmere firms have to consider the following barriers when make strategies. First, there is no such a strategy that could be successfully adopted by every firm, and the suitable strategy is the best one. Second, most of the Chinese cashmere firms only pay attention to rivalry competition particularly price competition which could hinder the Chinese cashmere industry form the positive competition awareness.

#### **4. CONCLUSION**

The goal of this paper is to find how to improve the competitiveness of cashmere industry in China. In order to the goal, this paper adopted Michael <https://assignbuster.com/how-to-improve-competitiveness-of-cashmere-industry/>

Porter's National Diamond Model to describe the determinants which influence the competitiveness of Chinese cashmere industry. The Diamond theory identifies four direct factors with two indirect factors, namely the factor conditions, demand conditions, related and supporting strategies and firm strategy, structure and rivalry with chance and government. This paper mainly analyzed how Chinese cashmere industry performs from the aspects of factor conditions and firm strategy, structure and rivalry. Additionally, many cases of successful cashmere firms have been studied to learn the lessons from their business operations in order to provide a reference for Chinese cashmere industry. However there are some barriers should be paid attention by Chinese cashmere firms. Chinese cashmere industry should develop in a sustainable way to improve the competitiveness in global cashmere market.