Exploring the Roads to Prolong the Life Cycle of Chinese Competitive Traditional Industry

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ABSTRACT
This paper holds that the development of Chinese competitive traditional industry is in the stage of maturity, and the theory of product life cycle (PLC) can explain the periodic rule of Chinese traditional industry. The paper analyzes the measures to prolong the life cycle of Chinese traditional industry and keep the industry vigorous by the innovation of applicable technology and the business mode.

1 Introduction

Every obstacle in the development of competitive traditional industry may spark the discussion whether its advantage exists, which will turn into a debate of whether it is “sunrise industry” or “sunset industry”. Out of good intention, some rather to believe that the “sunset industry” does not exist, and hope the comparative advantage of some Chinese traditional industry will long exist to bring the best interest to the country. To put this issue further, it concerns the aspects of whether the life cycle exists in the industry and the scientific awareness of whether the rules of movements of transfer and being replaced apply to the industry. We propose that these movements are inevitable to happen.

2 The Objectivity of Industrial Life Cycle

2.1 Debate of “Sunrise Industry” and “Sunset Industry” in domestic academic circle

The view about the competitive traditional industry is not “sunset industry” is prevalent nowadays in the Chinese academic circle of technological economy. Those industries still have wide development space and can sustain the advantages for a long time. Ma Hong holds that the popular division of industries by “sunrise industry” and “sunset industry” is unscientific and impractical. Some traditional industries considered as the “sunset industry” by Toffler sustain growth rather than decline after new technology reform. Thus, Ma Hong proposes that there is no “sunset industry” but “sunset technology”, and the industry will never decline with updated advanced technology. [1] Most people are influenced by his viewpoint and believe that many traditional industries lost their competitiveness without the support of advanced technology. If advanced technology introduced, such industries in China will stay

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competitive in the long run. Similarly, Han Lida presents that the traditional industry will turn into the hi-tech industry with a qualitative change if high technology is imported to it. He holds that in this sense, the hi-tech industry is in the phase of introduction and growth in the product life cycle, while the traditional industry in the maturity and decline. Since the traditional industry can evolve into the hi-tech industry, the so-called “sunset industry” does not exist anyway.

2.2 The objectivity of industrial life cycle

According to the theory of Industrial Life Cycle by Michael Porter, professor at Harvard Business School, the industry development can be divided into four stages of introduction, growth, maturity and decline, forming a complete life cycle. If the above arguments work, then they will contradict with the current universally accepted theory of Industry Life Cycle in the international industrial economics. If industry can maintain the youth forever and never become the “sunset industry” and be eliminated, the theory of industry life cycle can no longer be established.

The author of this article holds that, objectively, the industry life cycle exists and is scientific. Currently in China, some important competitive traditional industries are in the stages of maturity and decline in its life cycle, causing the lost of their international competitive advantages. We can not prevent this happen, however, we can prolong their life cycle by certain ways as far as possible, especially the stages of maturity, and slow the pace of declining or being eliminated.

2.3 Two angles to understand the industry life cycle

The industry life cycle can be understood from the level of countries or the whole world. Internationally, the maturity stage implies that an industry declines after maturity in one country and is substituted by another country. From an international sense, many traditional industries are not entering the decline stage but going through the industry transfer. Those industries are transferring from a country in which they are in decline to another country in which they are in the introduction and the growth stage. For the whole world, these industries are far from being in the stage of maturity or the decline.

From another point of view, it is an undisputable fact that many traditional industries have gone through the life cycle and died out. With the prevalence of computers in the office area, pen industry is in the edge of dying out. And the incandescent lamps are being replaced by the energy saving lamp. The replacement of industry speaks the development and improvement of modern material civilization and the society, which is an unavoidable trend.

3 Difficulties Traditional Industries Facing Reflect Their Movements in the Life Cycle

The accelerating transformation of social economy witnesses the dying out and replacement of industries. In the last 30 years of reform and opening up, China became the world factory based on the advantage of traditional industry and successfully pushed the economic growth to find the footing in the world’s major economies. However, when the development of traditional industry got bogged, people start to question whether these industries are still of advantages to maintain their international competitiveness. The dispute starts after the sub-prime loan crisis happened in 2008 in the US, or even earlier. From an economic point of view, the competitive industry is the industry that will bring the trading interest, and is the mainstream industry in a country’s economy. In view of the big interests the competitive industries will bring to a country, methods are taken to prevent or delay the declining or the transfer process of those industries. Currently in China, many competitive traditional industries are facing the hard transition from maturity to decline. To understand this problem, we should analyze the specific difficulty and the cause to make the exact judgment.

To break the “destiny” of saturation of the traditional industry is the concern of this article. This paper tries to analyze the reasons of development difficulties some competitive traditional industries facing in recent years from several view points like development strategy of comparative advantage, background of international economy, industrial life cycle and other aspects. This paper will elaborate with the practice of Quanzhou, a typical city whose economy based mainly on the traditional industry.

3.1 Negative effects from the US financial crisis and the European sovereign debt crisis

Chinese competitive traditional industries depend largely on the international market. From 2008 the US financial crisis to the recent sovereign debt crisis in Europe, the world’s major economies get sluggish and the markets of China’s major trading partners keep declining, which cause the reduction the export of traditional competitive products to those areas, and leaving the traditional competitive industries in big trouble. Facing the uncontrollable international economy and the uncertainties of the complex international market, Chinese government can only slow the economic growth to deal with the new global economic situation. For example, the government work report adopted in the NPC (National People’s Congress) this year cut China’s expected growth rate of 2012 to 7.5%, the lowest in years. In the slowdown of the economic growth rate and the economic structuring, China encourages the growth of some strategic new industries while discouraging the expansion of those competitive traditional industries.

It is occasional that the negative effects the international economic situation has upon the Chinese traditional competitive industries. They do pose huge difficulty but will never decide the path of Chinese competitive traditional industries.
3.2 The structural change of Chinese comparative advantages

The comparative advantage in the development of Chinese traditional industry lies in the rich and superior labor resources of unskilled labor. The labor costs are comparatively much lower than the developed countries in Europe and the America, while the labor quality is higher than the underdeveloped countries in Asia and the Africa. According to Lin Yifu, the main comparative advantage China based to implements the strategy of catching up with the developed countries is the advantage of labor cost. By this way, the relative industries are independent, the resource utilization rate can be effectively increased, and the capital and technology accumulated to ultimately promote the elements structure, which means the former advantage elements gradually weakened and lost while the new advantage elements generate and form. There are economic phenomena to echo this viewpoint. For instance, the migrant workers have been earning very low salary from 1980s, while these years, their pay level has rose by 3 to 4 times with the increasing of the inflation rate.

It has been decades since China utilizes the advantage of labor cost. It is certain that the advantage of China’s labor cost is weakening. In recently years, the increasing labor cost is taking away the advantage of Made in China. According to the media report, international orders to the Chinese traditional competitive industry in the East China Fair have been decreasing dramatically recently, while countries in South and East Asia are increasingly processing labor intensive orders in a way to replace China. These all reflect that the Chinese traditional competitive industries are transferring to the South and East Asia like Vietnam, Cambodia, and Malaysia and so on. The advantage of elementary production elements are vanishing while the advanced production elements are accumulating, and the overall structure of production elements tend to optimize. The above are the roots of the declining traditional competitive industry in China and the losing of their international competitiveness, which will also inevitably drive the industry replacement and the industry life cycle movement in China.

3.3 Chinese competitive traditional industries are in the stage of maturity

The minimizing advantages in the traditional competitive industries are evident these years, which is not only shown in the decreased profits of some giant state operated enterprises (SOEs), but is more impressive in the industries dominated by medium-sized and small private enterprises.

The currently typical enterprises of the traditional competitive industry in Quanzhou are showing the signs of decreasing growth rate, declining profit growth, rising product stock quantity and the increasing accrued assets. The industry is in the sub-health condition. Take two local typical listed companies of traditional competitive industry for example, the annual reports of 2011 show that: ANTA's annual revenue reaches 8.905 billion RMB, an increase of 20.2% year on year, while the net profit is 1.73 billion RMB, a rise of 11.5% compared with last year. However, the increase rates of both annual revenue and net profit drop by 12.5% and 6% respectively. The inventory value is up 36.1% to 618 million RMB compared with 454 million RMB last year. The trade accounts receivable and other accrued assets come to a 1.709 billion RMB, an increase of 72.6% year on year.

361°attains an annual net profit of 1.13 billion in 2011, a rise of 15.3% in 2010. Despite of this, its first half year profit growth rate reaches 30.5%, so the second half of 2011 is almost no profit. The inventory value of 2011 is as high as 4.512 billion RMB, an astonishing 81.8% higher than the value of 2010. The above economic indicators show that the development pace of Chinese traditional competitive industry is on an obvious turning point. Some competitive traditional industries are in the maturity stage and gradually heading to the stage of decline, which totally complies with the movement path the theory of industry life cycle elaborates. Confronted with such situation, we can and should have a way out by working out scientific industrial development strategies and implement them to effectively prolong the life cycle of some traditional competitive industries.

4 Measures to Prolong the Life Cycle of Chinese Competitive Traditional Industries

4.1 Base on the industrial life cycle stages to work out and implement the relative industrial development strategy

The theory of industry life cycle by Porter holds that the application of relative competitive strategies in an industry in the stages of maturity and decline can prolong its life cycle. When an industry is in the maturity stage, the enterprises can work out and implement competitive strategies such as the technological innovation strategy or the business mode innovation strategy; however, enterprises should control the implementation to an accurate degree. To be specific, the strategies in the aspect of technological innovation includes: (1) Adjustment to product structure. Enterprises should improve the sales model and promote the stock products rather than over develop new products; (2) Reform to the technological and manufacturing process. The business mode innovation includes: (1) Right positioning. The enterprises should have a clear understanding of their own image and the industrial condition, and should never take “high quality” as a cover to avoid the aggressive prices by competitors and their market behavior; (2) Choose the right customers; (3) Acquire inexpensive assets but avoid blind investment and the overuse of the overcapacity. (4) Develop the international market, but never give up the existing market share in exchange of the short-term interests. In the industrial decline stage, Porter proposes relative competitive strategies are applicable such as cost leadership, focus, and differentiation and quick give-up.
In fact, when an industry is in the maturity or the decline, the choice of tactics should base on different industry, area and the situation of the enterprise itself regardless the technological or business mode innovation. The practice implemented in Quanzhou city to deal with the current dilemma of competitive traditional industry receives evident effects. The measures are to be elaborated below.

4.2 Measures of technological innovation to prolong the industrial life cycle

Though the application of high technology in a traditional competitive industry can not turn it into a hi-tech industry, nor can never change its cause of declining, transfer, being substituted by other countries or being obsolete; however, the application of hi-tech in a traditional competitive industry can definitely prolong its life cycle. Take the most typical traditional industries as textile and garments, and stone industry for example, the ways of technological innovation can be the followings:

4.2.1 Introduction and development of new material

Fabric is one of the most important production elements and competitive advantages in the textile and garments industries. The development and introduction of new material should be underlined in this industrial technological innovation.

4.2.2 Refine the existing product line

As the development of individualized demand, to diversify the products can meet the demands of market diversification. The pursuing of product variety and refine the existing product line has well achieved the competitive advantages.

4.2.3 Establishment of technological innovation projects should be based on the actual needs of the industry

Usually the traditional industry does not belong to the technology intensive industry, and does not rely much on the technology. So enterprises should not simply pursue the hi-tech nor ignore the actual need in the production, in stead, the feasibility of marketing of the innovative technology should be valued. Though some innovations out of R&D in China are advanced, the return on the investment is hard to obtain because they are not accepted by the market, which discourages the R&D organizations to a great extent. Thus, the innovative technology approval should include the participation of enterprises in concern, and the government’s support to the technological innovation should be based on actual need of enterprises. The enterprises know what they most need. Only in this way, the government can support projects that are promising for the market.

In a word, technological innovation is not easy to realize for the medium-sized and small private companies which do not have a firm technological foundation. The important point is to find a creative path.

4.3 Business mode innovation of enterprises

According to the Porter’s theory of industry life cycle, in addition to the technological innovation, the business mode innovation is more important to prolong the industry life cycle in its stages of maturity and decline. The key of Motorola and Nokia’s failure in competition lies in the lack of innovative business mode. Technologically, the chips of iPhone are far from outstanding, and the first generation of iPhone even does not support 3G technology. However, what makes iPhone special is its launching of software downloading service to meet the essential upgrading needs of consumers, which also makes iPhone the new tycoon in the mobile phone market.

The big investment, risk and long period required by technological innovation hold back the medium-sized and small enterprises, so to apply the business mode innovation is very important way to prolong the industry life cycle. For some areas like Quanzhou which lacks of the strong R&D ability and a firm technological foundation, the business mode innovation is especially vital. Further more, regardless of the enterprise scale and the existing market share, enterprises will be hard to survive and develop without the business mode innovation.

Enterprises of the traditional industry can innovate their business mode through the following aspects:

4.3.1 Expansion of products and service

The expansions of products and services include the horizontal and vertical expansions. The horizontal expansion means widening the product series, and extending from the product to service as well as extending from related to the unrelated diversification. The vertical expansion means stretching to both the upstream and downstream of the industrial chain. The expansion of the business range of the enterprises means a bigger chance of survival.

4.3.2 Overcome the resource bottleneck and seek for resource internationally

Shortage of resources is becoming the bottleneck restricting the development of Chinese competitive traditional industries. To overcome this issue, enterprises can build up the sourcing and allocation network globally to ensure the resource supply. For instance, many stone enterprises in Nan’an, Quanzhou have built up the stone mining base in India, Brazil, Egypt, Spain and many other countries. Nowadays, stone enterprises in Quanzhou own rich resources of stone mining overseas, in Turkey, even 20% of mine resource belongs to stone enterprises in Nan’an. [6]

4.3.3 Transition from doing business to service

The future competition for enterprises lies in the business service, especially the innovation on sell and service. The technologies of some successful enterprises like Starbucks are not the state-of-the-art, and they do have similarity in the business mode innovation, especially the service innovation. We hold that more enterprises in Quanzhou should start with the downstream of “creative service” in the innovation of business mode. The fact is, creativity does not require powerful support of technology. The key to success is to bring good service to consumers. A same product can have different pricing with different service. Enterprises of the traditional competitive industry should change the management principles to explore the ways of transition towards the service. In Quanzhou, there are successful
cases. Some garments enterprises transfer from manufacturing products to do business, and establishes a sales network all over China; then turn to service from doing business, making the specialty stores into sweet lifestyle houses based on the individualized service.

4.3.4 Adjustment of the brand strategy
Quanzhou is home to many famous brands, and is listed among the tops in regards of the number of its well-known brands. Some are even the top brands in China and are building their name internationally. The brand building brings strong competitive advantages to the traditional competitive industries in Quanzhou. However, problems exist in the brand building of Quanzhou’s enterprises. For example, there are too many brands of relatively small scale enterprises scatter, and resource waste is easy to happen as strong competition exists among them, making it hard to build an international top brand. Another problem for the brand building is the lack of culture individuality in the brands. Recently, the NBA super star Michael Jordon sued against the Qiaodan Sports, a Chinese brand pronounced the same with Jordon in Chinese. This case exposes the serious mistake in Qiaodan’s brand tactics—making use of the celebrity and ignoring its own cultural development.
In recent years, some competitive traditional industries like textile, garments, shoes and bags in China are facing development difficulties; however, those who are active in the technology innovation and the business mode innovation relieve themselves to a certain degree and maintain a momentum of healthy development.

5 Conclusion

The industrial life cycle is the objective economic rule. It is a scientific understanding to accept the industrial life cycle and its rule of transfer and being substituted or obsolete. On the other hand, people have the subjective initiative in practicing the economic rule. To promote the industrial function and the economic value, enterprises should try to prolong the industrial life cycle and develop in accordance with the economic rule. The development of Chinese competitive traditional industry and the efforts by enterprises and the government have shown strong support of the conclusion.

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