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## THE STRATEGIC THINKING FOR TILE INDUSTRY OF FOSHAN

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### ABSTRACT

China is a large consumers' market with a population of 1.3 billion. The urban population has been increasing at the speed of 20 million annually. Mckinsey described Chinese market as "surprisingly huge". The huge market, the open-door policy, and the competitive edge promoted the rapid rise of tile industry of Foshan (TIF) and made it one of the world three largest tile industry clusters.

With the social progress, "Sustainable Development Policy" will replace "the GDP-driven Policy". On the other hand, the market status experiences a series of change such as market transition from popular to less popular market (Niche Market)<sup>(1)</sup>, the rise of middle class and inland market growth. Therefore, thinking of the TIF from strategic perspective is a pressing issue.

In the current situation, the rearrangement of TIF is necessary. The headquarters of tile industry and of strong tile entrepreneurs will be in Foshan. Some demonstrative industry parks such as Huaxia Tile Industry Alliance will be nearby Foshan aiming at reformation of the existing industry system. Headquarters in Foshan and nearby industry parks will form the core of tile industry in China. Inland tile production base will be like satellites around Foshan to keep the organic relationship with Foshan headquarters. To upgrade the tile industry and protect IPR issue in China, the strategic alliance with corresponding associations of developed countries is of prime importance because it is also the matter of the world. Just like what the author of "The Emerging Markets Century" said, the world focus is firmly supporting the development of the newly rising market like China, India and so on, therefore, we are cooperation partners rather than competitors. By close cooperation with the world, win-win result can be obtained for sure.

### **The Rise of Pearl River Delta (PRD) and TIF**

#### **( ) Good business climate of PRD**

The rise of TIF is inseparable with the good business climate of PRD. The investigation by American Chamber of Commerce in Guangdong showed that most American businessmen gave it a positive evaluation to the business climate<sup>(2)</sup>. Good business climate and huge market attracted lots of foreign investment thus promoting the rapid development of PRD.

PRD has become the world largest industry cluster in many industries, such as toys, furniture, jewelry, computer, costume etc. The competition edge of PRD does not come from a single enterprise, but come from the industry cluster. The competition, due to the formation of cluster, has been upgraded from a single enterprise to that between clusters. Those clusters in PRD not only contain the enterprises from upstream and downstream but also from other industries and district such as universities, banks, real estate, furniture, IT, and HK, Macau and Taiwan (HMT). The good business climate of PRD not only comes from the gifted resources but also from the unique culture of PRD.

#### ( ) **Unique Culture of PRD**

##### **Open-minded Culture**

PRD is close to HK, Macau and local people have more relatives abroad, therefore, market economy concept has deep impact on local people. They are quite open- minded leading to one step ahead in economy. Compared with other areas in China, there are more foreign investment, more professionals coming from all over China and abroad and more developed private sector.

##### **Enthusiasm of seeking wealth**

People of PRD are anxious to improve their living standard due to the influence of the lifestyle from outside. A famous Chinese strategy expert Wang Zhigang once said: “The great enthusiasm of Cantonese for seeking wealth activates every cell of them, once there is a chance, they will catch it immediately without any hesitation.”

This is also a reason why there are so many industry clusters in PRD.

#### ( ) **Ability of Resources Integration**

Due to the good business climate and unique culture, Foshan integrated all kinds of resources and formed tile industry cluster.

##### **The Largest tile industry cluster in China**

Foshan created many 1st records in tile industry cluster. Tile equipment industry accounts for 80% of overall output value in China, pigment and glaze industry accounts for 50%<sup>(3)</sup> of that and tile production accounts for 40% of that. There are about 400 tile factories with 1200 production lines in TIF. In 2006, tile export from Foshan accounted for 75% among the overall export of 540 millions of square meters in China<sup>(4)</sup>.

##### **Attraction for Professionals**

Lots of professionals work in Foshan from Southern China University of Technology, Jindezheng Ceramics University (JCU) and other universities due to the good business climate. The remarkable case is that there are more than 3000 professionals from JCU working in Foshan<sup>(3)</sup>, and most of them have become leaders or key technical persons there. Nanzhuang government also cooperates with JCU jointly setting up Huaxia Ceramics R&D Center, Testing Center, Technical Service Company and central government approved National Productivity Promotion Center for Building and Sanitary Ceramics .JCU and other universities become the expert bank for all kinds of engineering and technical R&D centers, factories and Huaxia in TIF.

##### **The Mutually Supplementary Relationship with HMT**

HMT is a bridge between Foshan and the world especially at early stage because Foshan can not develop separately without communication with the world tile industry. HMT brings information, capital, technology, equipment and management experience from outside into PRD. By their help, tile factories of Foshan get orders abroad in the form of OEM. TIF becomes one part in the global tile industry chain.

##### **The Status of TIF**

In a mature market of developed countries, commercial mode, industry order, and competitive strategy are comparatively stable. However, the situation in China is different from the developed countries. Understanding it is very important.

### ( ) **the Impact of Policy on TIF**

Policy is the base of the industry direction. When we just opened door to the outside world, government gave special attention to GDP increase (so called GDP-driven) because the increase of one percent in GDP meant increase of employment opportunity of one million. This was extremely important for a country with large amount of population. The policy encouraged the rapid development of labor-intensive processing base. Foshan tile industry offered well over 100 thousand of employment opportunities<sup>(3)</sup>. With the rapid growth of TIF, high rate of resources and energy consumption and serious pollution brought to governments' attention. If the situation continues, it may prevent our economy from further development. Therefore, government set up "Sustainable Development Policy", reduces the rate of tax rebate from 8% to 5% for export of tiles and set strict demand on saving energy and reducing discharge. This will lead to the new direction of development for TIF.

### ( ) **Market Status and Trend**

#### **Market Status**

The existing market features will be described as follows:

First, consumers are quite sensitive to the price. On one hand, this is the feature in the popular consuming times when income level is not high. On the other hand, nearly the same products, due to lacking strategy and marketing, are crowded in a quite narrow passage thus causing fierce competition on the price base.

Second, distribution cost is very high. For similar products, only some events such as powerful advertising and sales promotion can be used, so the distribution expense is very high. Here is a typical example. To compete for several minutes of advertising in Chinese Central TV, many companies would rather pay several hundred millions of Yuan RMB for a year.

Third, consumers are immature. Facing the similar products and asymmetrical market information, immature consumers can select products only by their perception. Therefore, the competition in market turned to that only in advertising and sales promotion.

In TIF, many luxurious showrooms, high cost of events, such as "designers' forum", "movie star performance" at the expense as high as over one million Yuan RMB try to attract customers' eyes and ears.

#### **Consuming Trend**

With the economic development from surplus to abundant economy times, middle class is gradually rising and playing the leading role. The market will enter a less-popular consuming times, in which enterprises only serve their target customers. Independent thinking and rational consuming will become the main feature of the market, therefore, strategy and marketing will be more important than ever before. Strategy is to position and aims at limiting enterprise's target market, so enterprise will become more characteristic and competitive. But there is no strategy for most tile enterprises because they want to serve all customers by using many brands with nearly no difference of tiles. This situation has to change with the new times coming.

### ( ) **A New Profit Growing Point**

The sales for tile products mainly concentrate on developed area and large cities owing to the comparatively low consuming levels in small cities and towns inland. The demand for high graded goods for middle class will grow in developed area and large cities.

The inland rural area will be new profit growing point in the future; however, there are some difficulties in developing inland market.

First, the infrastructure is less developed and market is really distributed, so the transportation cost for low added value of tiles is higher than that in developed area.

Second, the distribution and logistics net are immature.

Third, the consuming demands are quite different because of many minorities there and their big difference in culture. There have been some lessons from world famous companies and Chinese companies for inland market expanding in China, therefore, careful and thorough market survey is necessary.

### **The Strategic Thinking for TIF**

#### **( ) Rearrangement of Foshan TIF**

The rearrangement of Foshan tile industry is inevitable because of the disappearance of comparative edge for resources and local restrictive policy for industries with low added value and high degree of pollution. Then, where will TIF go?

##### **i The headquarters economy of TIF**

The favorable cultural and social background makes Foshan an ideal place to become the headquarters of tile industry in China. The core parts, such as R&D, exhibition, design, information, and equipment industry etc. will remain in Foshan city.

To prevent Foshan tile industry from becoming a hollow shell, production section in the industry chain can not all leave Foshan. Therefore, it is a good choice for some strong enterprises to keep their headquarters in Foshan. Their factories will be in new type of industry parks around Foshan. Foshan headquarters and nearby industry parks will form the core of Chinese tile industry.

##### **Inland expanding of tile enterprises**

Large tile enterprises set up new factories inland partly due to the policy change and disappearance of comparative edge. Another important reason is the growing demand inland. Recently, Chinese overall production capacity for tiles has amounted to 4.5 billion square meters.

Now, there have formed many production bases, such as Zhibo Shandong, Faku Shenyang, Jiajiang Shichuan, Gaoan Jiangxi, and Shaoqing Guangdong and so on. These production bases have close relationship with Foshan from any perspective. Most of the factories are invested by Foshan tile enterprises and directly under the control of those enterprises. And most inland factories produce tiles for Foshan in the form of OEM. In Zhibo, 70-80% orders of OEM are from Foshan by rough estimate. So, these production bases have inseparable relationship with Foshan. Foshan offers those bases many help, such as technical aid, R&D, information, design, professionals and some key raw materials. Those production bases are like satellites around Foshan forming new sections of production in the tile industry chain.

Most middle and small enterprises, due to less independence, can only set up new production lines nearby Foshan district easily to get the support from Foshan.

The big issue in the inland expanding is lacking in any feasibility studies. Tile enterprises simply copy existing technology and equipment without consideration of environment protection, local infrastructure, resources, energy and culture. New troubles have emerged. Therefore, the correct guidance is necessary.

### **Setting new type of tile industry parks nearby Foshan**

In the past, cluster of TIF in disorder was the result of development without any restraint, so clean production, environment protection and IPR issue were ignored because there were no clear standards. Even now, the development in disorder still exists in new production bases. This situation must be changed. Accordingly, Huaxia Ceramics Industry Alliance (HCIA) will be established under the direct support from government. HCIA will be managed by Huaxia Ceramics R&D Center. Its goal is to reform the existing mode of TIF and upgrade the industry, HCIA will realize its goal by establishing one industry park for demonstration as the 1st step. More industry parks will be set up gradually. HCIA will set up strategic alliance with tile associations of developed countries jointly to achieve the goal. The main issues, HCIA will deal, are as follows:

#### **( i )Standardization**

To upgrade the industry, there must be clear standards for every field, such as raw material, tile, fuel, kiln, discharge, export, IPR etc. Under the support of government, HCIA will be in charge of the formation and implementation of those standards.

#### **( ii )Professionalized production**

Factories used to adopt vertical integration mode from raw material to products, thus causing low efficiency and effect. Professionalized production will be gradually realized. For example, raw materials and gas will be supplied together by professionalized factories.

#### **( i )IPR Protection**

Strict measures will be taken to protect IPR relying on government support and self efforts.

### **(II) Strategic Alliance with International Enterprises**

In the globalization times, Foshan tile industry can not develop alone. In the past, the rapid development was due to the good relationship with the world, especially after acceding to WTO, whichever large factories you visit, you can find Italian equipment and Spanish design, and tiles with foreign brands ready to transport to different parts of the world. There are also different brands of foreign tiles in malls or professional shops in China.

In the times of upgrading Chinese tile industry, closer cooperation with the world is also of prime importance.

#### **Strategic Alliance with the world tile industry**

“Booz Allon” consulting company found that the top 2000 enterprises by the way of strategic alliance kept as high as 17% internal rate of return for the investment. The success of the alliance must meet with some conditions.

First, there must be reliable commercial opportunities. Actually, there is “surprisingly huge market” in China. The economy grows rapidly and steadily. The urbanization process will last for over 25 years with 20 millions of urban population increase annually. Therefore, there will be huge investment required for infrastructure, public facilities, and residences etc. So, there are reliable commercial opportunities in China.

Second, both parties of the strategic alliance should have joint benefit. In the tile industry chain, China and developed countries are at different and mutually supplementary sections. TIF is at middle level of production section, but tile industries of developed countries are at high level of R&D, design and production sections. From marketing perspective, we know local culture and practice, but lack marketing theories and experience, therefore, joint development of market is promising.

From above-mentioned, China and developed countries are cooperation partners instead of competitors.

### **Breakthrough at puzzle about IPR**

The great puzzle in international cooperation is IPR. Maybe, actively setting up a good ecological system, rather than passive avoidance is a good choice. In this regard, the experience from Microsoft is worth our learning. It also experienced a difficult time when it struck false copy of software with China Industrial and Commercial Administrative Dept. Microsoft goal in China was simply to sell its software to Chinese consumers but the result was disappointed to its purpose. Later, it readjusted its policy and proposed an “Ecological System Plan”. According to this Plan, all businessmen, dealing with hardware, software, service and distribution, belong to this system. Microsoft new concept is “Microsoft can make progress only when all businessmen make progress.” The change of its attitude from caring about sales only to helping partners’ development results in formation of a good ecological system. IPR issue has been treated by way of cooperation with large Chinese companies, such as “China Software”, “Lenovo” and so on. In 2006 and 2007, only Lenovo placed orders of 2.3 billions Yuan RMB for Vista from Microsoft.

The economy developing process is also the culture deepening process. In TIF, more and more entrepreneurs have understood the importance of IPR issue because no protection for IPR means no progress for tile industry and enterprises. The change of concept has laid down the foundation for protection of IPR. Only when we jointly protect IPR, Win-Win result can be obtained for sure.

### **Summary**

Huge market, comparative edge of resources, good business climate and unique culture made Foshan one of the three largest tile industry clusters in the world. With the changed policy, disappearance of comparative edge, more rational market, and inland market growth, rearrangement is inevitable. Strategically Foshan will be the headquarters of tile industry with new type of tile industry parks nearby Foshan. Inland production bases will be like satellites around the core of Foshan forming mutually supplementary relationship in the industry chain.

To upgrade tile industry, strategic alliance with international enterprises should be set up. To do this, IPR issue must be solved jointly.

Joint effort with global industry chain, for sure, will get join progress.

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