

Crisis Management of Chinese Clothing Enterprises

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Abstract: This article analyses the characteristics of the Chinese garment industry objectively, and reveals the domestic and international crisis of Chinese clothing enterprises. At last, according to the theory of crisis management, some crisis response strategies, including crisis supervision and early warning are put forward to solve the problems.

Keywords: crisis management; Chinese clothing enterprises; crisis response strategies

1. Crisis Management

1.1. Define

Crisis management is the process that an enterprise carried out in response to various crisis situations by planning decisions, dynamic adjustment, treatment and staff training, aimed at eliminating or reducing the threat and loss caused by the crisis. Crisis management is a specialized scientific management, as is a series of measures of prevention and treatment established beforehand to correspond to sudden crises, resisting sudden disaster incident, and putting possible damage to the bottom line [1].

1.2. Connotation of Crisis Management

Crisis management means that the enterprises reduce even avoid the harm, and summarize the reason and development trend through the crisis supervision, crisis early warning, crisis decision-making and crisis management. It is a new management system to dispose of crisis scientifically.

2. The Characteristics of Chinese Clothing industry

2.1. High Degree of Industrial Concentration

Chinese clothing industry presents significant geographical trend, the development of East and West is extremely unbalanced. China's industrial cluster mainly distribute in the southeastern coast, such as Guangdong, Fujian, Zhejiang, Jiangsu, Shandong and other places. The proportion of total production accounts for more than 70%. The five provinces in economic development have basically replaced old equipments and drawn into a large number of international advanced technologies, therefore the production capacity has been enhanced.

2.2. Small and Medium Enterprises Account for the Main

Chinese clothing enterprises are large in quantity rather than in brand. There are rare large enterprises which have

considerable brand recognition, especially in the international arena.

Many small and medium enterprises are restricted by the scale themselves and the quality of staff, and result in delay relatively in business management, brand culture, modes of production, transport and logistics and so on. At the same time, the capacity against market risks is also weak [2].

According to the National Bureau of Statistics survey for the textile and garment industry, the number of textile and clothing enterprises above designated size is 46,000, and 87.5% of which are in small scale. Most developed from non-state enterprises such as individuals, township enterprises. However, these enterprises control 63% of all assets. The value of output and profit separately take up 76% and 90%. The proportion is shown in Fig1.

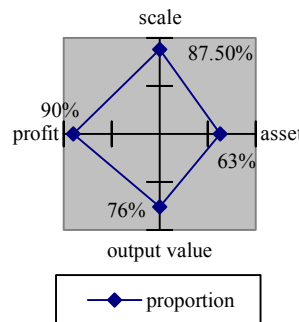


Fig1. The proportion of small and medium enterprises

2.3. Export Orientation

Garment industry is a traditional, low-tech, labor-intensive industry. China has a lot of cheap labor, which undoubtedly has become an important competitive advantage. In the global context of economic integration, China has become the world's factory to some degrees. The exports of textile and garment account for 30% of the world for long-term. For example, according the customs statistics of 2009, from January to September, the national textile and apparel exports are to 121.68 bil-

lion U.S. dollars in accumulation. The amount of textile and garment exports from 2006 to 2009 is shown in Fig2.

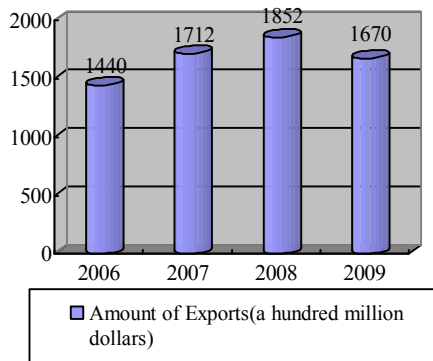


Fig2. The amount of textile and garment exports from 2006 to 2009

3. Crisis of Chinese clothing enterprises

3.1. Domestic factors

3.1.1. RMB Revaluation

The RMB exchange rate has been the focus of international attention. The United States has been the representative of the Western countries which require RMB Revaluation and to reform RMB exchange rate policy. Particularly since the United States encountered the 2008 subprime mortgage crisis, Western countries have been calling for appreciation of RMB a wave after wave. Since the central bank reiterated the reform of the rate in June this year, RMB has appreciated against US dollar by more than 5%. Appreciation of the RMB has effected on export-oriented foreign trade and traditional manufacturing industry [3].

Chamber of Commerce about several types of labor-intensive products estimated roughly that if the appreciation of the RMB was for 1 percentage point, then the net profit margin of the industries would fall by 1 percentage point. While, the current level of average net profit of these industries is only 3% to 5%.

According to the analysis of textile industry experts, if RMB appreciates against the U.S. dollar for every 1 percentage point, then more than 5 million textile and clothing enterprises above designated size will directly reduce the net profit 5.0 billion to 6.0 billion. In the process of prediction, only the amount of exports of enterprises above designated size is considered, without the enterprises' price increase factor, and the relatively static model is used. Actually, the net profit of clothing industry in 2009 is taken account. If RMB exchange rate fluctuate each percentage point, then the degree of industry net profit will be influenced about 4.5%.

Currently, in the textile and clothing industry, the average

net profit level is approximately 3% to 4%, only a part of enterprises can achieve profit margins of 5% to 6%. If RMB appreciation rate is to 5 percent, then the profit of the industry will drop by 300 billion Yuan which exceed the limit of the enterprises above designated size [4].

3.1.2. Rising Labor Costs

The seventeenth report proposed that the resident income distribution in the proportion of the national income and the current wage level should be increased gradually. With the labor contract law have been introduced and improved, the rise in labor costs has a great influence on these traditional labor-intensive enterprises [5]. As a typical representative of low-cost labor competition, the clothing industry is in face of growing pressure of rising labor costs. Ministry of Commerce said that in the textile industry, rising labor costs have been the equivalent of more than 3 times as the neighbors in Southeast Asia, and the labor costs in coastal areas are close to \$ 1 per hour.

3.2. Global Factors

3.2.1. Weak Sluggish of Global Economic Recovery

On September 15, 2008, the fourth largest American investment bank Lehman Brothers applied for bankruptcy protection which indicated that the economic broke out in the round.

The National Bureau of Economic Research reported that the United States started had experienced the longest Great Depression in history from December 2007 to June 2009, which lasted for 18 months. However, the recovery since 2009 was very weak, and only a few jobs were provided. Though economic recovery had maintained for 4 quarters, gross domestic product (GDP) increased by only 3%, while GDP increased by 7.7% after the recession in 1982, and 6.2% after declining in 1975.

3.2.2. Green Trade Barrier

With the help of the framework of the WTO trade liberalization, the former "tariff barriers" and the quota have been canceled, but this does not mean that China's textile exports are not subject to any constraints. United States and the European Union have improved safety standards of clothing, such as on quality, environmental and other technical requirements. "green barrier" has become an obstacle to the development of China's export trade barriers.

However, some domestic apparel enterprises are short of consciousness about safe, health and environment. And they often do not pay much attention to these aspects of control and detection, which was rejected in the export, and results in huge losses.

4. Crisis Response Strategies

4.1. Crisis Supervision and Crisis Early Warning

Crisis management concerns on not only the reply to hazards, but also the establishment of crisis warning line. In the competitive market environment, any business should have a strong sense of crisis, and can make the right judgments at the first time. So, the establishment of crisis supervision and early warning mechanisms is particularly important [6]. Its essence is to make avoidable crisis nipped in the bud, and the inevitable crisis resolved timely through early warning systems. In this way, companies will be able to respond to the crisis deliberately, and minimize the losses.

On the one hand, the leaderships of clothing enterprises should always be concerned on the dynamic domestic and international situation. The development of the new international situation and the introduction of the new policy may have tipped the balance the market. This requires apparel companies to collect first-hand information, identify and classify it. Potential crises in the future should be estimated and a crisis alert need be issued when it is necessary [7]. Those export-oriented garment enterprises must be sensitive to the RMB exchange rate, then reduce the scale of production or transfer the product center.

On the other hand, the crisis early warning system can be introduced for the quality of apparel products. Variables in the process of production and operation are analyzed and the alarm warning indicators are set on the possible source to capture the warning timely, through certain scientific and technological methods. The supervision to operational status of enterprises and the issues which may be harmful to their survival and development are predicted and analyzed in advance in order to achieve the purpose of prevention and control.

4.2. Crisis Decision-making and Treatment

Based on the survey, according to the origin and devel-

opment, clothing enterprises choose the best decision-making program, and make the right decisions.

The RMB appreciation, rising labor costs, weak economic recovery lead to the depression of exports. Particularly, foreign-trade clothing enterprises can appropriately reduce the scale of production to reduce unnecessary expenditure; adjust the proportion of products gradually to change the export mode to domestic model.

To overcome the green trade barrier, clothing enterprises should strengthen the cooperation between domestic and international, and expand the exchange of information. Firstly, "green" materials should be developed and adopted; secondly, production process can be reformed and the "clean production" should be popularized; thirdly, the enterprises may be proficient in the acceptance of international standards for textile and clothing products, and actively carry out international testing of products to improve the testing technology and Strengthen technological research; at last, the industry need to establish perfect quality management and supervision system.

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