

Major Chinese footwear brand Aokang is stepping back from pursuing cheap labour across China and beyond. It has decided that it will be easier for it to achieve its growth targets by investing in a state-of-the-art supply chain with high levels of technology instead.

Aokang opts for technology as labour costs continue to rise

Technology provider Lectra announced in July that one of China's biggest footwear manufacturers, Aokang, has adopted its Fashion PLM product lifecycle management software to streamline the way it produces its shoes.

Founded in 1988, Aokang now has four main brands, Aokang, Kanglong, Redess and MeiRie's (it also produces shoes for the Chinese market under licence from Italian brand Valleverde), three research and development centres, three manufacturing centres and more than 5,000 sales outlets across China; and it has ambitious plans for further growth.

Its investment in high-end technology such as Lectra's PLM software is motivated by a desire to streamline its supply chain and reduce the time it takes to bring the shoe collections it manufactures to market. Aokang president, Wang Zhen, says the group needs to innovate in the face of rising costs and "fierce competition" from rivals. "We have to strengthen our merchandise planning capabilities and streamline the flow of goods to retail," he explains. He insists that the new supply chain software will allow Aokang to overhaul the processes it has in place for planning new collections, from research and development, to design, manufacture and marketing. "Fashion PLM will allow us to have visibility and control over the supply chain," he says.

All about value

At present, Aokang designs and develops 50% of its shoes in-house, with the design of the other 50% in the hands of external consultancy partners; it manufactures the entire range itself. It now wants to increase in-house design activities and take control of up to 70% of all design by 2015. Mr Wang describes this as an important change to "a core component of our customer value proposition and a core part of our strategy".





Founded in 1988, Aokang now runs four main brands. It has three production centres and more than 5,000 sales outlets across China. CREDIT: AOKANG

This is not the first example we have seen in recent times of major manufacturing companies in China responding to increases in production costs and the other challenges in the market at the moment by investing in best-in-class technology. From what he has been able to observe of the changes taking place in China, Lectra chief executive, Daniel Harari, says this shift has split the country in two, in the sense that companies are now either continuing to pursue low-cost production by almost any means possible or they are moving themselves instead towards competing on value rather than price.

Why keep moving?

For Mr Harari, any company that insists on competing on price alone is going to have to keep moving to locations where labour is cheapest, locations that allow them to avoid investing in sophisticated technology. "There are two ways for Chinese companies to think now," he continues. "If it's all about being cheap, they are having to face up to the fact that soon it will no longer be possible for them to manufacture in China. Others, though, want to remain in China and find a new way of doing business. This means that China's premium segment is going to increase and it's here that Lectra is focusing its technology and consultancy offering in that market."

Domestic success

The increasing importance of the domestic market in China is at the heart of this change. Six or seven years ago, according to Mr. Harari, 75% of manufacturers in China were focused on export markets, but now 75% of what they produce is for the domestic market. "This is complex," the Lectra chief executive says, "but one way to look at it is to say there is a hybrid business model in China now. Chinese brands can still have a relationship with overseas customers as a sub-contractor while developing their own brands and their own business in the domestic market at the same time. Some things a company in this situation does must be common to both parts of the business, but others must be drastically different."

Companies headed by genuine entrepreneurs are the ones he thinks are in the best position to make this move. Entrepreneurs take risks and, in China, lots of them have the ability to invest because they have made money from working as outsource manufacturing partners to customers in North America and Europe. And it's in their interests. "The days of making money as a low-cost sub-contractor are gone," Daniel Harari says. "Businesses need to move to the hybrid model instead."



Lectra chief executive, Daniel Harari, says providing technology to help Chinese manufacturers move away from concentrating only on cost to a focus on value is the biggest opportunity his company has seen in, perhaps, 20 years. CREDIT: LECTRA



An Aokang event at the All China Leather Exhibition in 2013. Clever manufacturers in China are working hard to build their own brands. CREDIT: ALL CHINA LEATHER EXHIBITION

Most visitors to China from Europe or North America have seen little beyond the big cities, where big, international fashion names command the attention of local consumers and tourists. Go to smaller cities, Mr Harari suggests, and Chinese brands have a dominant position in most shopping areas, and across consumer spending as a whole in China, domestic brands are winning market share. With such a large domestic market to go after, this makes perfect sense to him.

More to the market than luxury

"Chinese people love fashion," he continues. "They love showing their personality in the way they dress. But it's going to be a country dominated by Chinese fashion companies; they will have a 75% or 80% market share. China is a big enough market for that. Swedish companies, for example, cannot only focus on Sweden because the market is too small. But a company can be big and successful and be in China only." He suggests that a focus on value, not cost, will be the key. Companies still focused completely on being cheap outsource manufacturing partners are being forced to reduce costs all the time, but this is no way, in his opinion, to create a brand, create brand loyalty, a real brand image or a back-story.

All of these elements are important, but it's no surprise to hear the Lectra chief executive state that good technology has to be the backbone of the strategy. He describes the move among clever Chinese companies away from focusing on cost to focusing on value as the biggest opportunity his own company has seen in, perhaps, 20 years. This doesn't mean he thinks companies like Aokang will transform themselves into luxury brands; a premium brand in China does not have to measure itself against or compete with the tiny number of elite brands that are genuine players in the global luxury market. "It takes 100 years to create a luxury brand," he says. "You cannot create a Vuitton in five minutes. But that's all right because the market isn't only about luxury." 🌐



HOW TO BE A HYBRID

Companies are realising that there is power in having control over as much of the value chain as possible. This means retailers are getting into branding and manufacturing, brands are getting into retail and manufacturing, and manufacturing is getting into branding and retail—the result being the emergence of a hybrid business model.

Increased control accompanies expansion into the value chain, giving companies an immediate advantage. But this expansion comes with a caveat: companies can no longer be content to stay with their traditional area of expertise—they must now master the entire end-to-end process. For example, manufacturers must develop an understanding of design innovation and fit if they wish to move closer to the consumer while retailers and brands must learn to manage production and even raw materials in order to guarantee product exclusivity.

To transition to a hybrid model, companies must look for ways to build on their existing strengths. This includes using innovative technology within a smart process to increase competitive advantage and offer something genuinely interesting to consumers. The resulting balance of style, quality and cost is key to delivering products with the price for value and newness demanded by consumers.

Brands are often recognised by their logos, but they're remembered for the stories they tell and the relationships they build with consumers. Brands craft value through these experiences, which they transmit through their products. Many people are passionate about the brands they love.

A retailer's typical role is to sell products. As masters of margin and human behaviour, they determine which products will sell best where, at what price, and to whom. While brands are concerned with creativity and relevance, retailers must ensure perfect timing, product presentation and turnover.

Manufacturing is where product ideas take physical form, and cost and time to market pressure become a reality. The manufacturer's main concerns are controlling cost and assuring quality, minimising downtime and managing a complex array of lead times.



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