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THE HONG KONG POLYTECHNIC UNIVERSITY
INSTITUTE OF TEXTILES AND CLOTHING

THE CHALLENGES OF MOVING TOWARDS OBM
- A STUDY OF TAIWAN CLOTHING COMPANIES

Sheau Yun Chyr

**A thesis submitted in partial fulfillment of
the requirements for the degree of Doctor of Philosophy**

July 2010

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Sheau Yun Chyr

Dedication to my mother and father

Abstract

Upgrading to the original brand manufacturing (OBM) by the export-originated firms with an export-oriented industrialization background has been acknowledged to be the most difficult but rewarding step in the industrial upgrading process. However, this upgrading phenomenon has been under-researched. The purpose of this study is to determine what challenges were encountered by the Taiwan companies when moving towards the OBM stage and how these challenges were overcome. By an incorporation of two perspectives – the industry evolution and the socio-economic changes - this study traced the sources of the upgrading challenges in terms of the opportunities/barriers/problems encountered by the Taiwan companies, examined how these challenges influenced their upgrading process, and furthermore identified how the knowledge and competencies gaps were closed, from the macro environmental level into the micro organizational level.

A two-phase qualitative investigation informed by the constructivist-interpretative philosophical stance was adopted, i.e., a study of the socio-economic environments of relevance by means of a basic type of qualitative inquiry, and a study of the current industry practices via a multiple-case study inquiry. This research design supported the development of the holistic insights and the contextual understanding into the studied phenomenon. It was revealed that OBM opportunities were found in the domestic market which was characterized by the diverse consumer fashion needs, coupled with severe competition from

the post-internationalization market. The supporting resources from the Taiwan textiles and clothing industries and the local branding environments were the weaknesses impeding the OBM progress of the studied cases. The major OBM challenges encountered were the acquisition of the appropriate retailing channels/locations and the obtainment of the necessary know-how.

The findings showed that the involvement in the global value chain using the original equipment manufacturing/original design manufacturing model resulted in a pair of dual influences – the gained business vision coupled with the created perception/knowledge gaps – affecting the OBM implementation. The strategic operations adopted for tackling the posed challenges during the OBM course exhibited a characteristic of a series of sequential shifts along the implementation path, since these operations were confined by the four dynamic factors. It was also uncovered that the missing knowledge for implementing OBM was obtained by acquiring the human resources. The subsequent knowledge diffusion, integration and further creation were largely achieved through the in-house learning-by-doing practices over a long period of time. An incremental penetration into the branded fashion beyond the perception limited by their previous role in the global value chains was achieved in the situation of the two quasi-successful cases.

In addition to the provision of the in-depth and rich descriptions of the investigated phenomenon, this exploratory study also provided a pioneer explanatory framework explaining the constitution of the OBM phenomenon

observed at the firm level. This framework illustrated the dynamic nature of the OBM phenomenon and the great complexity involved in managing the OBM challenges revealed from the authentic business practices.

Publications Arising from the Thesis

Chyr, S. Y., Taylor, G., & Hui, C. L. (2008). Transition from OEM to OBM: A case study of Fenix. *Research Journal of Textile and Apparel*, 12(3), 75-81.

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LIST OF ACRONYMS

ASEAN – Association of Southeast Asian Nations
BIPA – Brand International Promotion Association
CETRA – China External Trade Development Council
CIE – Country image effects
EOI – Export-oriented industrialization
FG Model – Flying Geese Model
GACC – Global Apparel Commodity Chain
GCC – Global Commodity Chain
GVCs – Global Value Chains
IPR – Intellectual Property Rights
LOHAS – Lifestyles of health and sustainability
MMF – Man-made fibre
NIEs – Newly Industrialized Economies
OBM – Original brand manufacturing
ODM – Original design manufacturing
OEM – Original equipment manufacturing
OIM – Original idea manufacturing
PDM – Product data management
R&D – Research and development
ERP – Enterprise resource planning
SCM – Supply chain management
SMEs – Small-to-medium size enterprises
TAITRA – Taiwan External Trade Development Council
TITAS – Taipei International Textile and Apparel Show
TRIPS – Agreement on Trade Related Aspects of Intellectual Property Rights
TSIA – Taiwan Sweater Industry Association
TTC – Taiwan Textiles and Clothing
TTF – Taiwan Textiles Export Federation
TTRI – Taiwan Textiles Research Institute

Chapter 1 Introduction

1.1 Research background

Taiwan textiles and clothing (TTC) industries participated in the global supply chain in the mid-1960s as a developing country, by means of exporting the labour-intensive products to the developed countries. This participation provided Taiwan with access to international textiles and clothing markets and the requisite knowledge for industrial upgrading so that it could achieve a more advantageous position in the global value chains (UNIDO, 2002). Further supported by the strong national policies for export-oriented industrialization (EOI), the TTC industries successfully used opportunities arising from the migration of world clothing production and consequently achieved a rapid export growth, during the 1970s and 80s. This achievement enabled the TTC industries to fulfill their leading role in enhancing the development of the national economy. The upgrading of the TTC industries which accomplished this economic achievement at this stage was mainly the shift from garment assembly operations to original equipment manufacturing (OEM).

In the 1990s, despite the fact that a large number of local suppliers were apparently uncompetitive, some Taiwan suppliers successively upgraded from the OEM to the intermediary or original design manufacturing (ODM) stage. This shift was made by exploiting the opportunities of the service function associated with production operation externalized by the firms of developed countries. These newly derived upgrading opportunities were seen to be particularly beneficial to the newly industrialized economies (NIEs) of East Asia, such as Taiwan, in terms of further establishing a competitive

and strategic position in the global value chain (Humphrey, 2004; Palpacuer, 2004).

After subsequently moving to the intermediary or ODM phase in the global value chain, the TTC export industries encountered the bottleneck in the last upgrading phase - the original brand manufacturing (OBM) model. This model has been often regarded as the most difficult and challenging means of upgrading (Humphrey, 2004) and was also seen as one of the key solutions for the export companies in the East Asian NIEs to sustain their business (Berger et al., 1997). However, only a limited number of TTC export companies successfully achieved OBM.

The importance of upgrading to the OBM stage has been increasingly acknowledged by both the private and public sectors in Taiwan in recent years, mainly due to the following reasons. These were the severe competition from the latecomers, especially after the abolition of quota in 2005, the market incentives of the large Chinese branded market, and the recognition of the brand value to the national economy. However, the process of upgrading to OBM and the associated implementation challenges have been overlooked in academic research. In order to achieve a better understanding of this upgrading, an exploratory study which provided firsthand insights into this little-known OBM phenomenon was initiated.

1.2 Research question, perspectives and objectives

The central research question was what challenges were encountered when moving towards OBM and how these challenges were overcome by the export firms in the TTC industries. Although established theory on the

studied subject was lacking, the findings of the literature review conducted in the related industrial developments/transformation theories, especially the global commodity chain (GCC), provided the contextual insights into the TTC industries' upgrading in the trade-based globalization. Furthermore, one macro dimension which might have influenced the constitution of the studied OBM phenomenon was consequentially identified. As a result, in addition to the traditional perspective of the evolution of the industry, the social-economic changes perspective was also introduced in order to investigate this particular upgrading phase - OBM - in this study. The incorporation of these two perspectives furthered the development of the contextual understanding of the studied OBM phenomenon from the micro organizational level to the macro environmental level.

The research aim and objectives of this study were subsequently formulated after the research question and considering the investigation perspectives based on the findings of literature review. It was determined that the following goals would be achieved – what challenges were encountered in terms of upgrading opportunities/barriers/problems from involvement in the global value chain and the changes of local socio-economic environments, how these challenges influenced the upgrading process, what means were employed to tackle the these challenges, how the knowledge and competencies gaps for implementing the OBM model were closed, and finally the development of an explanatory framework explaining the constitution of the OBM phenomenon observed from this study.

1.3 Research methodology

Considering the study nature - exploratory, emphasis on the natural setting of authentic business situation and the interpretation of human experience, a two-phase qualitative investigation informed by the constructivist-interpretative philosophical stance was adopted. This involved phase one - a study of the socio-economic environments of relevance by means of a basic type of qualitative inquiry, and phase two - a study of the current industry practices via a multiple-case study inquiry. In both of the inquiry phases methodological and data triangulation were used, including a review of relevant literature, in-depth interviews, on-site direct observations and the examination of physical artifacts, from a multiple of data sources. Prior to the commencement of the two-phase investigation, a pilot case study of a Hong Kong OBM case was conducted to test and improve the primary conceptual framework and interview guide.

The findings from phase one of the investigation were used together with literature findings to supply macro-level contextual knowledge in order to facilitate the execution of phase two of the investigation and the subsequent interpretation of the collected data. In this phase, three current and purposive cases were selected for in-depth investigation; and a general analytic strategy (an incorporation of the evolving conceptual framework and the developed case description) coupled with the mix of the two analytic approaches (categorization and contextualization) and a two-stage case analysis (within-case and cross-case) were devised. The findings of phase two were presented by both forms - the individual cases reports and a cross-case analysis. An across-case explanatory framework was synthesized which could be transferred to other similar situations determined by the users.

1.4 Research findings

The results of this study provided holistic and in-depth insights into the OBM phenomenon encountered by firms which had their origins in export business in the TTC industries. It was revealed that moving to OBM phase was an autonomous action taken by the upgrading firms and the opportunities and requisite know-how for implementing this upgrading were acquired from the domestic market. The major OBM challenges encountered by the upgrading firms were the acquisition of the appropriate retailing channels/locations and the obtainment of the necessary know-how.

The findings also indicated that the exerted influences arising from the involvement in the global value chain using the OEM/ODM business model upon the OBM phenomenon were the resources and further, a pair of dual influences - the gained business vision coupled with the created perception/knowledge gaps. The influences from the socio-economic environments affecting the OBM implementation were the supporting resources and a pair of co-existing influences - versatile market opportunities and severe market competition.

The posed challenges during the OBM implementation were derived from an incorporation of the mixed challenges and the operation outcomes, and these posed challenges continuously evolved along the OBM path. The strategic operations adopted for tackling these challenges were confined by the four dynamic factors, i.e., the vision and aspiration of leaders, tangible and intangible resources, competencies and knowledge, and retail channel and locations. As a consequence, the strategic operations adopted by the upgrading firms were characterized by a series of sequential shifts along the OBM path.

It was also discovered that the upgrading firms obtained the missing knowledge for implementing OBM via acquiring the human resources mainly from the local industries. The subsequent knowledge diffusion, integration and further creation were largely achieved through their own learning-by-doing practices over a long period of time. During this transition period, two phenomena – product-oriented thinking and knowledge/perception gaps in marketing, as well as the incremental penetration into the branded fashion business – were encountered.

The findings of this study suggested that moving to the OBM phase is a big step for the export-and-production-originated firms with an EOI background, and would be better perceived as an entire business creation rather than merely a continuous or strategic extension from the existing ODM model.

1.5 Organization of the thesis

The chapters of this thesis are organized as follows:

Chapter 1 Introduction: the current chapter.

Chapter 2 Literature Review: this provides the historical background of the Taiwan Textiles and clothing industries, a review of the industrial development and transformation theories relevant to the textiles and clothing industries, as well as the identification of the research gaps from the industrial evolution literature.

Chapter 3 Research Methodology: this states the research aim and objectives, the adopted research approach and methodology, the research

design, as well as the rigor and ethical considerations for the conduct of the research.

Chapter 4 Pilot Case Study of One Successful OBM Company in Hong Kong: this reports the execution and findings of a pilot case study prior to the formal investigation.

Chapter 5 Phase I – Taiwan Socio-economic Environments of Relevance: this presents and discusses the results of the phase one investigation which were further used as the contexture and background knowledge for phase two of the investigation.

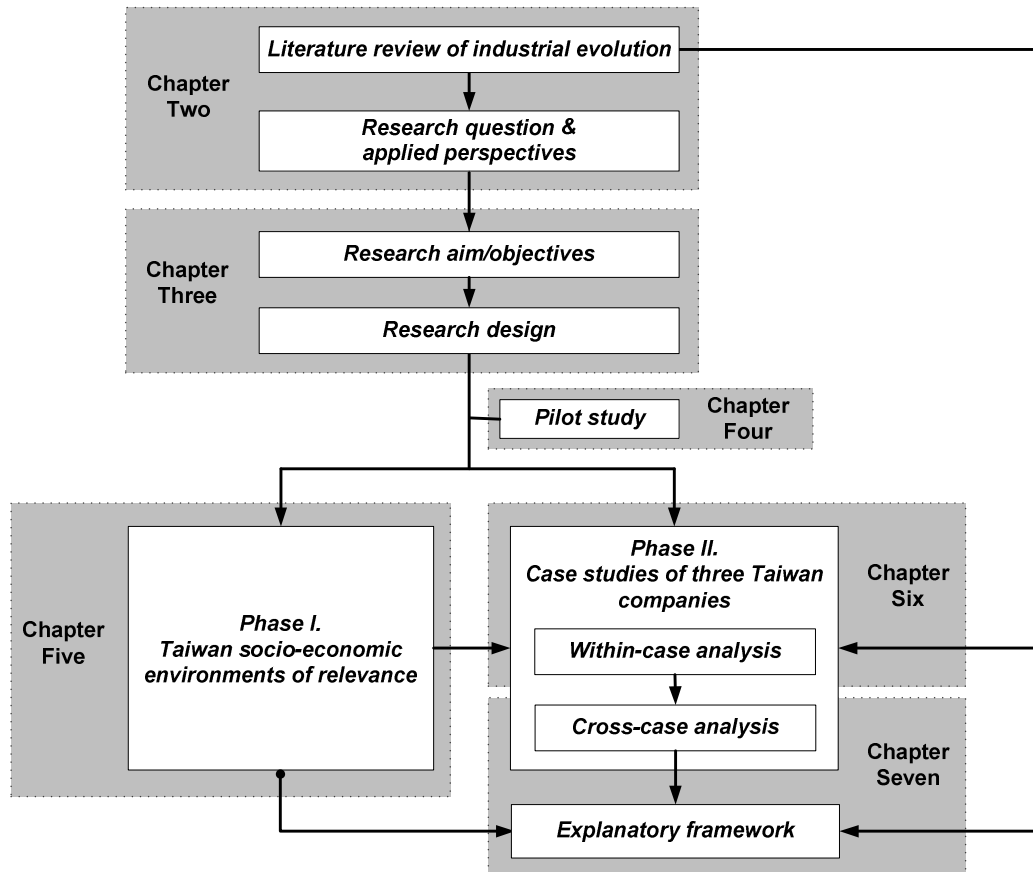
Chapter 6 Phase II part one – Individual Case Studies of Three Taiwan Companies: this presents the results from the individual cases studies conducted in phase two of the investigation in the form of individual, stand alone reports.

Chapter 7 Phase II part two - Cross-case Analysis and Synthesis: this presents the results of the cross comparison and contrast of the studied cases in phase two of the investigation, as well as a synthesized across-case explanatory framework.

Chapter 8 Conclusion: this reports the concluded findings, outlines the significance and implications of the study, states the recognized limitations and suggests the future research directions based on this study.

In addition to the above outline, Figure 1.1 further delineates the research structure of this study with the corresponding chapters from two to seven.

Figure 1.1: Research structure with the corresponding chapters



Chapter 2 Literature Review

2.1 Introduction

Moving to Original Brand Manufacturing (OBM) was a difficult but rewarding challenge for the individual firms concerned. Given the lack of existing theoretical framework on the subject of the OBM transition of the export-originated firms studied, the literature review was conducted to provide a broader understanding of the historical background of the TTC industries (Section 2.2), illustrating the industrial evolution trajectories (Section 2.4) based on the relevant industry development and transformation theories (Section 2.3), and identifying the research gaps which affected the research question (Section 2.5). The literature review did not impose any assumption on this little-known phenomenon prior to the field studies undertaken in the course of this research. Instead, the findings from literature of relevance to the industrial development served to provide a priori contextual knowledge at the macro level and permit a link between the socio-economic determinants of the local environments and the industrial evolution for further understanding of the researched phenomenon.

2.2 Significance and changes of TTC industries

TTC industries initially emerged in a context of being the preferred economic development strategy in the 1950s and EOI in the 1960s (Shiau, 1994), and rapidly developed in the “trade-based globalization” in the last three decades of the 20th century (Gereffi, 2001, p.1617). The evolution of the TTC

industries as a whole mainly followed the Taiwan economic and industrial development and was classified into six periods (Yao, 2006), which were the rehabilitation (1945 - 1950), development (1951 -1960), export expansion (1961 -1970), growth (1971 - 1980), maturity (1981 -1990) and transformation (1991 onward).

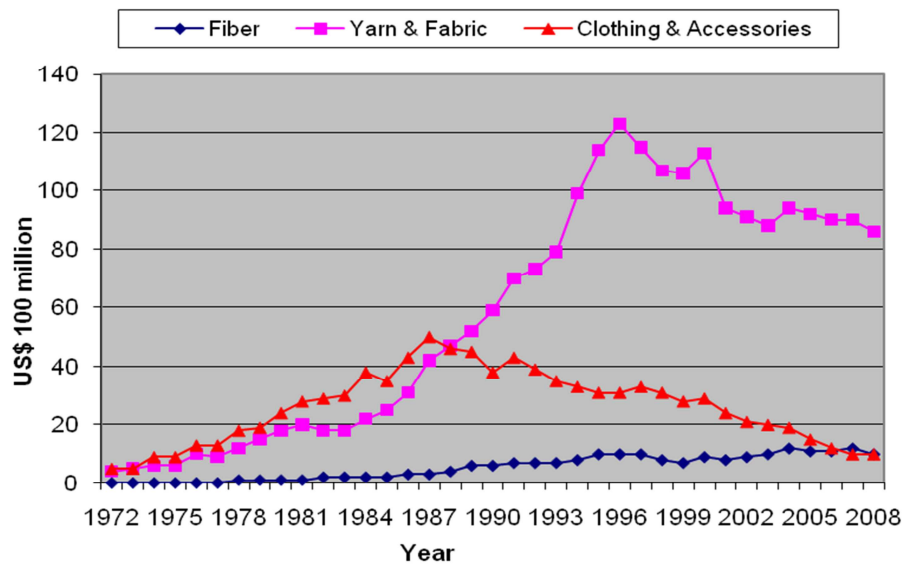
In the process of this evolution, the textiles industry underwent the successive shifts from the labour-intensive light textiles industry to the capital and technology intensive industry structure, and further moved towards the development of high value added and innovative products (Yuan & Chang, 2002). The last shift in the 1990s was caused by the marked changes of internal and external environments from the mid-1990s, which included trade liberalization, labour shortage, increasing environmental awareness, the formation of a regional economic system and the decreasing textile quota (Wang & Mai, 2001; Yao, 2006). The upgrading of the textiles products in the latest development phase maintained Taiwan's position as the sixth and eighth largest textiles exporter in the world in 2007 and 2008 respectively (World Trade Organization, 2008; 2009).

The sole development of the Taiwan clothing industry against the backdrop of international trade was illustrated by Gereffi and Pan (1994), who classified this development into four major stages: the import-substitution industrialization (1949-1965), initial export-oriented industrialization (1966-1973), 'booming' export-oriented industrialization (1974-1987), and expanding overseas investment (after 1988). According to their paper, the Taiwan clothing industry began by providing basic cotton items for the domestic market and subsequently established the backward linkages of export-oriented garment industry (i.e., the upstream and middle stream sectors). In the late 1980's, factors such as the appreciation of the new Taiwan dollar, labour shortage, international protectionism and the price competition from other low cost countries were unfavourable for the local

clothing production in Taiwan. The industry thus moved towards internationalization and developed the triangle manufacturing networks by outward investment in the Caribbean Basin countries, Southeast Asia and especially China.

Although having outward production investments, the major apparel companies maintained their headquarters in Taiwan which implemented the main functions such as taking orders, design modification, pattern-making and financial control. This measure enabled Taiwanese clothing companies to develop an integrated regional economy and continue to be key players in the global clothing supply chain. But this also hollowed out the Taiwan clothing industry and further disrupted the local subcontracting networks which already faced difficulties in finding sufficient workers (*ibid.*). Hence, the export value of Taiwan clothing has continuously dropped (see Figure 2.1) after the peak in 1987 (US\$ 4,440 million). The share of the world total in terms of clothing export value from Taiwan decreased from more than 6% in the 1980s to less than 2% by the end of 1990s (Jones, 2006). However, if the overseas production is included, the total export value was US\$ 4,600 million by 2002, which was greater than the value in 1987 (Wu, 2003). If the overseas production is excluded, Taiwan clothing exports was ranked as the 31st exporter in world in 2007 (Taiwan Textile Federation, 2009). In 2008, the value of imported clothing and accessories was more than the export value for the first time since the 1970s (Taiwan Textile Federation, 2010).

Figure 2.1: Structure changes of Taiwan textiles and clothing export value



Source: Taiwan Industrial Development Bureau (2006) and Taiwan Textile Federation (2010)

Facing increasing international competition in the 1990's, the TTC industries adopted two different strategies, i.e., upgrading products of the textile industry and the internalization of the clothing industry. This could be explained by the different economic worlds in which the textiles and clothing manufacturers dwelt. That was, textiles companies were mostly capital-intensive and integrated by large size; clothing companies were often characterized by many small and labour-intensive factories (Gereffi, 1994). Therefore, the clothing companies tended to seek low-wage labour and flexibility in organization by shifting geographical locations and changing their manufacturing organizations (Gereffi, 1994; 1999).

The pioneer role of TTC industries in the process of national industrialization made a significant contribution to the rapid growth of Taiwan's economy by means of creating many job opportunities and accumulating capital for other industrial sectors by generating exports earnings (Tables 2.1, 2.2 & 2.3). In the 1980's, the Taiwan Government further switched from promoting the

low-tech textiles and clothing industries to the high-tech electrical and electronic industries. Since 1983, electrical and electronic products have replaced textiles and clothing products to become the largest categories in Taiwan exports. Despite this, the textiles industry has been maintained as a major sector in Taiwan's economics (Table 2.4). Correspondingly, the clothing sector has moved in two directions – the migration to the low-labour cost countries and the development of the long neglected home market (Yueh, 1998). As a consequence of decreasing local production and the increasing supplies to the local market by the local clothing manufacturers, the share of domestic consumption in the total clothing production has continuously increased (see Figure 2.2).

Table 2.1: Taiwan textiles & clothing output value (1973 -1981)

	Unit: NT\$ thousand				
	A	B	C	B+C/A	C/A
	Whole manufacturing sectors	Textiles	Clothing	%	%
1973	340,783,505	74,697,564	7,103,043	24.0	1.08
1974	430,226,878	82,743,284	7,623,687	21.0	1.77
1975	451,995,619	91,286,334	7,203,047	21.8	1.59
1976	591,205,846	119,005,096	13,062,672	2.3	2.21
1977	698,161,273	133,903,131	15,521,658	21.4	2.22
1978	889,780,194	149,642,298	24,304,752	19.6	2.73
1979	1,107,756,514	161,978,679	29,294,697	17.3	2.64
1980	1,397,025,251	196,901,540	38,190,289	16.8	2.73
1981	1,566,368,128	233,367,345	51,248,129	18.2	3.27

Source: Cai (1983)

Table 2.2: Number of employees in Taiwan textiles & clothing sectors (1974 - 1981)

	Whole manufacturing sectors		Textiles & clothing		Clothing alone	
	Employees	%	Employees	%	Employees	%
1973	-	-	-	-	-	-
1974	1,444,790	100.00	386,826	26.77	86,250	5.97
1975	1,401,032	100.00	387,382	27.65	88,761	6.34
1976	1,577,336	100.00	416,762	26.42	93,257	5.91
1977	1,666,412	100.00	418,354	25.11	97,533	5.85
1978	1,664,787	100.00	424,661	25.51	101,646	6.11
1979	1,800,207	100.00	419,705	23.31	99,259	5.51
1980	1,829,451	100.00	403,500	22.06	98,143	5.36
1981	1,855,982	100.00	420,473	22.66	112,537	6.06

Source: Cai (1983)

Table 2.3: Trade value of textiles & clothing in Taiwan (1981 – 2009)

Unit: US\$ 100 million

Year	Export value	Import value	Foreign earnings
1981	47.8	8.8	39
1982	46.1	8.9	37.2
1983	47.6	8.9	38.7
1984	58.5	11.1	47.4
1985	60	9.7	50.3
1986	73	11.6	61.4
1987	90.6	16.4	74.2
1988	93.1	17.8	75.4
1989	103.6	19.5	84
1990	102.8	19.2	83.6
1991	120	26	94
1992	118.4	27.3	91.1
1993	120.4	27.6	92.8
1994	140	32.5	107.5
1995	156.2	35.2	121
1996	156.7	36.3	120.4
1997	166.6	36.5	130.1
1998	145.5	31.6	113.8
1999	141.7	28.7	113
2000	152.2	29	123.2
2001	126.3	23.6	102.7
2002	121.5	24.7	96.8
2003	118.8	24	94.8
2004	125.4	26.9	98.5
2005	118.1	26.1	92
2006	117.9	27.3	90.6
2007	116.3	26.8	89.5
2008	109.1	27	82.1
2009	85	19.8	65.2

Source: Taiwan Textile Research Institute (2010)

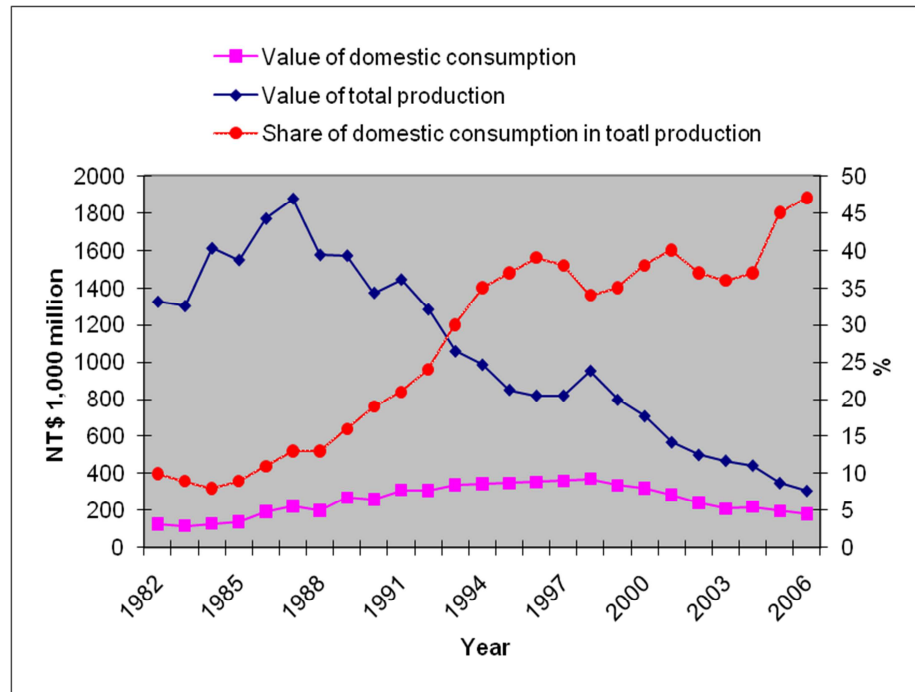
Table 2.4: The first two ranking categories of Taiwan exports earnings

Unit: US\$ million

Year	Total trade value			Textiles products			Electronic products		
	Export value	Import value	Trade balance	Export value (Share of total value)	Import value (Share of total value)	Trade balance (Share of total value)	Export value (Share of total value)	Import value (Share of total value)	Trade balance (Share of total value)
1999		110,685	10,903	14,173 (11.66%)	2,874 (2.60%)	11,299 (103.63%)	21,833 (17.96%)	19,818 (17.90%)	2,014 (18.47%)
2000	148,316	140,005	8,311	15,217 (10.26%)	2,897 (2.07%)	12,320 (148.24%)	31,674 (21.36%)	27,283 (19.49%)	4,391 (52.83%)
2001	122,866	107,232	15,633	12,630 (10.28%)	2,359 (2.20%)	10,272 (65.71%)	23,601 (19.21%)	21,027 (19.61%)	2,574 (16.47%)
2002	130,593	112,523	18,070	12,178 (9.33%)	2,505 (2.23%)	9,673 (53.53%)	28,383 (21.73%)	23,251 (20.66%)	5,132 (28.40%)
2003	144,174	127,246	16,928	11,906 (8.26%)	2,431 (1.91%)	9,475 (55.97%)	34,905 (24.21%)	25,587 (20.11%)	9,318 (55.04%)
2004	174,008	167,883	6,125	12,572 (7.22%)	2,714 (1.62%)	9,859 (160.96%)	45,578 (26.19%)	30,897 (18.40%)	14,681 (239.69%)
2005	189,393	181,600	7,793	11,840 (6.25%)	2,636 (1.45%)	9,204 (118.11%)	51,009 (26.93%)	33,346 (18.36%)	17,663 (226.65%)
Total	1,030,938	947,174	83,763	90,516 (8.68%)	18,416 (1.94%)	72,102 (86.08%)	236,983 (22.99%)	181,209 (19.13%)	55,773 (66.58%)

Source: Taiwan Textile Research Institute (2006a)

Figure 2.2: Share of domestic consumption in total clothing production
(Taiwan Textile Research Institute, 2006b)



2.3 Industry developments and transformation theories

Although there were differences in industry structure, strength and upgrading strategies, a similar pattern of TTC industries evolution could also be found in other countries. This was taking export-oriented textiles and clothing industries as the first step in the country's industrialization followed by overall national industry upgrading and increasing investment in the less developed regions overseas. This evolution pattern approximately followed the general trajectory described by Toyne et al. (1984) as the six subsequent stages from embryonic to declining (detailed in Table 2.5). However, the general pattern proposed by Toyne et al. was a broad classification of the industry life cycle in a specific country. This general

pattern did not reflect the strategic role of textiles and clothing industries as the leading industry in most cases of national industrialization, and did not connect national industrial evolution with the development of the global production networks.

Table 2.5: The development stages of textile industry generalized by Toyne et al. (1984)

Stages	Characteristics
1. Embryonic	Dependent upon imports and domestic consumption
2. Initial Export	Producing low end and hand-crafted apparel
3. Rapid Expansion & Upgrading	Upgrading products in terms of quality and sophistication; Starting to export fabric; Developing the man-made fibre sector; and Establishing more diversified, concentrated and larger industry complex.
4. The Golden Age	Further improving by sophisticated production; Resulting in huge trade surpluses; and Internationalizing by foreign direct investments and off-shore production.
5. Full Maturity	Declining employment, especially in the apparel sector; Continuing in industry concentration and moving towards more capital-intensive production; and Increasing use of offshore production and contracting.
6. Significant Decline	Falling significantly in the number of firms and employees; Resulting in trade deficits in many sectors, especially garments and fabrics; Declining in some sectors; and Significant increase in offshore production.

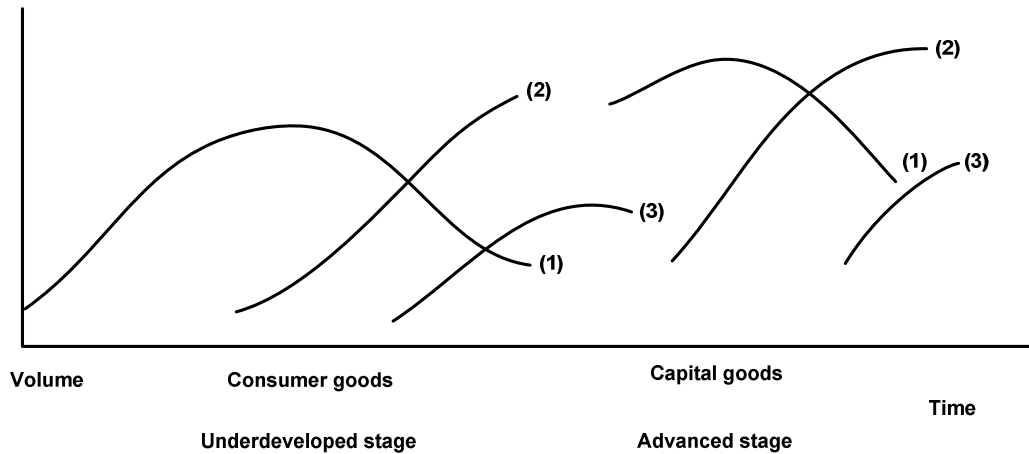
The other two theories – the flying geese (FG) model and the GCC – were identified in this research to be the most relevant theories in illustrating the evolution patterns of TTC industries. These two theories were introduced as were many other theories or concepts, such as the market liberalization and free trade (e.g., Hughes, 1988), the input-base growth (e.g., Kim & Lau, 1996), the public sector management and industrial policy (e.g., Stiglitz,

1996; Wade, 1990; Wu, 2005), the macroeconomic stability and policy (e.g., Adams & Davis, 1994; Adams & Ichimura, 1998), export-oriented strategy (e.g., Dollar, 1992; Krueger, 1995), and the cultural elements (e.g., Mackie, 1992), to explain the rapid economic development in East Asia after World War II. Both theories used the textile and clothing industries as typical examples to explain the cross-border linkage and industrial shifting patterns. The FG model focuses on the “regionally contextualized transformation of national economies” (Kasahara, 2004, p.7) involving the East Asia region, i.e., NIEs of East Asia, Association of Southeast Asian Nations (ASEAN) and China. Unlike the FG model focusing on the development of regional economies, the GCC emphasizes firm-based transactions in global networks and links industry upgrading with international trade. These two theories are further summarized and assessed in the following Sections 2.3.1 and 2.3.2.

2.3.1 Flying Geese Model

The FG model was originally developed by Akamatsu in the 1930's in Japan, which was based on Japan's experience in catching up with the West (Ozawa, 2005). This theory was introduced to the Western academia in the early 1960's and was popular from the late 1980's to the beginning of the 1990's (Kasahara, 2004). Originally, the FG model was used to delineate the industries' life cycle during the economical development process in a specific country (Kwan, 2002). Figure 2.3 is the graphic presentation of the original FG framework proposed by Akamatsu. There are three time-series curves for a specific product over the time of national economic development. These three curves represent a sequential pattern of the import, local production and export respectively.

Figure 2.3: Akamatsu's original framework of FG model
(cited by Kasahara, 2004)



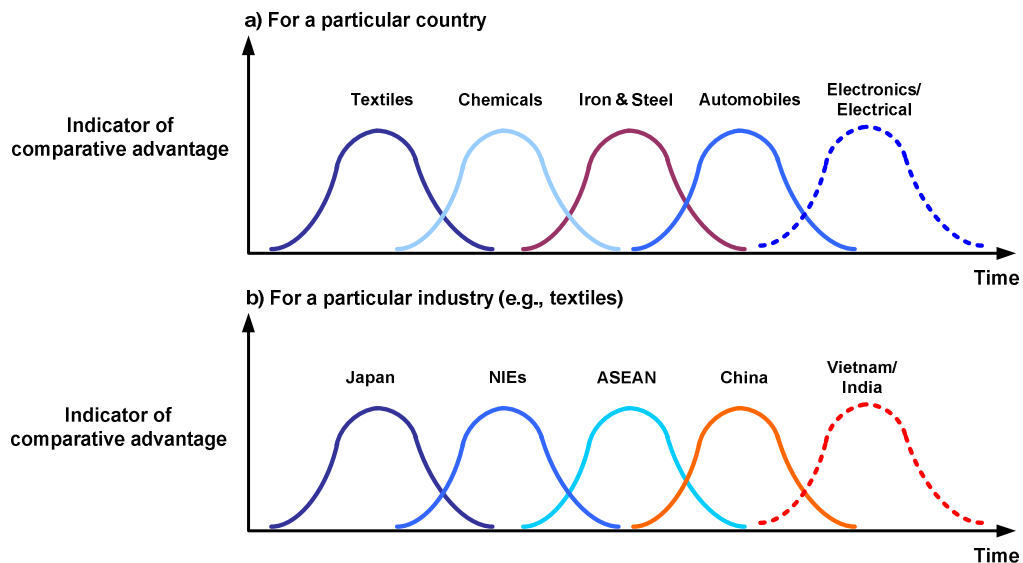
Vertical Axis: Volume of (1) import, (2) production, (3) export
Horizontal Axis: The passage of time

In the latter stage, the FG model was extended to study the dynamic changes of different industries in the same country, and further evolved to study the industries' shifts from one advanced country to less developed countries (ibid.). The modern FG model has also been used to explain the catching-up process of industrialization in latecomer economies. In Figure 2.4, the V-shape curves represent the competitiveness of the industries in the course of economic development – the industries first grow by improving their performance and then decline when they lose their comparative competitiveness. When the leading industry grows, it also accumulates capital, attracting foreign direct investment and forming forward and backward linkages with other industries. These developments consequently lead to the overall upgrading of national industrial structure.

Figure 2.4 (a) demonstrates a typical sequence of industries development in Asia countries – starting from the textiles industry and shifting to the more capital intensive and technology oriented industries. Figure 2.4 (b) represents the shifting pattern of the industries from advanced countries to

other countries – an example of shifting textile production from Japan to NIEs and then ASEAN countries and China.

Figure 2.4: Asia's Flying-Geese pattern of economic development
(Kwan, 2002)



The FG model postulated a wild-geese flying pattern: the lead goose was Japan, and the second-tier countries were the NIEs (i.e., Taiwan, South Korea, Singapore and Hong Kong). The third-tier countries were the main ASEAN countries (i.e., Indonesia, Thailand and Malaysia) and the rear row consisted of the least developed nations, such as Vietnam and China (Kasahara, 2004). When certain industries in the front row countries lost their comparative advantages, such as labour cost, the industry would be shifted from the front row countries to the countries in the next row by trade and foreign direct investment.

The FG model which proposes an industrial hierarchy in Asia invited a lot of debate, especially since the model might not reflect the “fairly justifiable costs and benefits to the region’s economies” (Kasahara, 2004, p.23). It

was also a common criticism that Japanese parent firms had more control of the technology transfer pace than the American and European countries (Yamamura & Hatch, 1997). Another criticism was that the FG model had not included the strong reliance of East Asian economies on the export markets outside the Asia region (Hobday1995; Kasahara, 2004). Furthermore, China's rapid growth and strong linkages with Chinese overseas had both threatened the leadership of Japan and marginalized the smaller economies in the region (ibid.).

In spite of the fact that the FG model explained the industrial shifts and hierarchy developed in Asia and was regarded as an effective tool to describe the regional economic development patterns in East Asia by a number of scholars (Ahearne et al., 2003; Chen & Lin, 2006; Hart-Landsberg & Burkett, 1998; Hiley, 1999; Ray et al., 2004; Sikorski & Menkhoff, 2000; Wu et al., 2005), the evolution and upgrading of TTC industries might not be fully interpreted by applying the FG model. This was mainly because the TTC export markets were mainly in the Europe and the USA markets¹. In spite of the fact that the Japanese trading companies played a crucial role in the early export period (1965 -1975) of TTC as the brokers (Hamilton & Kao, 2007; Yao, 2006), the key growth of TTC exports was dominated by the Taiwan local companies (Hone, 1974). The development and upgrading of TTC industries might need to be analyzed from the global perspective beyond the regional development perspective.

¹ As a consequence of the indirect trade with mainland China, which began in 1987, exports of Taiwan textiles to China went through Hong Kong. By 1991, Hong Kong replaced the USA in first position and became the largest export market for the Taiwan textiles industry – at that time, the market shares of the USA and Hong Kong were 24.6% and 29.7% of Taiwan textile total exports respectively (Gee & Kuo, 1998).

2.3.2 Global Commodity Chains and Global Value Chains

The commodity chain was originally denoted as “a network of labor and production processes whose end result is a finished commodity” (Hopkins & Wallerstein, 1986, p. 159) from the perspective of the world-system theory. As a consequence of the increasing globalization in production and distribution, the commodity chain has been linked with a set of inter-organizational networks. Tracing those transnational networks enables “the constant development and transformation of world-economy’s production” to be monitored (Hopkins & Wallerstein, 1994, p.18). In order to have a better understanding of “the changing spatial organization of production and consumption in the contemporary world-economy”, the framework of GCC was developed in the 1990s, which connected the value-added chain concept to the global industrial organizations (Gereffi, Korzeniewicz, & Korzeniewicz, 1994, p.2). The commodity chain was hence referred to as “the whole range of activities involved in the design, production, and marketing of a product” by Gereffi (1999, p.38).

Initially, four main dimensions of the GCC framework were identified (Gereffi, 1994; 1995) :

1. An input-output structure describing a sequence process of the value-added economic activities linking products, services and resources;
2. A territoriality outlining the geographic dispersion of networks;
3. A governance structure specifying the power relationships between the firms in the chain; and
4. An institutional framework providing the national and international context in shaping the globalization activities within the chain.

However, the emphasis has been more focused on the dimension of governance structure by Gereffi and his colleagues over the last decade; and this dimension has hence received the most attention from both theoretical and empirical perspectives (Bair, 2009; Henderson et al, 2002; Raikes et al, 2000).

In the governance structure of the GCC framework, two types of international economic networks were distinguished – producer-driven and buyer-driven commodity chains (Gereffi, 1994). For producer-driven commodity chains, the large manufacturers - usually the transnational companies from the capital and technology intensive industries - were the key drivers and the central players in the chain coordination (ibid.). The typical industries were automobiles, computers, aircraft, semiconductors and heavy machinery (Gereffi & Memedovic, 2003). In this category, the core competencies were research and development, technology and production expertise, and main profits derived from the scale, volume and technological advances (Gereffi, 2001).

Buyer-driven commodity chains were commonly found in labour-intensive, consumer-goods industries, such as clothing, footwear, toys, handicrafts and consumer electronics (Gereffi, 1994). The large retailers, marketers and brand manufacturers who controlled the design and marketing nodes were the key drivers and coordinators in forming the global production and distribution networks (Gereffi, 2001). The main profits of buyer-driven chains are generated from the combinations of high-value research, design, sales, marketing, and financial services (ibid.). Table 2.6 summarizes the main features of these two types of commodity chains.

Table 2.6: Main features of producer-driven and buyer-driven GCCs

	Producer-driven Type	Buyer-driven Type
Key drivers & central coordinators	<ul style="list-style-type: none"> Large transnational manufacturers 	<ul style="list-style-type: none"> Large retailers, marketers, brand manufacturers
Core competencies	<ul style="list-style-type: none"> Research & development, technology & production expertise 	<ul style="list-style-type: none"> Design, marketing
Main profit derivation	<ul style="list-style-type: none"> Scale, volume & technological advances 	<ul style="list-style-type: none"> A combination of high-value research, design, sales, marketing, financial services
Industry attributes	<ul style="list-style-type: none"> Technology & capital intensive 	<ul style="list-style-type: none"> Labour-intensive, consumer-goods
Typical industries	<ul style="list-style-type: none"> Automobiles, computers, aircraft, semiconductors, heavy machinery 	<ul style="list-style-type: none"> Clothing, footwear, toys, handicrafts, consumer electronics
Transnational capital	<ul style="list-style-type: none"> Industrial capital 	<ul style="list-style-type: none"> Commercial capital
Entry barriers	<ul style="list-style-type: none"> Economies of scale 	<ul style="list-style-type: none"> Economies of scope
Network structure & links	<ul style="list-style-type: none"> Investment-based vertical networks 	<ul style="list-style-type: none"> Trade-based horizontal networks
Products suppliers	<ul style="list-style-type: none"> Transnational firms 	<ul style="list-style-type: none"> Locally owned firms in developing countries

Source: Further modified from Gereffi (2001)

GCC theory highlighted the important role of global buyers (mainly retailers and brand marketers) in shaping and coordinating the entire chain, and illustrated the power exercised by the lead firms and the organizational learning undertaken by the ‘latecomer’ firms within the chain (Gereffi, 2001; Gereffi, Humphrey, & Sturgeon, 2005). This led to the further development of GCC linking with development strategies. A major GCC hypothesis was that national development needed to participate in the global production networks (Tam & Gereffi, 1999) and linked with “the most significant lead firms in an industry” (Gereffi, 2001, p.1622). The lead firms here did not necessarily own productive resources but controlled “the access to major resources, such as product design, new technologies, brand names, or consumer demand that generate the most profitable returns in the industry”

(ibid.). The applications of GCC framework therefore have been mainly used to distinguish the governance types of commodity chains (i.e., producer-driven or buyer-driven), analyze the power relations of global manufacturing industries, and examine the upgrading process in developing countries.

Many interesting case studies have been conducted in various fields, such as footwear, electronics, computers, agriculture/horticulture, food, tourism and auto-components, since the early 1990's. Large applications of the GCC framework have been in the clothing industry with particular emphasis on analyzing the exports from East Asia to the US in the early literature. However, limited research (e.g., Dicken & Hassler, 2000; Gibbon, 2000; Palpacuer, 2004; Palpacuer et al., 2005) has been carried out to examine the role of European lead firms in relation to the European markets or on the similarities and differences of governance pattern among the global competitors from different markets. Hassler (2003, p.527) questioned whether the generalization from the American experience weakened the conceptualization of GCC theory and "fails to take into account evidence from developing countries".

At the beginning of the 2000s, the GCC theory was further challenged by the rapid changes which had taken place on the governance structure of the GCCs in the preceding years. These rapid changes were that the global buyers' networks no longer existed only in the area of simple consumer items or labour-intensive products, but had moved towards the fields of technology and capital intensive goods and services. In other words, the producer-driven commodity chains had become less vertically integrated and more network-oriented, and increasingly outsourced; but on the other hand, applying the construct of buyer-driven commodity chains alone could not fully capture the characteristics of all the network types which existed in the field (Sturgeon, 2009). The GCC chain governance, a development of

“the empirically based typology” (Sturgeon, 2009, p.118), was thus extended to accommodate these changes.

The Global Value Chains (GVCs), which grew out of the GCC framework and were influenced by the economics theories of organization and transaction cost (Bair, 2009), were hence initiated and have been promoted by Gereffi, Humphrey, and Sturgeon since 2000. Five governance types of international economic networks which linked the value-added activities between the industrial nodes in the spatial economy were identified, i.e., market, modular, relational, captive, and hierarchy linkages (Gereffi et al., 2005). These linkages were determined by the value of three variables measured as high or low – the complexity of transaction, the ability to codify transactions or the codifiability of information, and the capabilities of the supply base (see Figure 2.5).

Figure 2.5: Governance framework of GVC and global clothing industry

Governance type	Key variable			Degree of explicit coordination & power asymmetry	Global clothing industry (After 1950)
	Complexity of transactions	Ability to codify transactions	Capabilities in the supply-base		
Market	Low	High	High	Low High	↻
Modular	High	High	High		
Rational	High	Low	High		
Captive	High	High	Low		
Hierarchy	High	Low	Low		

Source: Further modified from Dicken's diagram (2007) adapted from Gereffi et al.(2005)

Both of the market and the hierarchy linkages were the traditional types of economic relationships; the former was simply governed by price and the latter was governed by management within the same firm. The other three linkages were further advanced from the networks concepts of producer-driven and buyer-driven commodity chains in the GCC theory and the modular-based interconnections identified in the electronic industry. In the captive linkage, the locked-in suppliers were characterized by less competence and were provided with detailed instructions by the lead firms or buyers. In the relational linkage, complex transactions were involved and the highly competent suppliers exchanged tacit knowledge of the products which could not be codified with their buyers. In the modular linkage, the complex transaction information was codified and passed from the buyers to the highly competent suppliers.

By the GVC's governance classification, the evolution of the global clothing industry after the middle of the twentieth century was classified as a rapid shift from the captive linkage type to the rational linkage type (Gereffi et al., 2005). This shift mainly took place in the East Asian countries which adopted the EOI strategy, and due to this shift these countries were able to successively develop world-class textile and clothing exports from the 1950s to the 1990s (ibid.). The captive linkage and rational linkage referred here were the counterparts of the two international production models identified in GCC analysis - the assembly of imported inputs and OEM, respectively.

It has been suggested that the later-developed GVC governance framework was more suitable for predicting the inter-relationships between the organizational links and the networks activities of the organizations involved. However, the buyer-driven commodity chain of GCC framework was considered to provide a better analytical lens for studying the networks between the global buyers and local suppliers from a macro-level perspective (Bair, 2009), and the characterization of the buyer-driven

governance structure was more pertinent when the operational outcomes were the focus (Gibbon, 2000). Despite the fact that GVC has been promoted to replace GCC, both GCC and GVC theories have been continuously applied in research and have evolved accordingly. Some scholars used the terms of GCC and GVC as interchangeable nomenclature when drawing upon the early GCC literature, and some used the term GVC to replace GCC. Considering the fact that the focus of this study was on the evolution and upgrading of the TTC industries of which the clothing sector has not only been depicted in depth in the early literature of GCC but was also a part of the prototypical buyer-driven commodity chains (Gereffi, 1999), the GCC approach was thus chosen in this study.

2.4 Evolution and upgrading of TTC industries

Based on the above review of two relevant theories, the GCC perspective was considered to be more pertinent than the Flying-Geese model to explain the evolution of the TTC industries at both industrial and firm levels. However, individually the Taiwan textiles industry and clothing industry have not received equal attention in the GCC studies. The latter as the paradigmatic example of the buyer-driven chain was the major focus, and often grouped with the other two newly industrialized economies (NIEs) - South Korea and Hong Kong – when analyzing the evolution and upgrading of the East Asian clothing industries (see Gereffi, 1994; 2001; 1999).

From the GCC perspective, industrial upgrading referred to the firms or the national industries that improved their position to take more profitable and sophisticated roles in international trade networks through extensive organizational learning processes (Gereffi, 1999). Thus, the emphasis of

industrial upgrading in the GCC research has been largely placed on identifying “the role of the global buyers and chain governance in defining upgrading opportunities” (Humphrey & Schmitz, 2002, p.1017), and examining how the local suppliers in the developing countries benefited from the knowledge transferred from the foreign buyers to develop the required capabilities for moving to a more rewarding position. The examination of these upgrading opportunities and knowledge flow was made from the approach of vertical and cross-border inter-firm linkages. This differed from the perspectives provided by the studies of innovation systems and industrial clusters, of which industrial upgrading was viewed from the horizontal inter-firm linkages within the local clusters comprising firms and institutions (Gibbon & Ponte, 2005; Humphrey & Schmitz, 2002; Neilson & Pritchard, 2009).

Based on the above GCC approach, the upgrading of the Taiwan clothing industry with the other two countries was presented in Gereffi’s seminal paper (1999) as a series of sequential shifts from the assembly of imported inputs to the more domestically integrated and higher value-added form - original equipment manufacturing (OEM), commonly referred to as ‘full-package supply’, and further to OBM. These sequential shifts mainly indicated the incremental involvement in more complex and sophisticated economic activities (Tam & Gereffi, 1999), and were thus referred as functional upgrading (defined by Humphrey and Schmitz, 2002). This type of upgrading was considered to be slower and more difficult to achieve than the product and process upgrading; in addition, the upgrading opportunities of such type were structured by the governance form of buyer-driven chains and buyer-suppliers relationships in the GCCs (Humphrey & Schmitz, 2002; Schmitz, 2006).

The following sub-sections supply further details of the evolution of the TTC industries and the bottlenecks encountered in their upgrading process.

2.4.1 Transition from assembly to OEM

The sequential shifts of world clothing production to the countries with the lowest wages have created a world production hierarchy, in which the later entrants with lower labour costs succeeded in taking over the less skilled production processes from the predecessors (Gereffi, 1999), but also drove the predecessors to raise their position in GCCs by adopting differential strategies to create competitive advantage. Their key strategies included externalization of the least profitable business functions (Gibbon, 2001) which was found earlier in the developed countries like the US and West European countries in the 1950s, and Japan in the mid-1960s and later in the East Asian NIEs in the late 1980s and 1990s.

Being the first business function to be externalized by the predecessors, the outward production involved two operation models, i.e., assembly and OEM (Gereffi, 1999). The implementation of the assembly model required the lowest level of manufacturing expertise - assembling the cut parts into finished garments; the operation of the OEM model also necessitated sourcing the materials – a backward linkage, subcontracting out part of the buyers' orders and making the whole garments. Successively implementing these two production models facilitated the stage learning for later entrants. They hence learned how to organize the complex production process and develop production and financial networks; gained information about foreign buyers' preferences, international trade knowledge related to price, quality and delivery; and arrived at a better understanding of the entire clothing chain using knowledge transferred by their foreign buyers (Gereffi, 1999; Gereffi & Memedovic, 2003).

In the case of the three East Asian NIEs, the transition from assembly to OEM stages also co-evolved with the restructuring of the clothing industry in developed countries - the major clothing consumption markets and importers

- during the 1980s and 1990s. Through this industrial restructuring, which was undertaken in both the fashion manufacturing and retailing sectors, market power shifted from manufacturers to the large retailers and brand marketers; meanwhile branded apparel manufacturers directly operated their retail outlets and adopted the international subcontracting production system (ibid.). These companies possessing own brands and retailing resources with or without manufacturing competencies hence focused their business functions on design, marketing, brand development, logistics, and control of global subcontracting networks (ibid.). The production function and associated knowledge was therefore transmitted to their closest-tier suppliers in East Asian NIEs, who were able to respond to these changes and then soon moved from the assembly phase to OEM operations (Humphrey, 2004). A truly Global Apparel Commodity Chain (GACC) was formed in the early 1980s, and some 80 per cent of the total US apparel imports were sourced from Asia during this period (Van Grunsven & Smakman, 2001).

According to Gereffi's analysis (1999), the success of seizing the above upgrading opportunity by the suppliers of East Asian NIEs was also facilitated by their collective ability developed in two ways. Firstly, they established the close linkages with a wide variety of lead firms who were positioned at different market levels, and secondly they built up a multi-layered sourcing hierarchy within the Asia region. The former allowed the suppliers to learn from a broad range of lead firms, and consequently move up to trade with the buyers from the higher-value segments. The latter, mainly resulting from the regional industrial shifts (as explained by the Flying-Geese model in Section 2.3.1) and the responsive measures to quota restriction (Gereffi, 1999), enabled the suppliers to exploit the labour, cost and quota advantages by means of operating offshore production networks in the vicinities and consequently sustain their competitiveness.

2.4.2 Upgrading from OEM to intermediary and ODM

Being the early entrants in GACC, the clothing suppliers of three East Asian NIEs had developed close trade relationships with the lead firms in developed countries and hence became their preferred suppliers as the strategic partners. The importance of such buyer-supplier relationships appeared particularly in the tacit knowledge transferred over time which could not easily be learned from manuals (Humphrey, 2004). When most leading firms took a further step to externalize their service function in global sourcing and production during the 1990s, this function was transferred to their core suppliers in East Asia (Palpacuer, 2004). This hence provided a further upgrading opportunity for these suppliers, who then took over the newly shifted functions and moved beyond the OEM stage.

In order to seize this upgrading opportunity, some of the core suppliers followed the trade rule and sourced globally from the place with available quota or preferential tariffs on behalf of the lead firms. They became the intermediary firms by coordinating the production activities between global buyers and local manufacturers (Gereffi, 1999; Gereffi & Memedovic, 2003). Some of the other core suppliers expanded their overseas production bases by directly investing in the less developed countries within and/or beyond the Asian region and hence became global manufacturers themselves (Gereffi, 1999; Gibbon, 2000; Gibbon & Ponte, 2005; Hamilton & Petrovic, 2007; Humphrey, 2004). The core competencies developed by these transformed suppliers beyond the OEM stage were mainly the cross-border production sourcing and coordination capabilities, global logistics skills and the ability to translate buyers' design ideas into detailed technical instructions (Humphrey, 2004).

The design translation ability referred here was mainly the suppliers' capability to adapt the buyers' designs to fit the considerations of local

production limitations within an acceptable cost range. Gereffi included this value-added capacity of suppliers as the service extension of the OEM model (1999). His definition was further updated by the recent development of which the OEM suppliers having in-house design teams and consequently provided their own designs or fabric sources to their buyers (Gereffi, 2005). Such extended design service developed by the clothing suppliers could be traced back to the mid-1980s – when a few OEM companies in East Asian NIEs started with their European buyers (Gee & Kuo, 1998) followed by more companies providing this service to various export markets in the subsequent two decades.

Unlike Gereffi, other researchers (e.g., Humphrey & Schmitz, 2002; Van Grunsven & Smakman, 2001) denoted the above business model by using the term ODM which has been also commonly used in the Taiwan textiles and clothing industry since the 1990s and recently in Hong Kong and China. Despite the fact that the business model of ODM was applied earlier by a number of industries across several countries, the term ODM was adopted first in the Taiwan electronic industry at the end of the 1980's (Hobday, 1995) and later began to be widely applied to other sectors. The common definition of an ODM business model was that the suppliers provided the functions of product design and manufacturing to their buyers and the products were then sold to the end markets under the buyers' brand name. Although both nomenclatures – the extended OEM model and ODM model - signified the same production supplying system and industrial transition phase, considering the popularity of application the term ODM was chosen in this study.

It was also identified from the literature review that the product design function referred in the ODM model was pertinently defined in the sphere of the computer industry as the post-conceptual design service added to the OEM model (Kishimoto, 2004; Sturgeon & Lester, 2004), which was less

comprehensive than the design function performed in original idea manufacturing (OIM)² and OBM models in terms of idea originality, involved depth, and integration with related consumer research and marketing activities. This definition could be also applied in the case of the clothing industry. In order to distinguish the differences in design coverage between these manufacturing models, the design function denoted in an ODM operation was referred to as the 'partial design' as distinct from the 'full design' carried out in an OBM operation, in this research.

In spite of the fact that there were only a small number of TTC suppliers who chose to move to the ODM model in the 1990s (Gee & Kuo, 1998), the activities of partial design conducted by these transformed companies varied by individuals and evolved over time. The common problem encountered by these ODM suppliers was that they lacked opportunities to engage in their own design and their role was mainly to follow and make the minor adjustments to the buyers' designs (*ibid.*). This type of design limitation was mainly associated with the leading US firms, who usually placed the orders in big volumes but offered limited design opportunities to their suppliers (Gibbon, 2000). This resulted from the existing asymmetrical power exercised in the buyer-driven commodity chains (see Section 2.3.2), by which the suppliers were confined by their relationships with the lead firms of developed countries. However, such design barriers encountered by the suppliers of TTC industries with the other two economies have not been clearly elaborated upon in the literature. Cases and research drawn from other countries and other sectors, such as the clothing industry in Mauritius (Gibbon, 2000), Mexico (Bair & Gereffi, 2001) and East-Central Europe (Smith et al., 2002), the footwear industry in Brazil (Bazan & Navas-Alemán, 2004; Schmitz, 1999), and the study of learning from the global buyers

² The term OIM was adopted during the mid-1990s in Taiwan and indicated the product idea was generated by the local firm which designed and manufactured the products and these products were then sold under the brand name of the Western or Japanese transnational corporations (Hobday, 2000).

(Schmitz & Knorringa, 2000), illustrated the obstacles in design upgrading within the GCCs. These findings revealed that the leading firms of the developed countries defended their advantageous positions by not sharing their design competencies with their suppliers and remained in domination and control of the design process and key activities. Such domination hence blocked the suppliers' opportunities in developing their design capabilities.

Due to some differences in sourcing patterns between the US and European buyers (Berger et al., 1997; Dicken & Hassler, 2000; Gibbon, 2000; Palpacuer et al., 2005; Schmitz & Knorringa, 2000), TTC suppliers linked with the European markets had more design opportunities and were able to develop their collections (Gee & Kuo, 1998). However, their design collections were mainly the interpretations of seasonal trends and new materials sourced from their backward linkages. In most of the cases, these collections were also prepared according to the design briefs provided by the firms purchasing the finished goods and underwent considerable adaptation in the later stages during the buyers' selection process. The design adaptations were incurred not only because they needed to fit into the buyers' final collections, but also because of the design gap which existed between the suppliers and the end markets.

Unlike the suppliers in France, Italy or Japan who shared similar fashion environments and lifestyles with the lead firms, the suppliers from the East Asian NIEs were challenged in providing the designs which could respond to the fast changing fashion trends and meet the market requirements derived from the richer economies, but the designs did not usually apply to their home markets (Keesing & Lall, 1992). The apparent gaps in design capability of the suppliers have been gradually narrowed by the overall upgrading of their locus environments in terms of living standards, open trade policy for foreign brands entering the domestic markets, consumer demands for sophisticated products, supporting state policies and the

popularity of design education. Although there was common acknowledgement in a broad sense that the progressive changes of the local environments enhanced the design development, how these environmental changes have specifically affected the TTC suppliers in upgrading their design function in GACCs has been under-researched. In addition, most of the studies about Taiwan's learning and acquisition of design competencies for upgrading (e.g., Hobday, 2000; 1995; Kishimoto, 2004; Matthews, 2002; 2007) have concentrated on the technological and innovation capabilities of the high-tech related industries rather than the clothing industry.

In the 2000s, the other changes in the macro environment, such as fast-advanced information technologies, provision of international design services, increasing threats from the late entrants, international trade regulations, and demands from fast fashion buyers (Tokatli & Kızılgün, 2009), have provided more incentives and further opportunities for the TTC suppliers to move to the ODM stage or extend their design function using an ODM model (Lin, 2006). There were no official statistics about the actual number of ODM companies in Taiwan. According to an estimation made by Mr. Xu Rong Hua – the former chairman of the Taiwan Garment Industry Association – in 2003, 70% of total clothing production in Taiwan was from OEM, 15% from ODM, and 15% from OBM (Wu, 2003).

2.4.3 Moving to OBM

The last stage of industrial upgrading in the GCC was towards the OBM model, in which the OEM/ODM companies of developing countries were able to build their own brands and market the branded merchandise beyond the previous lock-in relationships with the dominant lead companies of the

developed countries. This shift has been regarded as the most difficult and problematic step in the upgrading path (Humphrey & Schmitz, 2004; Sturgeon & Lester, 2004), in which the transferred companies combined their manufacturing expertise accumulated from participating in the GCCs with the design, marketing and branding to sell their own branded products through either direct or in-direct retailing in the domestic or overseas markets (Gereffi, 1995; 1999; 2005).

Unlike the previous two transitions (i.e., from assembly to OEM, and further to intermediary or ODM), the initiative of the transformed firms in moving up to OBM was not in the interest of the lead firms as it appeared to encroach on their core competence (Schmitz & Knorrinda, 2000). Such a shift had the potential to jeopardize the interrelationships between the transformed firms and their existing customers in the GCCs (Bazan & Navas-Alemán, 2004; Ho, 2005; Lee & Chen, 2000; Schmitz, 1999). To the transformed firms, it appeared that the challenges entailed in moving to OBM were greater than was the case for the previous two shifts. The requisite competencies and related know-how would, it was anticipated, be also retained and blocked by the lead firms they had linked with as identified in the ODM transition. While several successful examples of companies which had shifted to OBM were quoted in the GCC literature, there were also numerous cases of those which had returned to the ODM (or OEM) models or, alternatively, remained at the ODM phase (Sturgeon & Lester, 2004).

As far as the clothing chain was concerned, the representative examples were a few successful Hong Kong cases - Hang Ten, Giordano and Toppy – exemplified by Gereffi (1999) followed by the wide quotation of others. The shifts of these Hong Kong cases took place in the 1980s and the early 1990s, and their OBM initiatives began in the local and regional markets. Over the last two decades, their OBM businesses were expanded into multiple brand operations, and their in-house brands have competed with

the brands created by other countries which already had a presence in the major international markets. Despite the fact that these three early cases were used as examples in the industrial upgrading path of the GACC, there was limited information about the conditions in which the OBM opportunities emerged and were seized, how transformation came about and how the competencies for establishing their brands were strategically acquired or developed.

Other reported cases of OBM transition were those from Mauritius, arising from studies conducted at the end of the 1990s. With the exception of one small enterprise which succeeded in moving to OBM, the other OBM transitions, undertaken by a number of large- and medium-scale manufacturers linking with European commodity chains, were unsuccessful. The study of the Mauritius cases provided the insights into the internal causes which led to the inability of the OEM companies to make the OBM transition at the firm level. Several causes were highlighted, stemming from financial and managerial failings, an imperfect grasp of the important features of the targeted markets, gaps arising as a result of the distance between the head office and the end-markets, imperfect integration of wholesale and retail operations, and most prominently the overall underestimation of the complexity involved in and resources required for OBM (Gibbon, 2000).

Two Turkish manufacturers (Tokatli & Kizilgün, 2004; Tokatli, 2007) – one producing fashionable tailored suits exclusively for a top international brand positioned at the high-end market, the other supplying fashion jeans to a number of international brands ranging from middle to high markets – were the subject of other recent case studies. Both companies successfully converted from OEM to OBM business, marketing their own branded merchandise in both the domestic and overseas markets. Their cases disclosed the fact that, in spite of having been confined by the dominant lead

firms of developed countries in the GACCs, upgrading to OBM was also largely determined by the autonomous actions taken by the local suppliers, such as strategic intent and substantial investment – both of which were considered to be prerequisites for upgrading (Humphrey & Schmitz, 2002), as well as their management practice.

Neither the number of export-oriented companies having initiated OBM transition in the last four decades, nor detailed documentation on the subject of transition to OBM was available for the TTC industries. It was evident that a number of large integrated textile companies, such as Far Eastern Textile, Chung-Shing Textile, Carnival and Kaosha Textile, initiated their OBM for the domestic market alongside exports using OEM before the 1990s. Only few cases of OBM transition after 1990 could be traced in the literature, such as Tainan Enterprises, Mountain House Enterprise and Tun Yun. Of these limited examples, Tainan Enterprises, having initiated their OBM in China during the 1990s and further expanding from the China market to Japan market in the 2000s, was the most successful and widely quoted case in Taiwan.

As indicated by Gereffi (1999), unlike Hong Kong Taiwan pursued OBM business in various fields - such as computers, bicycles, shoes and sporting equipment - rather than clothing. The number of prominent cases of Taiwan OBM transition in the clothing sector has thus been less than in the other fields. However, increasing interest has been shown in moving to OBM by the major TTC suppliers in recent years, who mostly engaged in outward production investment for exports in the 1990's. Companies included Tainan Spinning, Eclat Textile, Roo Hsing, Ruentex and Makalot (Lin, 2006). These companies initiated their OBM in the 2000s while maintaining their OEM/ODM operations as their main business; however, most of them found it difficult to manage and sustain their newly developed business models and thus retreated from the OBM stage. Of these recent cases, only the largest

manufacturer - Makalot - has been the subject of academic study and mainly from the perspective of strategic decision making (e.g., Wang et al., 2007; Wang, 2007; Yeh, 2007). Questions such as why some companies succeeded in this upgrading while others failed, what challenges and difficulties were encountered in moving to OBM and how these tasks and problems were handled by these TTC companies have been under-researched.

2.5 Research question and applied perspectives

It was identified from the literature review that in both foreign and Taiwan local industries only a limited number of empirical case studies referred to OBM transition. As a result, there is limited knowledge about this option which could lead the developing countries to the most profitable position in the GACCs. The research interest of this study was hence raised in revealing this little-known but valuable phenomenon by presenting the recent cases observed from Taiwan. As Taiwan is one of the representative East Asian NIEs for which the clothing industry was the archetype of buyer-driven commodity chains, the experience of selected Taiwan cases in implementing OBM could strengthen the understanding of the last phase of industrial upgrading in the GACCs.

As described in Section 2.4.3, further efforts to upgrade to OBM operations on the part of suppliers located in the developing countries would erode the competitive advantage of their OEM/ODM customers based in the developed countries. As a consequence, these customers, the traditional buying and brand-owning companies which depended upon design, marketing and branding as their core competencies, would not transfer the

necessary knowledge for their suppliers in the developing countries to make the transition to OBM. In other words, the OBM opportunities and prerequisite know-how for the Taiwan suppliers would need to be acquired beyond their existent chains.

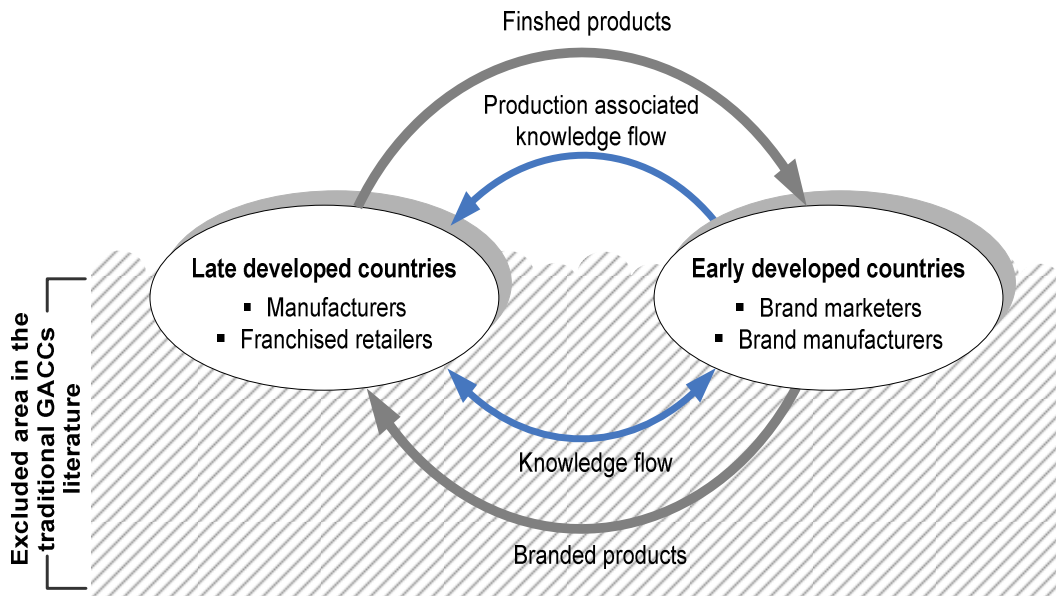
Despite the fact that they are limited in number, most of the successful clothing cases, including the cases from Hong Kong, Turkey, Mauritius and Taiwan (Gibbon, 2000; Ng, 2004; Tokatli & Kizilgün, 2004; Zheng et al., 2007), showed that the OBM transitions were strategically initiated as an extension of existing business rather than a direct and complete shift from the case companies' earlier business models (i.e., OEM and/or ODM). In other words, their OBM upgrading initially entailed simultaneously operating in at least two different value chains. The newly engaged value chains were the chain linking to the starting markets of their OBM business. These starting markets, in terms of geographical location, as stressed by the scholars (Schmitz & Knorrinda, 2000; Schmitz, 2006), did not conflict with the interests of their existent OEM/ODM customers - especially the powerful buyers. According to these successful cases, the starting markets prioritized for their OBM appeared to be the home and regional markets.

Most of the East Asian NIEs' clothing manufacturers continued in the role of global exporters supplying the finished products under their foreign buyers' brand names to the early developed countries' markets whilst their domestic and regional markets became progressively more sophisticated and fast growing (Ng, 2004; Van Grunsven & Smakman, 2001). The growth of the local markets in this region provided increasing branding opportunities for the local firms leading to the implementing of OBM or franchised retailing. The related knowledge for branded business was created and introduced through the operation of the above two business models and further diffused within the national and regional value chains. This was especially true of the latter business model – the brand franchised retailing – by which the

branded products were delivered by the early developed countries and marketed in the late developed countries through cooperation between the local firms and foreign branded companies, mainly from the leading fashion countries. This has hence provided a platform of branding associated knowledge transmission from the branded companies of the early developed countries, directly or indirectly to the clothing companies of the late developed economies.

Despite the fact that GCC concepts denoted the coverage of the entire activities of commodity (design, production and marketing) in the context of globalization, the series of research activities derived from this theory have focused on the perspective of production in less developed countries and both marketing and consumption in the developed countries. As illustrated in Figure 2.6, the products and knowledge flows introduced through the internationalization of branded marketing (i.e., from the early developed countries to the late developed countries or developing countries) were in a direction which was the reverse of that depicted in the most of the upgrading literature on the subject of GACC studies. How these reverse flows introducing the downstream know-how required for implementing OBM, such as marketing and retailing, might have affected the OBM upgrading of the developing countries' suppliers – a matter which has not already been addressed in any detail in the studies of GACCs.

Figure 2.6: Excluded area in the traditional GACCs literature



In addition to the under-researched influence arising from the local environments on enhancing the design competence (illustrated in Section 2.4.2), the above discussion of branding opportunities and associated knowledge transmission provided by the development of local markets further indicated the important role of the local environments in influencing the process of upgrading to OBM. As also indicated by Van Grunsven and Smakman (2001) who drew from the experience of East Asian apparel industries, the local environment in terms of business systems and institutional context was one of the key factors (besides the changing competitiveness, buyer strategies and global environment) determining the firms' upgrading strategies. All these established facts implied that there was a need to incorporate a local environment dimension in addition to the industry evolution dimension to examine this particular industrial phenomenon – upgrading to OBM - encountered by the Taiwan companies.

Two historical perspectives, these being the industry evolution from a global standpoint which explained the industrial context of the transformed firms, and the socio-economic changes from the local dimension which provided the transition market and affected the transition, were therefore adopted in this study. The purpose was to determine what challenges were encountered by the TTC export companies when moving towards the OBM stage and how these challenges were overcome.

Chapter 3 Research Methodology

3.1 Introduction

This chapter states the research aim and objectives (Section 3.2) as well as outlines the research approach and methodology adopted in this study (Section 3.3). An overview of the research design and the rationale behind the methodology are provided (Section 3.4). The trustworthiness and ethics of the research methods are subsequently reviewed (Section 3.5).

3.2 Research aim and objectives

The aim of this research was to reveal a particular industrial phenomenon - how the export-originated companies in Taiwan move towards OBM beyond their production-associated roles originated in the GACC; and provide an explanatory framework of this phenomenon from two perspectives – industry evolution and socio-economic changes.

The objectives were:

1. To investigate what inherent opportunities, barriers and problems from GACC had been encountered by the TTC export companies when evolving towards the OBM, and how these inherent factors impacted upon the upgrading process;

2. To gain insights into the ways in which the upgrading opportunities/barriers/problems were influenced by the local socio-economic context and how changes in the socio-economic environments of relevance enhanced the companies' upgrading to achieve OBM;
3. To identify the various coping strategies employed by the TTC export companies to deal with the opportunities/barriers/problems during the transformation;
4. To explore how the core knowledge/skills of OBM (i.e., design, marketing and branding) were transferred to the upgrading companies and how the core competencies were developed within the organizations; and
5. To develop an explanatory framework of how the identified factors interrelated and governed the transformation from OEM/ODM to OBM.

3.3 Research approach

3.3.1 Research nature and a qualitative choice

This research attempted to explore how the upgrading towards OBM has been conducted within the specific business organizations and provide a contextual understanding of this development at both the micro and the macro levels - i.e., the firms and the socio-economic environment in which those firms were situated. The emphasis in this study was therefore put on

the authentic business situation of the local setting – a naturally occurring phenomenon embedded in context.

The investigated phenomenon – upgrading from OEM (or ODM) towards OBM - is significant in terms of research value since this upgrading is vital to a number of local companies for sustaining their business in Taiwan. However, such upgrading cases are limited in number (Section 2.4.2). The phenomenon of upgrading to OBM has been poorly understood. This study was thus inevitably exploratory in nature. In order to reveal this little-known phenomenon by replying to the research question posed in this study, it was considered to be more pertinent to proceed by providing the in-depth and rich descriptions rather than statistical findings. In addition, upgrading to OBM at the firm level was a complex and dynamic activity which involved various governing factors derived from the internal and external environments. The two introduced contextual dimensions - the industry evolution and socio-economic changes – further increased the complexity in identifying the complex interactions of the key factors influencing the business practice of an individual company.

In the light of the above features derived from the research question itself (i.e., local grounded, exploratory and complex in nature) and the way in which a reply to this question would best be given (i.e., the in-deep and rich descriptions), a qualitative research approach emphasizing these features as its key research characteristics (Marshall & Rossman, 1999; Miles & Huberman, 1994; Myers, 2009) was selected and adopted for the overall research design. This qualitative approach allowed the researcher to reveal “how all the parts work together to form a whole” (Merriam, 1998, p.6) – a holistic understanding of the studied phenomenon sought by the researcher.

Qualitative research is an umbrella term covering several types of research inquiries developing from different disciplinary fields and shaped by the

various historical and philosophical influences. There has been no unified classification but various approaches to categorize these diversified enquiries. These various approaches were taken from different perspectives, mainly paradigms, epistemologies, data analyses, theoretical traditions or popularity³. This study followed Merriam's classification (2009) which grouped the commonly used qualitative inquiries in the social sciences and applied fields of practice into seven categories - phenomenology, ethnography, grounded theory, qualitative case study, critical qualitative research, narrative analysis and basic qualitative study. Centered on the basic qualitative study, each of the other six categories has their own additional dimension.

What all these qualitative inquiries have in common is that they focus on the quality findings in the natural setting and make sense of or interpret phenomena in terms of meanings derived from people's experience as their research goal (Denzin & Lincoln, 2008; Merriam, 2009). Such research nature is distinct from the quantitative inquiry which stresses the measurement and analysis of causal relationships between variables and aims at developing generalization for prediction. Based on the study goal and the appropriateness required by the research design (see Section 3.4), two of these diversified qualitative inquiries – the basic qualitative study and the qualitative case study - were selected and applied in this study.

³ The scholars who adopted the paradigm or epistemology approach for categorizing the qualitative research included Chua (1986), Orlikowski & Baroudi (1991), Guba and Lincoln (1994), and Denzin and Lincoln (2008). Tesch (1990) organized the categories by areas of research interest. Miles and Huberman (1994) used the data analysis approach and Patton (2002) adopted the approach of theoretical traditions. Creswell (2007) and Merriam (2009) took the popularity approach mainly based on their observations and research experience, and their classifications reflected the most commonly used types of qualitative enquiries in certain disciplinary areas.

3.3.2 Philosophical stance

This research was a study of a social and organizational phenomenon through understanding and interpreting the human experience gained by the people directly involved in the investigated events. A constructivist-interpretive⁴ philosophical assumption was adopted to guide the research choices. This philosophical assumption asserts the ideas of multiple and context-bound realities – i.e., a relativist ontology. The ontological assumption of such is based on the premise that individuals have different experiences and perceptions of certain events, and through interactions with others - a social and historical negotiation process - the individuals develop subjective meanings of their experience. All these meanings are real and their existence constitutes a multiple of realities which are socially constructed, culturally embedded, and interpreted by human actors (Patton, 2002).

The multiple meanings generated by individuals deserved research attention and led the researcher to “look for the complexity of views rather than narrow the meanings into a few categories or ideas” (Creswell, 2007, p.20). This offered a more comprehensive approach to understand the studied phenomenon. The denotation of ‘meaning’ applied in this study was in a broad sense as interpreted by Maxwell (1996), which was not limited only to cognition, affect and intention but referred to the “participant perspective” (p.17). Investigating and making sense of the participant’s perspectives enabled the researcher to gain insights into how their understandings influenced their behaviour (ibid.) – i.e., the decisions and actions related to OBM in the case of this study. In practice, the broad and open-ended questions were asked so that the meaning of a situation could be

⁴ The term ‘constructivist-interpretive’ was used by Denzin & Lincoln (2008) as one of four major interpretive paradigms in qualitative research. This term was often used interchangeably with constructivism, constructivist, naturalism and interpretivism paradigms.

constructed by the interviewees; the historical and cultural settings in which the research subjects were embedded were the focus for developing a contextual understanding of the interviewees' accounts; and the words of the interviewees were quoted to provide evidence of the different perspectives (Creswell, 2007).

According to the constructivist-interpretive epistemological assumption, knowledge of realities is not only co-created by researchers and the individuals being studied but also shaped by their interactions (Denzin & Lincoln, 2008; Denzin, 1970; Guba & Lincoln, 1994; Merriam, 2009). The generated knowledge about realities is thus interpretive and subjective in nature (Guba & Lincoln, 1994). In practice, the researcher minimized the distance between self and the studied subjects and interacted with the companies in order to capture, represent and reconstruct the world perceived and experienced by the individual members of the companies under study.

The 'capture', 'represent' and 'reconstruct' were achieved by firstly attending to the interviewees' perceptions and meaning - an insider (emic) perspective, and then translating their statements into the researcher's own insights (Ghauri & Grønhaug, 2005). The former part of the above activities implied that the correspondence in understanding and experience was sought between the individuals being studied and the researcher herself (ibid.). This implication, however, was twofold: the researcher's capacity for developing an empathetic understanding (Verstehen); and the acknowledgement of the value-laden nature of the study – the subjectivity of the gathered information and the researcher herself. The latter part of the above activity - translating the interviewees' perspectives into researcher's own insights - manifested that the researcher's interpretation was made on the basis of the interpretation given by the individuals being researched. This was a deconstructed-and-reconstructed process (Patton, 2002) – as a

“double hermeneutic” described by Giddens (1993, p.154) and Myers (2009, p.190). The final outputs of a constructivist-interpretive research were the ideographic statements (i.e., time- and context-bound working hypotheses) which permitted the transferability (Lincoln & Guba, 1985) or extrapolation (Cronbach & Associates, 1980; Patton, 2002) of the findings to other similar situations rather than making generalization.

According to the methodological assumption of constructivist-interpretive paradigm, the study was conducted in the natural setting – “a naturalistic set of methodological procedure” (Denzin & Lincoln, 2008, p.32) or studying “the topic within its context” (Creswell, 2007, p.17) – and used inductive logic to develop the explanatory framework based on the interpretation of collected data. The research design entailed by the researcher’s philosophical stance is reported in the following section.

3.4 Research design

3.4.1 Primary research conceptual frameworks

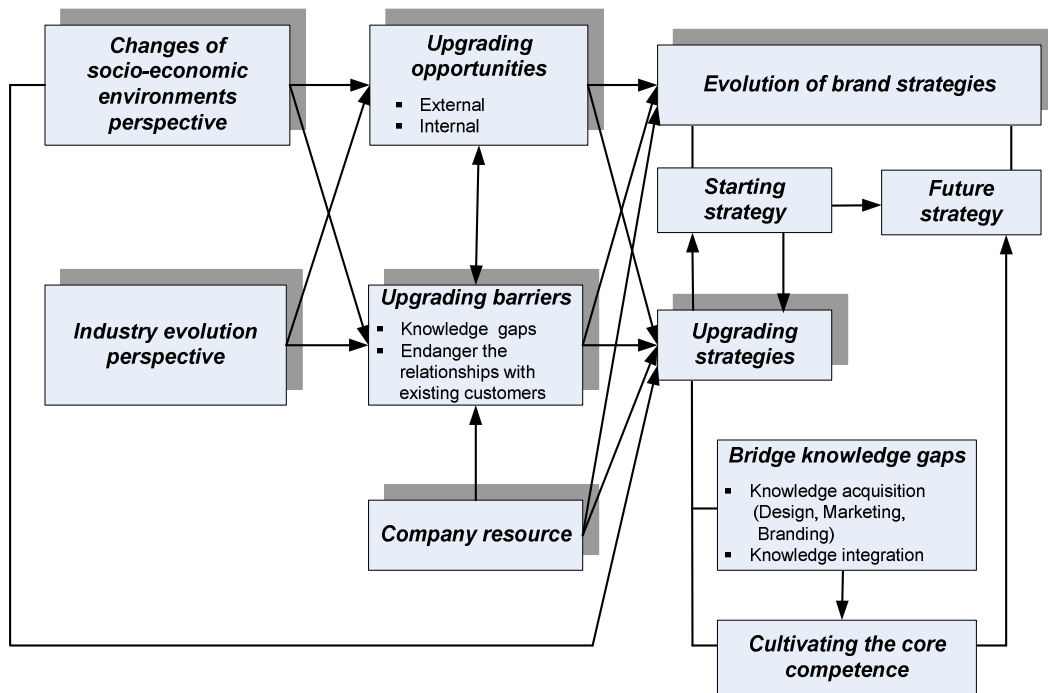
The research design of this study started from constructing a conceptual framework - also named theoretical framework, which is used in qualitative research for the researchers to explain the main things to be investigated (Miles & Huberman, 1994) or the actual ideas about the phenomena studied in the research (Maxwell, 2005). The main things and ideas denoted here are the “key factors, constructs or variables – and the presumed relationships among them” (Miles & Huberman, 1994, p.18). The other terminologies, such as the ‘theoretical sensitivity’ (Glaser & Strauss, 1967)

and ‘theoretical insight’ (Strauss & Corbin, 1990) in grounded theory, and the “logic linking data collected from the studies to the propositions” in case study (Yin, 2003), have the same implication as conceptual framework.

A conceptual framework is the underlying structure of a study (Merriam, 2009), and may be drawn by researchers from literature, researchers’ own experiential knowledge, pilot or preliminary research, and other sources (Maxwell, 2005). It can be either in graphical or narrative form and “rudimentary or elaborate, theory driven or commonsensical, descriptive or causal”, and will evolve or emerge during the field research (Miles & Huberman, 1994, p.18).

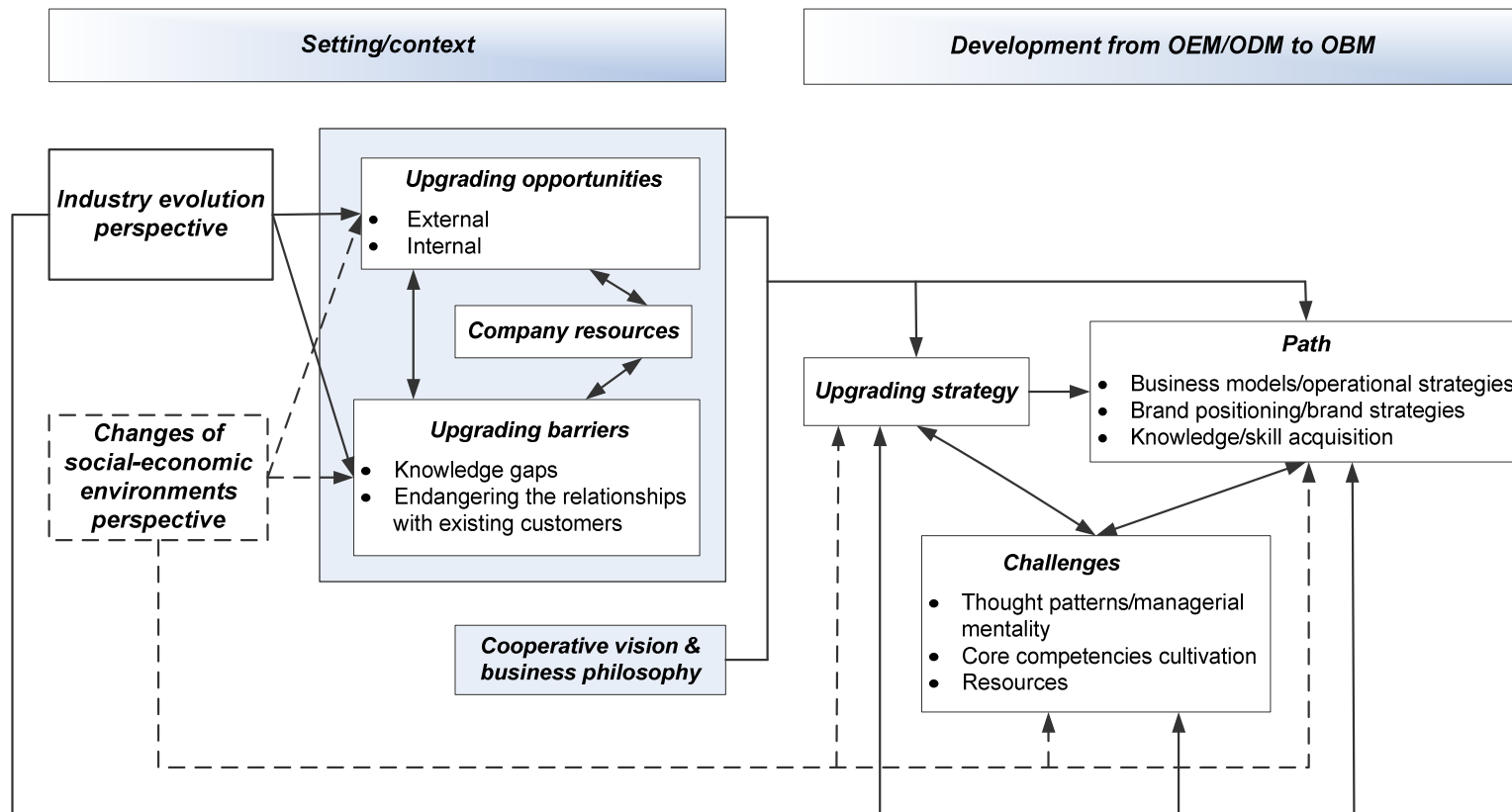
A preliminary conceptual framework of this study is presented in a graphic form in Figure 3.1. This framework shows a set of relevant concepts related to the upgrading towards OBM for a company and the relationships between these concepts. Since there was a lack of existing theories directly related to the perspectives adopted (especially that of socio-economic changes) or the research question formulated in this study, the concepts and their relationships illustrated in the preliminary conceptual framework came from various sources. Some of these concepts and inter-relationships were identified or derived from the findings of the literature review, such as upgrading barriers, upgrading opportunities, and bridge knowledge gaps; and the other concepts were drawn from the researcher’s own experiential knowledge as the commonsensical inference, such as company resources and evolution of brand strategies. All these concepts and their relationships were subject to further confirmation or changes based on the research findings emerging in the course of fieldwork.

Figure 3.1: Graphic overview of preliminary conceptual framework



An amended conceptual framework after the completion of the pilot case study (see Chapter Four) is presented in Figure 3.2. This amended conceptual framework informed the rest of the research design of the study.

Figure 3.2: Amended conceptual framework after the completion of the pilot case study



3.4.2 Research structure and data process

Based on the orientation of the conceptual framework and the consideration of the executing feasibilities, a qualitative research plan which linked the data collection and analysis activities to the research question and ensured the validity of the study was devised. A two-phase investigation was conducted, i.e., the study of socio-economic environments of relevance and the study of the multiple cases. Two types of qualitative inquiries were adopted - the basic qualitative study for phase one investigation and the qualitative case study for phase two investigation. In both phases, the methodological and data triangulation⁵ strategies which increased the credibility of the study were used.

The data collected and analyzed in phase one investigation - Taiwan socio-economic changes - together with the literature findings of industrial evolution constructed the macro-level contextual knowledge. This knowledge was then applied firstly to facilitate the execution of phase two investigation – obtaining data on the individual OBM experience of the case companies; and secondly to assess and interpret how the local environment and socio-economic changes affected the selected companies in the process of upgrading to achieve OBM. Both the contextual knowledge and the results drawn from phase two investigation were further integrated to develop an explanatory framework to answer the research question.

⁵ Denzin (1970) classifies triangulation into four types: (a) methodological triangulation – the use of multiple methods; (b) theoretical triangulation – the use of different perspectives to analyze the same set of data; (c) data triangulation – the use of multiple information resources; and (d) investigator triangulation – the use of more than one investigator. Miles and Huberman (1994, p.267) add one more type of triangulation and name it “data type triangulation” which is defined as the use of various types of data such as quantitative, recordings, and qualitative text.

3.4.3 Phase one – The socio-economic environments of relevance

3.4.3.1 Purpose and focus

In order to identify the closest tier external environment in which the Taiwan export companies moving towards OBM were embedded, an understanding of the Taiwan socio-economic environments of relevance was essential. However, since the number of studies examined in this particular area was limited, a pioneer research of such was undertaken in this study as the phase one investigation. The purpose of data collection and analysis in this phase was thus to provide a whole landscape of the local branding environment and distinguish which of the major socio-economic changes in Taiwan have enhanced the brand business environment.

Two key issues were focused upon for this purpose:

- The development of Taiwan fashion brand business from a perspective of socio-economic progression and changes; and
- The supporting policies for brand creation and development from the Taiwan Government and trade organizations.

3.4.3.2 Basic qualitative study - design and implementation

A basic qualitative study referred by Merriam (2009) as the most commonly used type of qualitative inquiries in the applied fields of practice was adopted in the phase one investigation. This type of inquiry entails the central characteristics of qualitative research, such as the interpretive nature, the focus on the meaning, understanding and process, and the researcher herself/himself as the key instrument of data collection and analysis; but

pursues neither an approach of a phenomenological, ground theory, narrative analysis, nor a critical or ethnographic study (ibid.). Basic qualitative research methods were then used in phase one of the investigation, which included:

- The data collected through conducting the interviews on a purposeful sampling basis, direct observation of the Taiwan fashion branded markets; and document analysis; and
- The data analyzed by a holistic-inductive logic.

Except for specifying the central focus, following the above methods and developing the initial plans for interviews and observation, the rest of the research design in this phase remained flexible in order to be open and responsive to changes when understanding deepened. Such emergent design flexibility (Patton, 1990) or 'elasticity' (Maxwell, 1996) is one the major characteristics of qualitative study, which originates from the open-ended nature of the qualitative research. As stated by Lincoln and Guba (1985, p.225), "the design of a naturalistic inquiry [...] cannot be given in advance; it must emerge, develop, unfold" as the fieldwork unfolds. Patton further elaborated that (1990, p.61) "the qualitative research design is partially emergent as the study occurs". Miles and Huberman (1994, p.12) highlighted from the data analysis approach that in a qualitative research, data collection activities and data analysis activities form "an interactive and cyclical process". This also underscored the necessity of having a less rigid research design for a qualitative investigation.

Since this investigation was unique of its kind and the researcher was constantly involved in investigating situations where limited information was available, adopting a flexible research design was also considered to be the most practical choice for this study. However, the flexible research design was consistent with "a high tolerance for ambiguity and uncertainty" during

the research process and required “trust in the ultimate value of what inductive analysis will yield” (Patton, 2002, p.44).

Based on the above guidelines and a basic framework of a research design, the findings of phase one investigation were obtained from both the secondary and primary resources. The former largely comprised of limited books and papers. The latter was the main resource which included:

- Related newspapers, magazines and pamphlets;
- Quantitative information/documentation/publications of the government/trade/private organizations; and
- Interview data from the 15 key informants, who actually witnessed, experienced and were involved in the studied events.

The key informants not only granted the conduct of the in-depth and open-end interviews but also provided access to historical documents. They were purposefully selected from design studios, academia, local brand companies, franchised retailers of the international brands, and governmental/trade organizations. All of them had worked in the Taiwan clothing business for a long time (ranging from 10 to 35 years) and more than half of them had worked in both export and domestic markets. The individual background particulars of the 15 key informants are supplied in Appendix A.

The interviews with the key informants were conducted mainly between July and August in 2007. The interview questions were derived from the foci of the phase one investigation but varied by their individual industry backgrounds and direct knowledge. The interview outcomes not only provided the necessary rich and primary information to construct a recent 35-year history of Taiwan branded environments (from 1972 to 2007), but also reflected multiple perspectives of the studied events. The verification of the interviewees' data was sought through examining the related

documentations/artifacts and the verification of their data by other informants as required in order to facilitate the data triangulation. In addition, the direct and personal market observations made by the researcher, which began from the 1980s as a local consumer and member of the TTC industry, assisted the development of a prior understanding of the findings of the literature review, interviewee's account and the identification of the conflicting data.

The collected data of phase one of the investigation were analyzed, interpreted and organized into coherent and logical findings which are presented in Chapter Five.

3.4.4 Phase two – The study of multiple cases

3.4.4.1 Purpose and rationale of studying multiple cases

The purpose of phase two of the investigation was to reveal how the upgrading to OBM occurred at the firm level and gain an insight into how this upgrading process was managed by the business organizations. A multiple-case study which focused on holistic description and across-case explanation was undertaken in this phase.

Case study⁶ as a qualitative research methodology term has been regarded as an in-depth investigation of a defined area from a holistic perspective. The defined area - referred as the case - is the unit or the object of the study for analysis, which can be an individual, social unit, spatial location, event or

⁶ The term case study has multiple meanings and is historically linked to many disciplines, such as the clinical field, law, and education (Gummesson, 2000; Hamel et al. 1993). In these fields a case study is often used as a diagnostic and analytic tool. In research methodology terms, a case study has close associations with anthropology and sociology.

process in a bounded context (Merriam, 2009; Miles & Huberman, 1994). In the case of the phase two investigation of this study, the analysis of unit – the case – was each of the individual companies selected.

Although the term case study signifies that it is a method, Hamel et al. (1993) regarded the case study as a research approach. This is because a case study does not specify the use of any particular data collection or analysis methods but allow the researchers to employ various methods (Gummesson, 2000; Hamel et al., 1993; Merriam, 1998; Yin, 1981). Yin (2003) also advocated the case study as a research strategy which is “an all-encompassing method” (p.14). This strategy was appropriately applied to the research situation “when the boundaries between phenomenon and context are not clearly evident” (ibid., p.13). In other words, “the context itself is part and parcel of the story” (Myers, 2009, p.75). Such a relevant research situation was also recognised in this study, of which the variables of the researched phenomenon (the factors which influenced the firm’s upgrading to OBM) could not be separated or identified in advance from its context (the local and international environments). In addition, the other research situations managed in the phase two investigation, i.e., the types of research questions that were asked, what information was wanted and how this could be obtained, were also considered to be pertinent to the use of qualitative case studies. These situations were:

- This research asked ‘how’ and ‘why’ questions (Yin, 2003);
- The focus of this research was understanding the processes of events in companies in a holistic way and tracking the changes of the organizations over time (Gummesson, 2000; Hartley, 1994);
- The researcher did not have other means whereby to reveal the phenomena and obtain the knowledge other than through studying the particular cases, (Merriam, 1998); and

- The researched area was understudied and lacked established theories (Eisenhardt, 1989).

The special features of qualitative case studies – particularistic, descriptive and heuristic (Merriam, 2009) - also assisted the researcher to tackle the research problem and reach the research aim. The decision to undertake case studies which focused on a particular event was seen to be appropriate for the study of the practical problem identified in this research. The rich and thick descriptions of the studied phenomenon of case studies were also considered to be capable of increasing the readers' understanding of the factors influencing the situation.

In order to further deepen the understanding of how the research findings were qualified by different local conditions and develop a more powerful explanation of the studied phenomenon (Miles & Huberman, 1994; Stake, 2006; Yin, 2003), a multiple-case study⁷ - one type of the qualitative case studies⁸ methodology which investigated more than one case, was chosen for phase two of the investigation. By examining across several cases, the researcher was able to provide more profound insights into the revealed phenomenon and hence strengthen the transferability of the case findings to other similar settings. Such a distinct advantage was considered to outweigh the problems and disadvantages derived from employing a multiple-case study approach in this study, i.e., time-consuming, difficult to obtain access to the particular companies, risk of research discontinuity due to the sudden changes of the case companies, and the research quality considerably relying on the sensitivity and integrity of the researcher

⁷ Multiple case studies are also referred to as collective case studies, multi-site studies, multi-case research, cross-case study and comparative case studies.

⁸ There are various classifications of case studies; e.g. Stake (2005) identified three types of case study – intrinsic, instrumental and collective (or multiple); Yin (2003) classified the types of case study by three purposes of application which were exploratory, descriptive and explanatory; and Bogdan and Biklen (2007) categorized the case studies into life histories, observational, and historical organizational.

(Merriam, 2009; Myers, 2009). A multiple-case study was therefore adopted as the best strategy in phase two of the investigation.

3.4.4.2 Case number and case selection

There are no lower or upper limits and no general rules or precise guidelines for researchers regarding the number of cases required in a multiple-case study (Ghauri, 2004; Merriam, 2009; Patton, 2002; Tellis, 1997) but different experts have their views and suggestions (e.g., Eisenhardt, 1989; Lincoln & Guba, 1985; Miles & Huberman, 1994; Perry, 1998; Stake, 2006; Yin, 2003). The decision was hence left to the researcher. As observed by Patton (2002) and Merriam (2009), the decision about the case number depended on what and why the researcher wanted to find out, the trade-off between breadth and depth of findings, how the findings were used, and the time and other resources that the researchers had for the study. Most importantly, the information-richness of the selected cases and the observational/analytic capabilities possessed by the researcher were more relevant to the validity, meaningfulness and insights of the generated findings than the number of cases (Patton, 1990). In other words, the number of cases required was determined by the fact that the research objective was proved to be adequately met in terms of quality rather than quantity.

A purposeful selection of a small number of cases, based on the consideration of the research goal, the notion of generalization supported by constructivists and the fact of available cases for study, was prioritized. Using a multiple-case study in this research was not to generalize to a population but to increase the understanding of and obtain more insights into a revealed phenomenon. A small number of purposive cases permitted the intensive studies of each of the individual cases and their various contextual backgrounds. These purposive cases were not only used as the exploratory

cases to begin the revealing process of a little-known industry phenomenon, but also utilized as the explanatory cases to generate a pioneer framework explaining this phenomenon. The two-fold function of the purposive cases in the qualitative case studies was assigned in the research situation for this study as a consequence of the limited, available, existing theory (Scapens, 2004).

A qualitative, inductive, multiple-case research like this study sought to build abstractions across cases but not to make the generalization of context- and time-free laws. Making generalizations across time and space has been regarded as impossible for human affairs or social phenomena (Cronbach, 1975; Lincoln & Guba, 1985). What was possible was to construct the time- and context-bound working hypotheses (the ideographic statements) by theorizing the common and the unusual findings from the individual cases under study. The theorized research findings were assumed to be useful in making sense of similar situations by the “transferability” advocated by Lincoln and Guba (1985, pp.124-125). Based on their notion of transferability, the transfer of findings from one case to another case was done by the user who determined the applicability of the findings in their own settings rather than the researcher. The obligation of the researcher was to offer a thick description of the cases, which provided the users (or readers) with the vicarious experience useful for them to assess and transfer the theorized findings to others (Stake, 2006). This type of generalization corresponded methodologically with the choice of a small number of cases which then made the provision of thick description of the cases possible.

A “criterion strategy” for purposefully selecting information-rich cases suggested by Patton (2002, p.238) was adopted in this phase. Five predetermined criteria for selecting the case companies were formulated as follows:

1. Originating from the engagement in GACC;
2. Having experience in implementing OBM;
3. Being the current case in implementing OBM;
4. Having OBM operation in B2C; and
5. Starting OBM from the domestic market.

The first two criteria were the prerequisite standards based on the research question and the other three criteria were further devised after developing a rudimentary understanding about the OBM practice in the TTC industries.

Since there was no available database to locate the TTC companies which met the prerequisite standards (criterion one and two), a screening process was followed by reviewing the trade reports/related business news and conducting informal interviews with several senior informants in the TTC industry. As a result, only a small number of cases (less than fifteen companies) - including the retrospective cases (both successful and unsuccessful practice) and the current cases - were identified. The same decision making process was then applied for the study of the current cases (defined as criterion three). This was because the cases of current practice provided the researcher with opportunities for on-site observation of the occurring events, and hence assisted the researcher to identify the key people with the first-hand experience relevant to the studied events. Furthermore, it also allowed the examination of the issues of current importance to other companies (Myers, 2009).

Despite the fact that eight companies satisfied the first three criteria and six of them responded agreeing to participate in the study, the researcher further formulated criteria four and five to narrow the scope of choice in order to study the most sophisticated and relevant situations in as much depth as possible. These two criteria further ruled out two companies conducting their OBM on a B2B basis by intermediate products and one

category of fashion items respectively, as well as one company starting their OBM in the China market through a separate and independent organization. Consequentially, three case companies – one listed company with the largest revenue in the Taiwan clothing export business, and two small-to-medium size enterprises (SMEs)⁹ from the textiles and the clothing industries respectively – were selected as the multiple cases studied in this phase.

The times when each of by these three cases had initiated OBM were prior to this research and ranged from the middle of the 1990s to 2006. One case terminated its OBM operation towards the end of this study and could be classified as having failed in the development of OBM; the other two cases continued their branded business expansion but were still attempting to gain returns on their investments when this research ended. The various characteristics of these three cases in terms of general company background in both GACC and OBM implementation are further presented in Table 3.1. For reasons of confidentiality, the names of the studied companies - except for that of the pilot case study - are not disclosed in the thesis.

⁹ The definition of SME varies by country. According to the standards for identifying SMEs revised by the Ministry of Taiwan Economic Affairs in 2005, an SME in the manufacturing category is defined as one for which the company's paid-in capital does not exceed NT\$ 80 million, or the number of its regular employees do not exceed 200 persons. In the service category, for example wholesalers, trading houses or retailers, an SME is defined as one having total operating revenue in the preceding year which does not exceed NT\$ 100 million, or its regular employees do not exceed 50 persons (Small and Medium Enterprise Administration, Ministry of Economic Affairs, Taiwan, 2007).

Table 3.1: The characteristics of the case companies' backgrounds

OBM implementation									Company background rooted in GACC				
	Number of own brands	Having franchised retailing	Number of years			Markets			Manufacturer		Fabric trading company	Markets	
			1-5	5-10	>10	Taiwan	China	Middle-priced ladies fashion	Knitwear	Apparel		USA	Others
Case one	2			V		V		V			V	V	V
Case two	1				V	V	V	V	V			V	V
Case three	2	V	V			V		V		V		V	

3.4.4.3 Sources and collection of data

In phase two of the investigation, a methodological triangulation (the use of multiple methods in data collection) and a data triangulation (the use of multiple information resources), facilitated by the case studies methodology (Cooper & Schindler, 2003; Yin, 2003), were adopted. The multiple methods and data resources employed were:

- (a) The review of literature and in-house documents;
- (b) In-depth interviews with the key personnel selected from the case companies through open-ended questions with an interview guide;
- (c) On-site direct observations conducted both in the companies and their marketplaces by formal and casual observations; and
- (d) The examination of physical artifacts, such as actual products and brand image materials, to further complement the above three methods.

Literature and document review

The purpose of adopting the data-collecting method of literature and documentation review was mainly to obtain the essential background information for enhancing the contextual understanding of the studied events, and validate the interviewees' accounts (Yin, 2003). The reviewed literature and documentation included trade reports and business news, management records, company annual reports and relevant research papers.

In practice, however the availability of these literature and documentation varied according to the individual case and this variation mainly arose as a result of the differences in the quantities and the coverage of dated records, the exposure in the public domain and the level of access to the company's

archives which was permitted. The bias caused by this variation was therefore unavoidable in this study.

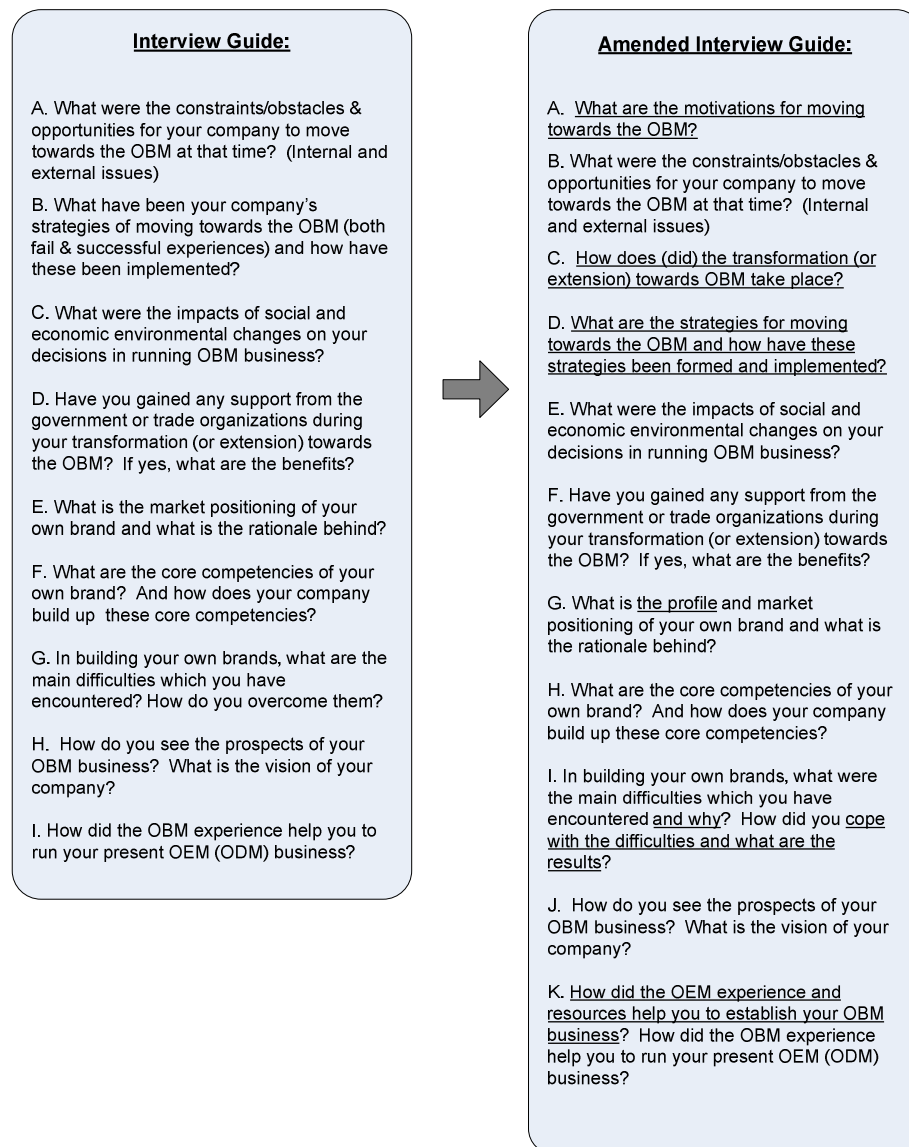
In-depth interviews

The interview method has been regarded as one of the best data-collecting techniques and the most important source of information in case studies (Merriam, 1998; Yin, 2003). This method was used to find out from the interviewees “those things we cannot directly observe” which include “feelings, thoughts, intentions”, “the behaviors that took place at some previous point in time” as well as “the situations that preclude the presence of an observer” (Patton, 2002 , pp.340-341). Despite the fact that this study dealt with the current cases, the entire upgrading towards OBM in the case companies was a continuous process over a period of time in context. Part of this process was defined by the past activities which were impossible to replicate, and the rest of the events were still in progress but it was impossible to directly observe all of the critical activities. Therefore, the adoption of in-depth interviews with key personnel to identify the facts and provide insights into the activities of relevance was essential and appropriate in this study. The selection of these key personnel was thus theoretically driven by the conceptual framework (Miles & Huberman, 1994). They were the people responsible for the OBM decision and involved in the brand operation of the case companies - mainly from the aspects of management, design, marketing and external consultancy.

In order to elicit the interviewees’ own insights, an open-ended and in-depth person-to-person interview was used. An interview guide, which was amended after having conducted a pilot study was prepared (see Figure 3.4). This interview guide, listing the main questions which the researcher intended to explore, helped the researcher to “respond to the situation at

hand” (Merriam, 1998, p.74) and was subject to changes to accommodate the emerging question of what the researcher might learn during interviews and also adjusted to what the individual interviewee knew best (Rubin & Rubin, 1995).

Figure 3.3: Amended interview guide



Note: The changes between the original and amended guide are underlined for comparison

Several measures were adopted to minimize the potential bias of conducting interviews. These biases were caused by the inadequate questions raised by the researcher; the reflexive issues raised by the interviewees who selectively deliver what researchers want to hear; and the poor recall of the past or the inaccurate articulation given by the interviewees (Yin, 2003). The corresponding measures adopted in this study were the use of a voice recording device for recapturing the conversation and detecting biases of which the researcher was formerly unaware; obtaining the information from other resources to corroborate the interview data; and the confirmation made by the interviewees for the accounts or claims extracted from their individual statements.

Direct observations

The purpose of adopting a direct observation method was to add new dimensions for understanding the context and phenomenon of case study companies, to collect additional information beyond interviews and to discover the implicit issues in implementing OBM – especially the operation of design and marketing know-how. The collected information from the direct observations was firsthand data which were gathered by the researcher through using her own knowledge and experience in interpreting what she saw (Merriam, 1998). These data were also used as the reference points for the in-depth interviews (ibid.).

The direct observations were made by means of field visits to the case study sites (i.e., natural setting) and consisted of two types of observations – formal and casual. The formal observations included attending the internal meetings of individual companies subject to managerial consent, and visiting their showrooms and working places in which major business activities and operational practices took place. Their marketplaces, where their branded

products were marketed through their retailing stores, were also selectively covered. The casual observations were achieved through observing the relevant behaviours or environmental conditions available every field visit, such as the occasions of conducting interviews or collecting data from other sources.

The identity of the researcher as observer was made known to the participants before the observations except for the observations conducted in the retailing stores. Also the researcher made it clear that she was purely an observer and would not take part in participants' discussions or operational activities in order to comply with the ethical norms and reduce the bias for observations.

Despite the fact that using the observation method to gather knowledge would not have the disadvantage of promoting "potential distortion (or discomfort) from post hoc verbal description" (Lee, 1999, p.99), the researcher was, however, aware of the fact that some level of distortion occurred when the researcher was physically present on sites (Yin, 2003). In addition to this distortion, the observation method has been often criticized for its highly subjective nature (Merriam, 1998). This is due to the selective interpretation of data observed based on human perception (ibid.). The field notes, which contained the descriptions of what had been observed, were hence produced and kept as observation records for further examination when these data conflicted with the findings from other data resources.

Physical artifacts examination

The use of physical artifacts examination method was suggested by Yin (2003) as an evidence resource in case studies when relevant. In the case

of this research, the physical artifacts were important components because the upgrading towards OBM by individual case companies was actualized through their brand products and their brand image as perceived by their target customers. The physical artifacts examination was thus employed in two different ways in this study. Firstly, it was used to corroborate the branding opportunities provided by Taiwan local socio-economic changes. This was achieved through examining the image materials of local consumers' fashion profiles within a specific time frame. Secondly, it was used to develop a more precise understanding of brand performance derived from various branding strategies, especially regarding aesthetic and quality issues. This was achieved by observing the actual products in the case companies' show rooms and their selling points as part of the field visits. In addition to the actual products, brand promotion materials such as brand image posters, advertisement materials and merchandise catalogues over the years, were also collected for reference. However, the early brand products/promotional material and the actual products were only partially available in all three cases. Therefore, the data collected only reflected part of brand performance at the early OBM stage.

3.4.4.4 Data collection protocol

In order to ensure that the same procedure of data collection was followed and applied in each individual case, an implementation protocol was developed prior to conducting the formal case studies. This protocol listed the procedural principles carried out in the field as follows.

1. Before the on-site data-collection, the interview guide which encompassed a set of questions outlining the subjects to be covered in the case study was firstly presented to the head of the company who agreed to participate in this study. Based on his/her

suggestions and approval, the initial interview list of the key personnel, the scope of conducting the on-site direct observation, the access to the documentation review and physical artifacts examination within the organization were identified.

2. A company tour guided by the executive took place on the first day of the field study. This tour provided the researcher the opportunity to gain an understanding of the overall company environment and be introduced to the company employees by the executive.
3. The arrangements for the in-depth interviews were then made in cooperation with the individual interviewees. However, the scheduled time and place of the interviews were subject to changes and not necessarily confined to either working hours or the places of work, since interruptions or urgent matters occasionally made on-site interviewing difficult.
4. Prior to the interview, the purpose and the coverage of the interview, how the interview was to be conducted, and how the interviewee's accounts would be verified and quoted in this study were explained to every interviewee.
5. To capture the interview data, the techniques of manual and voice recording were both adopted. The interviewee's consent to the use of a voice recorder during the interview was obtained beforehand. Interviewees were also informed that the subsequent use of the recorded tapes would be restricted to the researcher only.
6. The interviews with the key informants were held on separate days when possible. The most vital questions were raised in the first interview and the interview data was reviewed afterwards by the

researcher on the same day. The purpose of making such arrangements was to provide the researcher and interviewees with early opportunities to discuss and clarify some important but overlooked data delivered in the first interviews, furthermore, to supplement the data on the subject of any new issue which may have arisen.

7. The formal and casual observations were recorded in the form of field notes. Any major discrepancies between the data gathered from the direct observations and the talks delivered by the in-depth interviewees were identified before the subsequent, further discussions with the interviewees and then verified with a third person or checked against other data sources as early as possible.
8. After leaving the fields, in order to facilitate the follow-up and the filling of gaps in the data, the e-mail and phone were used to have further discussion or clarification when it was impractical to arrange extra, face-to-face meetings.
9. The tasks of collecting data for the three cases were carried out one after another in order to avoid confusion.

3.4.4.5 Data analysis and interpretation

In this phase, a general analytic strategy coupled with a mix of two analytic approaches and a two-stage case analysis were devised for “making sense out of data” - a process of data analysis and interpretation (Merriam, 2009, p.175). In this process, the data were consolidated, reduced, and interpreted in an inductive and comparative way by applying a number of analytic techniques. The outcomes of this process were the micro level

findings from the case companies which were used together with the macro contextual data to subsequently formulate an overall explanatory framework.

General analytic strategy and a mix of two analytic approaches

The adoption of a general analytic strategy suggested by Yin (2003) was to define the “priorities for what to analyze and why” (p.109). The strategy formulated in this study arose as a result of two different priorities juxtaposed – i.e., relying on the conceptual framework evolving in the course of the study and developing the case descriptions. The former, a set of tentative concepts and their presumed relationships, helped the researcher to decide the focus of and selections from a considerable quantity of case data. The latter, developing the case description which covered a range of themes emerging from the analysis, assisted the researcher to identify and interpret the causal links in the OBM development undergone in the individual case companies (ibid.). In addition, a mix of two analytic approaches – the categorization (or variable-oriented) and contextualization (or case-oriented)¹⁰ was correspondingly applied in this study.

The categorization approach, referred to as a concept model, mainly dealt with identifying the abstract concepts and their interactions grounding in the case but with less concern of “setting, sequence and the passage of time”; whereas the contextualization approach, referred to as a story model (or process model), followed the studied events in the context over time and located the connections of the various variables within the context (Miles & Huberman, 1994, p.147). By moving back and forth between the story model and the concept model, the researcher was able to deepen her understanding and hence produce the research outcomes combining the

¹⁰ The terms of variable-oriented and case-oriented were used by Ragin (1987) and Miles and Huberman (1994). The terms of categorization and contextualization were used by Maxwell (1996). Both sets of terms are similar in meaning.

description and explanation about the OBM developments conducted by the TTC export companies (ibid.).

A two-stage case analysis

The two-stage case analysis adopted – i.e., within-case analysis and cross-case analysis - allowed the researcher to learn as much about the contextual variables as possible and build abstractions across the cases (Merriam, 2009; Patton, 2002; Stake, 2006). In the stage of within-case analysis, each case was analyzed as a stand-alone entity. This not only enabled the researcher to become intimately familiar with the data gathered from the individual case companies, but also permitted the unique patterns of each case to emerge (Eisenhardt, 1989). In the following stage of cross-case analysis, all the collected data were then separated from their originating cases and grouped for further analysis. At this stage, the researcher was forced to “go beyond initial impressions” by using “structured and diverse lenses on the data” (ibid., p.541). By this two-stage analysis, the uniqueness of the individual cases was kept and the findings across the three purposeful cases were aggregated for comparison and further interpretation.

Implementation and applied techniques

The within-case analysis and interpretation was carried out through the data collection stage as one of the features of qualitative research. This not only helped the research to keep focus on the research question in the fields and avoid collecting the repetitious and unfocused data (Merriam, 2009), but also facilitated the researcher to identify the data which embraced the emerging concepts at the earliest time possible and hence made prompt adjustments

of the data-collecting plan. The more intensive analysis and interpretation was undertaken when all the data were collected, and mainly carried out by following an analytic progression. This progression as indicated by Miles and Huberman (1994) was a natural progression – a sort of “ladder of analytical abstraction” delineated by Carney (1990, p.127). Based on his notion, three analytic abstraction levels were progressively achieved:

- At level one: Summarizing and packaging the data by creating coding categories on the reconstructed and condensed data;
- At level two: Repackaging and aggregating the data by identifying the themes and the causal links in the level one data; and
- At Level three: Developing an explanatory framework worked within the case through synthesizing the analyses and interpretation of the level two data.

In order to facilitate the coding, an analytic technique - a combination of three tactics – was applied in the coding process. These tactics were the predefined codes, the accounting-scheme guide, and the post-defined codes. The predefined codes were taken from the tentative conceptual framework as a provisional start list prior to the conduct of the formal case studies. The post-defined codes were built after the data were collected. The accounting-scheme guide was used to identify “the general domains in which codes can be developed inductively” (Miles & Huberman, 1994, p.61). The design of such a guide in this research was based on both of the mid-range accounting scheme proposed by Bogdan and Biklen (2003) and the amended conceptual framework after the pilot case study. This accounting-scheme guide allocated the codes in the following ways: setting/context, perspectives, opportunities/barriers, resources, process, strategies, knowledge, core competence and performance. The developed codes applying the above three tactics were all subjected to further changes and development as the study progressed (Miles & Huberman, 1994).

In addition to the analytic technique, in order to effectively condense the collected information and offer the researcher an immediately accessible and systematically compact form to examine the condensed information, several matrices and networks of data display recommended by Miles and Huberman (1994) were selectively adopted in the data analysis. The matrices, such as events listing, thematic conceptual matrix and case dynamic matrix, were used to examine the data taking the categorization approach. The networks, including event flow network, cause-effect loops and causal network, were then applied to analyze the data according to the contextualization approach.

One specific tactic used to facilitate the identification of the causal links from the within-case analyses was building a logical chain of evidence. Some prerequisites for building such an evidential chain suggested by Miles and Huberman (1994) were met. These were:

- The identified factors were emphasized independently by several interviewees with different roles or positions in the case company;
- The identified causal links were indicated directly or indirectly by several interviewees with different roles or positions in the case company; and
- The countervailing evidence was sought and accounted for as far as possible.

In the stage of cross-case analysis, the similarities and differences between three cases were hence identified by both approaches - the concept model and story model. The descriptive data from the individual cases were firstly displayed using word tables – referred to as “meta-matrices” (Miles & Huberman, 1994, p.178) – as suggested by Yin (2003), followed by the processes of assembling, partitioning and clustering. In these following

processes, the data were organized into a number of matrices and networks of data – such as case-ordered effect matrix and cross-case causal network – for the purposes of both comparison and contrast (Miles & Huberman, 1994). Based on the argumentative interpretation not numeric tallies (Yin, 2003), a cross-case synthesis was then made by cycling back and forth between understanding the uniqueness and the dynamics of the individual cases and the results of comparison and contrast derived across the three cases.

3.4.4.6 Presentation of the case studies findings

Before the presentation of a cross-case analysis for which the individual cases were broken up for cross comparing and contrasting (in Chapter Seven), the stand alone reports of the individual cases are presented separately in Chapter Six (Patton, 1987; Yin, 2003). The rich description of individual cases was intended to facilitate a comprehensive understanding of each single case as a unique and holistic entity (Patton, 1987), and demonstrate how the studied issues common to the various cases contributed to the understanding of this particular phenomenon as a whole (Stake, 2006).

The individual case reports in this thesis were developed by following both the chronological and the thematic path (Patton, 2002; Stake, 1995), and further organized in the following sequence:

1. Introduction of the case implementation;
2. Company profile;
3. Origins and development in GACC;
4. Development of OBM;
5. Insights into the transition;

6. Analysis and interpretation; and
7. Synthesis of within-case analysis.

3.4.4.7 The adoption of a pilot case study

The pilot case study was undertaken in order to test the primary conceptual framework (Figure 3.1) and gain insights into the research question prior to the commencement of the three formal case studies.

In spite of the fact that there were differences between Taiwan and Hong Kong in terms of the macro socio-economic environments, two key factors were considered in selecting a HK case for a pilot study – i.e., the geographical proximity (Yin, 2003), the similar industrial trajectories in exports and experience in upgrading as revealed in the literature review (see Section 2.3). A HK based company – Fenix, which had gained experience in GACC and operated successfully using both OEM/ODM and OBM business models - was selected as the pilot case. This pilot case study was conducted by applying the data-collecting and data analysis methods designed for phase two of this investigation (see Section 3.4.4.3 and 3.4.4.5) but implemented to a lesser extent.

The report of this pilot case study mainly followed the structure of the individual case report (outlined in Section 3.4.4.6) but there were some adjustments in order to fulfil the purpose of conducting a pilot study, and it is presented separately as Chapter Four. The insights gained into and the themes emerging from this pilot case study were not only used to improve the conceptual framework (as presented in Section 3.4.1 and Figure 3.2) and amend the interview guide (as shown in Section 3.4.4.3 and Figure 3.4), but also help the researcher to finalize the criteria for the formal case selection and refine the data collection protocol.

3.4.5 Developing an explanatory framework

The assertions derived from this cross-case synthesis were further integrated with the macro-level contextual findings – the industrial evolution from the literature review (Chapter Two) and the relevance of Taiwan socio-economic changes from the phase one investigation (Chapter Five). As a result, an explanatory framework was developed (see Section 7.6). This inductively developed framework as a form of the time- and context-bound working hypotheses permitted the transferability to other similar situations.

3.5 Trustworthiness and ethics

Several techniques were used in this study to minimize the threats to “trustworthiness” - the standard for rigor applied in the qualitative research (Lincoln & Guba, 1985, p.290). This standard congruent with the constructivist-interpretative philosophy assumption comprised four criteria - credibility, dependability, confirmability and transferability.

The criterion of credibility denoted whether the researcher’s reconstructions and interpretations of the studied events were plausible given the data presented. The major techniques employed to enhance the credibility of this study were the triangulation and the member checking by the participants. They were the use of methodological and data triangulations at both investigating phases; the confirmation of the extracted statements made by the individual interviewees; and the verification of the individual case reports made by the case companies. Two deficiencies were identified which more or less reduced the credibility of this study, i.e., failure to arrange interviews

with a few of the targeted people and the translation discrepancies between languages.

Three targeted people connected with the two case companies were unavailable for the in-depth interviews. Two of these were working abroad and one declined to be interviewed. However, alternatives were sought and substitute interviews arranged with the others who were able to provide the missing data. The second deficiency threatening the credibility of this study arose as a result of the use of two different languages for this investigation. Unlike the pilot case study in which the literature review, interviews and others communications were all conducted in English, the data collected from the field of the formal investigation were mainly in Chinese. The data were organized, analysed and translated into English texts, which were then returned to the interviewees and the case companies for comment. In most of the situations, the verbal translations of these texts from Chinese to English and back to Chinese were done by the researcher, since few of the interviewees were proficient in English. Despite the fact that the face-to-face verbal translations had the advantages that there could be immediate clarification of the texts and any missing information could be supplemented, some subtleties of meaning were missed between the two cycles of translation. This resulted in certain inaccuracies in representation and verification.

In order to enhance the dependability, the corresponding measures were the audit trail and the use of data collection protocol. The criterion of the dependability referred to whether the research findings were consistent with the data presented - i.e., "given the data collected, the results make sense" (Merriam, 2009, p.221). The audit trail was a detailed account of the research decision, method and procedures as illustrated in this methodological Chapter. The data collection protocol was designed and implemented for the multiple-case studies. Some of the interview

procedures in this protocol were also applied in phase one of the investigation.

The criterion of confirmability indicated “the extent to which the product of the inquiry is confirmable” (Teddlie & Tashakkori, 2009, p.296). This included both of the axiological and the reflexivity issues. With regards to the axiological issue, the researcher’s own value and position was explained in this study. As to the reflexivity issue, considering the researcher was the only research instrument, where and how the researcher’s influences and bias impacted on the data were carefully examined in the course of the research and then articulated when possible.

The rich and thick description method was adopted in this study in order to ensure the possibility of transferability which denoted the extent to which the research findings could be applied to other situations. This was because the sampling method of maximum variation, also one of the key methods for enhancing transferability, was considered unsuitable for this study, since there was a limited number of current cases to select from.

Except for meeting the above trustworthiness criteria, the ethical considerations taken by the researcher in this study were the informed consent and privacy. However, in spite of the fact that anonymity was offered to the case companies and the individuals, their privacy was not entirely ensured due to the introduction of the essential background information. However, the necessity of providing the background information of the companies and the individuals was explained to the case companies and individual participants before conducting the investigation. Based on their consent, the researcher used the codes to replace the names of the case companies and their brands. As to the individuals, their job titles were self-evident in explaining their roles and key functions in the organization and their surnames representing their individual identities in

context were both quoted. The interviewees from the case companies were also informed that the case reports would be presented to the top managers of the case companies for further verification.

Chapter 4 Pilot Case Study of One Successful OBM Company in Hong Kong

4.1 Introduction

This Chapter presents the implementation and the findings of the pilot case study conducted before the formal case studies. The findings were used to refine the research design, gain insights into the research questions and assist the development of the primary conceptual framework. The contents of this Chapter are structured as follows:

- Implementation of case study (Section 4.2);
- Company profile (Section 4.3)
- Origins and growth in GACC (Section 4.4);
- Development of OBM (Section 4.5);
- Insights into the development (Section 4.6);
- Emerging themes and issues (Section 4.7); and
- Amendments to the interview guide and conceptual framework (Section 4.8).

4.2 Implementation of case study

The pilot case study was conducted in May 2007 by principally applying the case study methods designed in this investigation but in a less comprehensive way. The main data-collecting resources came from the

'elite' interviewing¹¹ with the managing director of Fenix Group – Mr. Anthony Keung. The direct observations and physical artifact examinations were focused on the final products and retailing environments of Fenix's franchised and owned brands, and were made through site visits to Fenix retail outlets located in the shopping mall of Harbour City and ifc.

There was limited literature about the Fenix Group in the public domain. The following materials were reviewed prior to the in-depth, face-to-face interview and for further understanding of the company background. They were also used to validate the account or claims from the interviewee and the observational results.

- A corporate brochure of 2007 provided by Mr. Keung;
- A case study of Fenix published by Center for Asian Business Cases in 2003;
- A trade report published by Hong Kong Trade Development in 2003; and
- A speech delivered by Mr. Keung in an international forum held at The Hong Kong Polytechnic University in 2007.

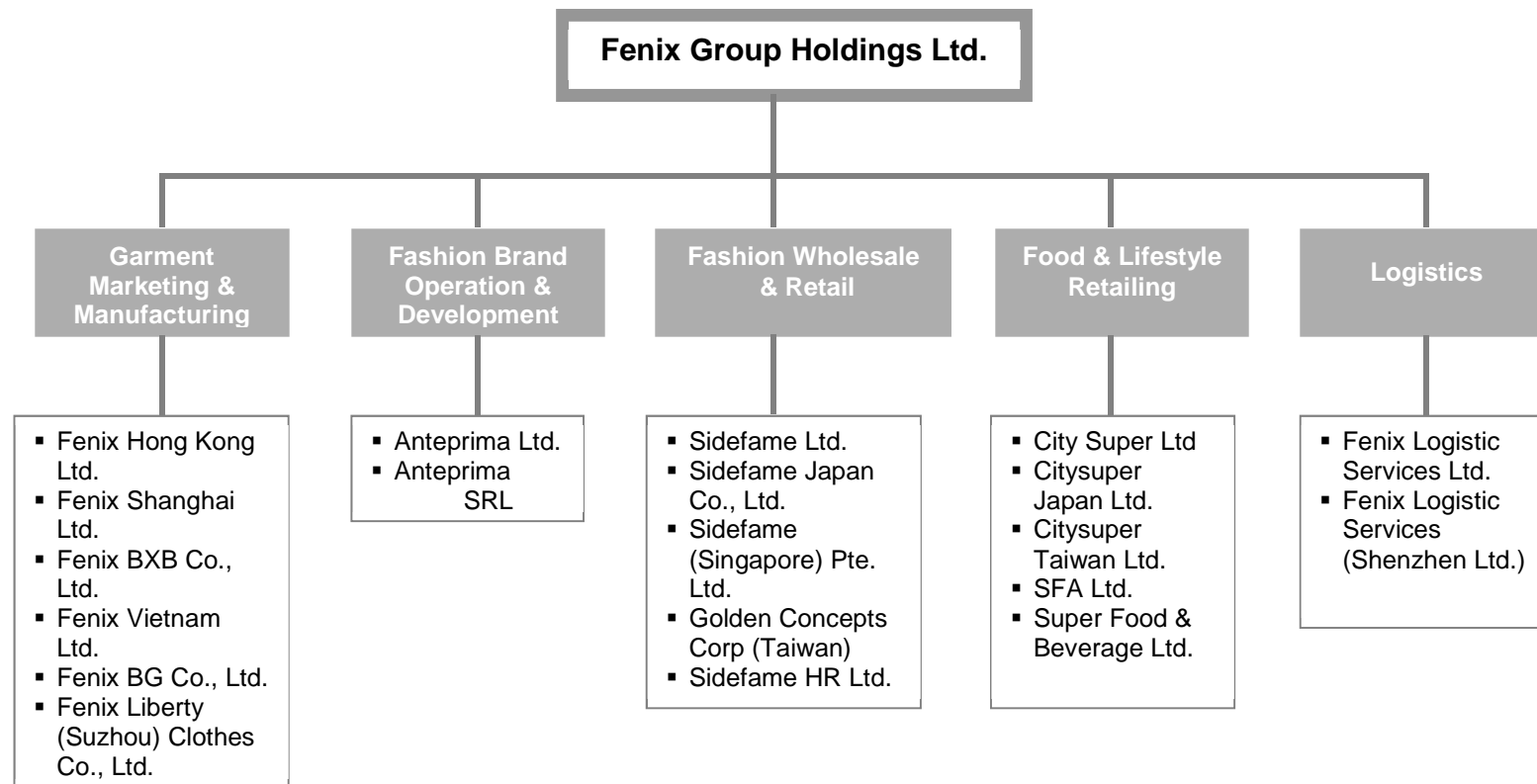
The pilot case study report was presented to Mr. Keung to be checked for the accuracy and reasonability.

¹¹ Elite interviewing focuses on the interviewees who are considered to be "influential, prominent and/or well-informed people in an organization or community" (Marshall & Rossman, 1999, p.113). They usually hold key positions in organizations and are able to provide "an overview of an organization or its relationship to other organizations", as well as "organizations' policies, past histories and future plans from a particular perspective" (ibid.).

4.3 Company profile

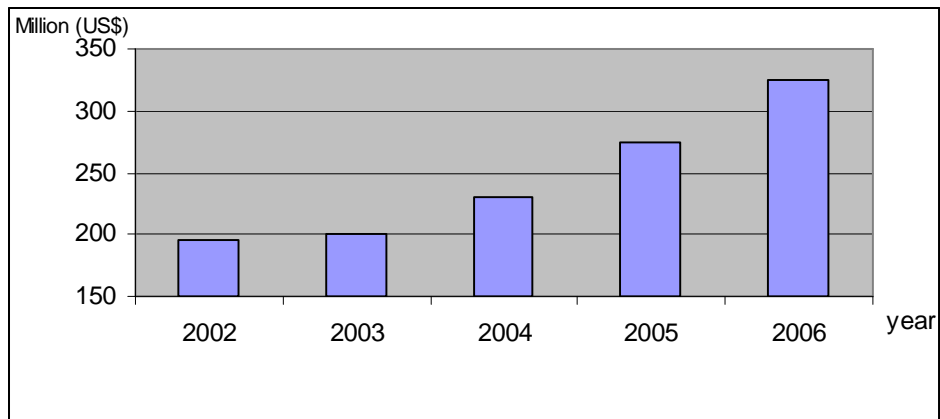
Fenix Group is a Hong Kong based corporation engaging in five business activities: garment marketing and manufacturing, fashion brand operation and development, fashion wholesale and retail, food lifestyle retailing and logistics. Figure 4.1 displays the present organization chart of Fenix Group. By the end of 2006, their business network comprised more than 30 companies and 14 factories in seven countries. Their total employees numbered over 9,000 and their total revenue reached US\$ 325 million in 2006 (Figure 4.2). Figure 4.3 indicates the revenue share of their three major business categories: 22% from the fashion retailing, 33% from garment marketing and manufacturing, and 45% from the food and lifestyle retailing.

Figure 4.1: Organization chart of Fenix Group



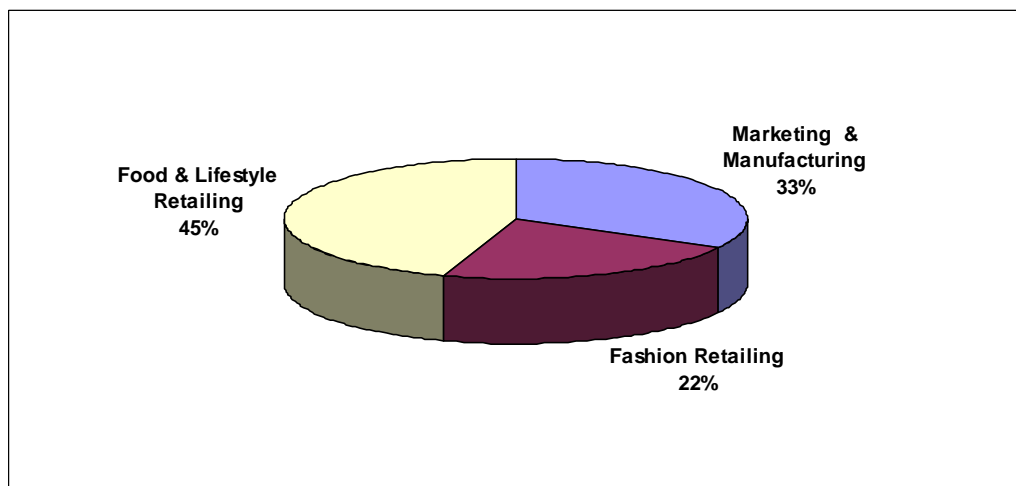
Source: Corporate Brochure of Fenix Group (2007)

Figure 4.2: Revenue of Fenix Group (2002-2006)



Source: Corporate Brochure of Fenix Group (2007)

Figure 4.3: Distribution of Fenix Group revenue in 2006



Source: Corporate Brochure of Fenix Group (2007)

4.4 Origins & growth in GACC

Fenix Hong Kong Limited is the founding company of the Fenix Group and was established in 1972 by Mr. Anthony Keung and Mr. Masaaki Ogino at the time when Hong Kong's apparel industry started to grow. Fenix began as a trading company mainly importing Japanese yarn and selling to the Hong Kong knitting factories. Due to the increasing labour cost of local production, there were increasing demands for imported knitwear in Japan. At that time, there were very few knitwear factories in Hong Kong which could provide products with the quality required by the Japanese market. Fenix therefore expanded their business from trading into knitwear manufacturing and set up their own knitwear factory in 1979 in Hong Kong.

In order to reduce production costs and become more competitive, Fenix opened knitwear factories in South China in 1982 and progressively expanded to the central China provinces over the next ten years. This production expansion in China led to the fast growth of Fenix' business and laid the foundation for the company's future development. By mid-2007, Fenix owned ten factories in China with production capacity of more than nine million units of knitwear per year which generated business to the value of US\$ 100 million.

In anticipation of quota removal in 2008, Fenix gradually shifted their export markets to the USA and European markets. In 2007, the market distribution was 10% in USA, 40% in Japan and 50% in Europe. Additionally, Fenix had six in-house designers who worked with merchandisers to serve the individual market needs. The various levels of product quality pursued by Fenix were dictated by the special requirements of the customer and by the quality control strengths of their various production sites. It started by producing high quality due to the expensive labour cost in HK, and then broadened the range from high to medium quality after transferring

production into China. In recent years, they were again concentrating only on high quality knitwear products due to the increasing price competition from Northern China. For their largest export areas - European markets - they worked with some well-established brands including Armani and MaxMara. The average FOB price for Fenix knitwear exported to European Markets was around US\$ 20 per piece.

4.5 Development of OBM

4.5.1 Expansion to brand retailing and creation of own brands

Fenix began a brand retailing operation in the early eighties by opening two retail counters in the Sogo department store in Hong Kong – one for men and one for women – mainly selling multiple designer brand merchandise sourced from their Japanese customers. This business opportunity was offered by Sogo department store when they opened the first store in Hong Kong and sought support from their external business associates. A separate company was hence set up and the people with retailing expertise were recruited by Fenix. From that time onwards Messrs Keung and Ogino believed the retailing business required people with the particular ‘DNA’ (characteristics) different from those required in manufacturing, hence there have been few internal personnel exchange arrangements between the manufacturing and brand retailing sections in their organizations since then.

Due to the fact that the profits from the two outlets in Sogo were limited, Fenix further created their own brands which consisted of several lines. The

initial steps for these two brands were to simply source the merchandise directly from known knitwear manufacturers and to retail them using the Fenix labels. This development resulted in a better profit margin and kept their first retailing business breaking even for three to four years. According to Mr. Keung (06.05.2007), Fenix's experience in running these first two retailing outlets were "not successful but also not a failure", however, he said that the knowledge about brand retailing gained from this experience was "little".

4.5.2 Franchised retailing of Prada and others

The next venture in the brand retailing business was in 1986 when Fenix became Prada's Hong Kong agent, before Prada was an internationally-known label. This franchising opportunity was introduced by Prada's Japanese agency which was also a Fenix customer. The experience of being the Prada franchised retailer for twelve years led Fenix into the high-end market and resulted in successful business.

After having acquired the franchise for retailing from Prada, Fenix discontinued its own ladies' brand and expanded its menswear brand, which was Lordy Ferri. Two separate companies - Fenix boutique and Sidefame - were formed to operate the brand business for Lordy Ferri and Prada respectively. In 1997, with nine shops, and having reached a break-even balance, Lordy Ferri was discontinued by Fenix for financial reasons¹². By the middle of 2007, the fashion retailing business of Fenix ranged from the

¹² The financial difficulties in Fenix occurred in 1997 due to the Asia crisis, depreciation of Japanese yen and the big drop in tourism in Hong Kong after the hand over. At that time, Fenix' major knitwear exports market was Japan and the majority of consumers who visited the Prada shop in Hong Kong were tourists. The depreciation of the Japanese yen and the drop in tourism affected Fenix considerably and they were obliged to restructure the company.

middle to high end markets in seven countries. In addition to their own fashion brands – Antepima and Antepima PlastiQ - Fenix' franchised brands included the designer brands, corporation brands, multiple brand boutiques and their merchandise included ladies fashion, handbags and golf apparel¹³.

4.5.3 Creation and operation of Antepima

Fenix introduced its own brand – Antepima – to the high-end market in 1994. This decision was taken after notification that the franchise for the retailing of Prada would be terminated. The termination was because Prada was going to directly manage its worldwide retailing after their franchise contract with Fenix was finished. Fenix was informed by Prada about this decision four years before the franchise contract ended. Anticipating a substantial loss of business, Fenix decided to establish its own high-end brand. In spite of the fact that Fenix had worked with Prada as a retail agent for many years, “there was no way to learn [things] inside [Prada]” such as design, production and branding, but Fenix had the opportunity to have “a lot of exposure, get to know a lot of people and to know Prada’s assumption [sic] through lots of talks and so on” (Mr. Keung, 06.05.2007).

Since Fenix lacked inside expertise in design and production for the luxury brand market, Prada agreed to manage the Antepima collections based on the ‘good relationship’ between the two companies. Fenix hence signed a three-year contract with Prada to design the collection based on the

¹³ The franchised brands of Fenix were: Atsuro Tayama (France based Japanese designer), A.T (second line of Atsuro Tayama), Furla (Italian leather handbag for ladies), Jil Stuart (USA brand), Maria Luisa (French Multi-brands boutique), Cocktail (Multi-brands shop), G star (European brand for denim), Callaway (USA brand for golf apparel and accessories), and Pearly Gates (Japanese brand for golf apparel and accessories).

direction given by Fenix and produce the merchandise (mainly handbags and accessories) for Antepima. In other words, Prada did the ODM for Fenix. This cooperation ceased when Prada became bigger and was no longer able to continue this business arrangement. Fenix then invested in its own design and production facilities in Italy in order to continue the lines for Antepima.

One of the Fenix founders, Mr. Ogino, hence spent most of his time in Italy and Mrs. Izumi Ogino¹⁴, Mr. Ogino's wife and also a shareholder of Fenix, was assigned to be the creative director of Antepima. Two design offices were set up: the one in Hong Kong was mainly responsible for knitwear and wire bag collections and the one in Milan mainly created its woven collection. The woven and leather merchandise was produced in Italy which had a reputation for top quality workmanship at a high cost. The knitwear and wire bags were produced in Fenix' China factories using Italian materials.

At the very beginning, in order to cope with the knitwear quality requirements for the high-end market, Fenix contracted the production to other manufacturers who specialized in top quality production. Later, all the Antepima knitwear was produced in Fenix' own 'category A' factories which specialized in high quality manufacturing. The design quality and workmanship of knitwear became one of the major strengths of the Antepima collection, in which the knitwear was not only prominent but also occupied a considerable portion of the entire range.

In order to establish its position as an international modern luxury brand, Antepima underwent continuing trials and adjustments in the first ten years. For Fenix, Prada was the first line of the European brands in the high-end

¹⁴ Mrs. Ogino understood fashion and was deeply involved in Prada retailing in Hong Kong. She spent a long time in handling customers at the Prada shop in the Peninsula Hotel, and was also responsible for buying from Prada and communicating with the Prada designers.

fashion market in the 90's plus Fenix was familiar with this market in Hong Kong through the franchised retailing operation for Prada. Therefore, the main reasoning for Anteprima brand positioning in the beginning was to position itself at the high-end of the market with better value than Prada. That was, placing Anteprima at a similar or even a better quality position than Prada but targeting only seventy percent of Prada's price range. Such assumptions proved to be wrong in later stages, according to Mr. Keung, "only a thirty percent price difference did not create enough differential for the high-end fashion market" (06.05.2007).

The example mentioned above – i.e., developing a competitive brand positioning - has been regarded by Mr. Keung as the most difficult for Fenix in moving towards OBM from a manufacturing background, because they "did not know much about the market in the beginning" and did not understand "the real value of a brand" at that time. However, since the sales results of Anteprima were not as satisfactory as expected, efforts were made in various areas to further improve the sales performance and additional cash was continuously injected. In 1998, the wire bag collection was launched by Fenix. The success of this new collection in the Japanese market in terms of both of the consumer response and the profits helped Fenix to better understand its past failures and subsequently adjust the business model of Anteprima.

4.5.4 Creation and success of Anteprima PlastiQ

The wire bag collection were firstly introduced to the Japanese market through a small outlet in Isetan department store and immediately created a remarkable sales result. This success could be attributed to three factors:

the uniqueness of the product itself, the right distribution channel and the right price.

The wire bags were hand knitted and had a luxurious, sophisticated appeal with an interesting decorative accent. The production of wire bags was in China and unique material supplied by one of the Italian spinners was used. The choice of its first outlet in Isetan was a clever decision for its distribution as Isetan had a reputation for leading fashion in Japan. When the wire bags were first launched, Fenix lacked confidence in the success of these innovative products. Therefore, unlike the original targeted price of Antepima set at seventy percent of Prada's price range, the price of wire bags was set at less than half of the Prada bags¹⁵. This pricing strategy proved to be correct. The idea of wire bags was further expanded into the ranges of shoes and accessories and formed a diffusion line of Antepima - Antepima PlastiQ - in 2002.

By the mid-2007, Antepima PlastiQ was marketed through Antepima shops and 45 of its stand alone shops in six countries (mainly in Hong Kong and Japan)¹⁶.

¹⁵ Since Prada later increased its retailing price, at present the price of Fenix's wire bags is only one of third of Prada's bags.

¹⁶ Totally, Antepima and Antepima PlastiQ had 74 wholly-owned boutiques and fashion specialty stores in seven countries, of which 46 shops were in Japan, 12 in Hong Kong, 3 in China, 3 in Singapore, 6 in Taiwan, 3 in Italy and one in Hawaii.

4.6 Insights into the development

4.6.1 Key factors influencing the brands' performance

On the subject of the differences between the performance of brands Anteprema and Anteprema PlastiQ, Mr. Keung provided his insights into three key factors which influenced the implementation of these two brands. These key factors were the product innovation and design, shop locations and pricing strategy.

4.6.1.1 Product innovation and design

The idea of the creation of wire bags was to come up with representatively innovative products for Anteprema which were of comparable significance to the nylon bags for Prada. This creation was facilitated by the pioneering spirit of Fenix's business philosophy, which was "doing something differently [from others]" and "always longing for [trying] something new"¹⁷ derived from the vision of the two founders (Mr. Keung, 06.05.2007). After undergoing a series of product developments and tests, the wire bag collection fulfilled Fenix's expectations and was popular in Hong Kong and particularly so in the Japanese market.

With the same persistence as demonstrated in the case of the wire bag innovation, Fenix made several adjustments in tuning the Anteprema brand

¹⁷ Fenix's business philosophy was also instrumental in pursuing other possibilities for expansion. This included exporting knitwear to the Japanese market ahead of all other Hong Kong factories, investing in China production and brand retailing from the early days, creating its own brand for the high-end fashion market, and diversifying its business into food retailing with the creation of food and lifestyle concept store City'super - in 1996.

from its inception. Anteprima collections were the reflection of Mrs. Origino's life style – simple but sophisticated. As a creative director of Anteprima, she had the Italian designers to work for her. Although familiar with the targeted markets, she lacked strong self-confidence in the early stage of setting up the design team. When there were disagreements between her and the designers, she would allow them to put their concepts into production. Sometimes, the designers proved to be right but unfortunately often to be wrong. As a consequence, this influenced the brand positioning and philosophy which resulted in an inconsistent image and brand designers were replaced every two or three years. This situation lasted for about ten years and has gradually improved in recent years. Despite being acknowledged as an international brand, Anteprima were “still following what other people have done and not being innovative enough. More effort should be exerted in the innovation aspect” (Mr. Keung, 06.05.2007)

4.6.1.2 Shop locations

Shop locations played an important role in the set up of Fenix's franchised brands and his own brands. The first Prada shop in Hong Kong was located in the Peninsula Hotel which represented the symbol of luxurious living and attracted lots of Japanese tourists to stay during the 90's. Opening the shop in this location served to associate the brand image with the prestige of the Peninsula. This was the powerful advertising tool used by Fenix to promote Prada retailing in Hong Kong. A similar marketing strategy – associating the images between shop location and brand - was also applied in the case of Anteprima in Hong Kong but it did not succeed in Japan.

When Anteprima was launched in Japan, it was considered to be essential to share the investment in product development and to reduce the unit cost of production in order to achieve economy of scale. Fenix therefore opened

several shops simultaneously and accepted locations which were not ideal for brand positioning. This compromise made it more difficult for Anteprema to have better shop locations at a later stage.

The case of Anteprema's shop locations in Hong Kong was different. With the Asian economic crisis in 1997, some of the top brands in Hong Kong suffered a large drop in sales and were no longer able to afford the high rents for their outlets in the first-rate sites. Fenix therefore took this opportunity to acquire the best locations for Anteprema. This put Anteprema in a favourable position, since Anteprema's brand image was associated with the surrounding international top brands but the price was lower. However, as previously explained, this positioning did not achieve the satisfactory results which Fenix had expected.

4.6.1.3 Pricing strategy

Although the customer profile of Anteprema and Anteprema Plastiq were not quite the same (Anteprema Plastiq attracts customers aged from 25 to 50 and Anteprema's main customers were 35 to 50 with a higher income), due to the market success of the wire bags, the price strategy for Anteprema was reviewed. It was found that better sales results were recorded for the hand stitched woven garments and the knitwear, both of which were produced in China and were comparatively much cheaper than Prada and the other categories of Anteprema.

Despite the fact that there was room for Anteprema to further improve its styling, quality and shop locations in Japan, it was believed that Anteprema might need to further expand its price gap to compete with the top international brands such as Prada, Gucci and Louis Vuitton. These top brands, which had established solid positions in the luxury brands market

with their long histories and high fashion images, would otherwise have been perceived as infinitely more luxurious than Antepima at that stage of its development.

4.6.2 Differences in managerial mentality

According to Mr. Keung, there were differences in managerial mentalities between manufacturing and retailing. In manufacturing, the planning for production was usually based on the seasonal and monthly schedules, and with recent competition the planning was referred to increasingly in terms of even weeks; while working in retailing the managerial mentality was based on a short cycle in terms of days, particularly with reference to sales. Compared to retailing, Mr. Keung said: “the people working in manufacturing are not moving fast enough and they [tend to] think too much, they are much gentler and care about other people. In retailing the sales figure is the most important. If you lose one day in sales then you lose one day” (06.05. 2009). The remedial action needed to be taken immediately. Based on the same reason, in brand business, the adjustments in retailing could be more readily implemented than the merchandise since the operations of the latter had a longer lead time and could not be rectified at once. This was why Fenix had few personnel exchanges between their two business sections from the start.

4.6.3 Reciprocal effects between OEM and OBM

The business contacts and production linkages of OEM were the most beneficial aids and support to the OBM of Fenix, especially in the starting stage. Besides, with the manufacturing background as part of the business profile, Fenix was able to obtain financial loans from banks during the Asian

crisis in 1997. On the other hand, Mr. Keung found Fenix's experience in OBM beneficial to its OEM business in two ways. Firstly, comparing to the other OEM suppliers which did not have the branding experience, Fenix had a better understanding and insights into the requests of its OEM's customers and hence was able to react faster when these requests were reasonable. Secondly, there were more common topics and opportunities to exchange ideas with its OEM customers which were most brand companies and this hence led to better working partnerships. Furthermore, since Antepima had a higher requirement for design and quality than most of Fenix's OEM customers, this became an assurance for Fenix in promoting its OEM business.

4.7 Emerging themes and issues

As the pilot study, the Fenix case served to explore the related themes and issues which could facilitate the understanding of the subsequent case examples. They are presented in the following sections.

4.7.1 Driving force towards OBM

The driving force towards the OBM for Fenix mainly came from the business vision of the top managers, the emerging opportunities offered by their external business associates and the succession of the de-franchised business of that time rather than the threats from the competition of OEM business in which Fenix was then involved. However, the stability and

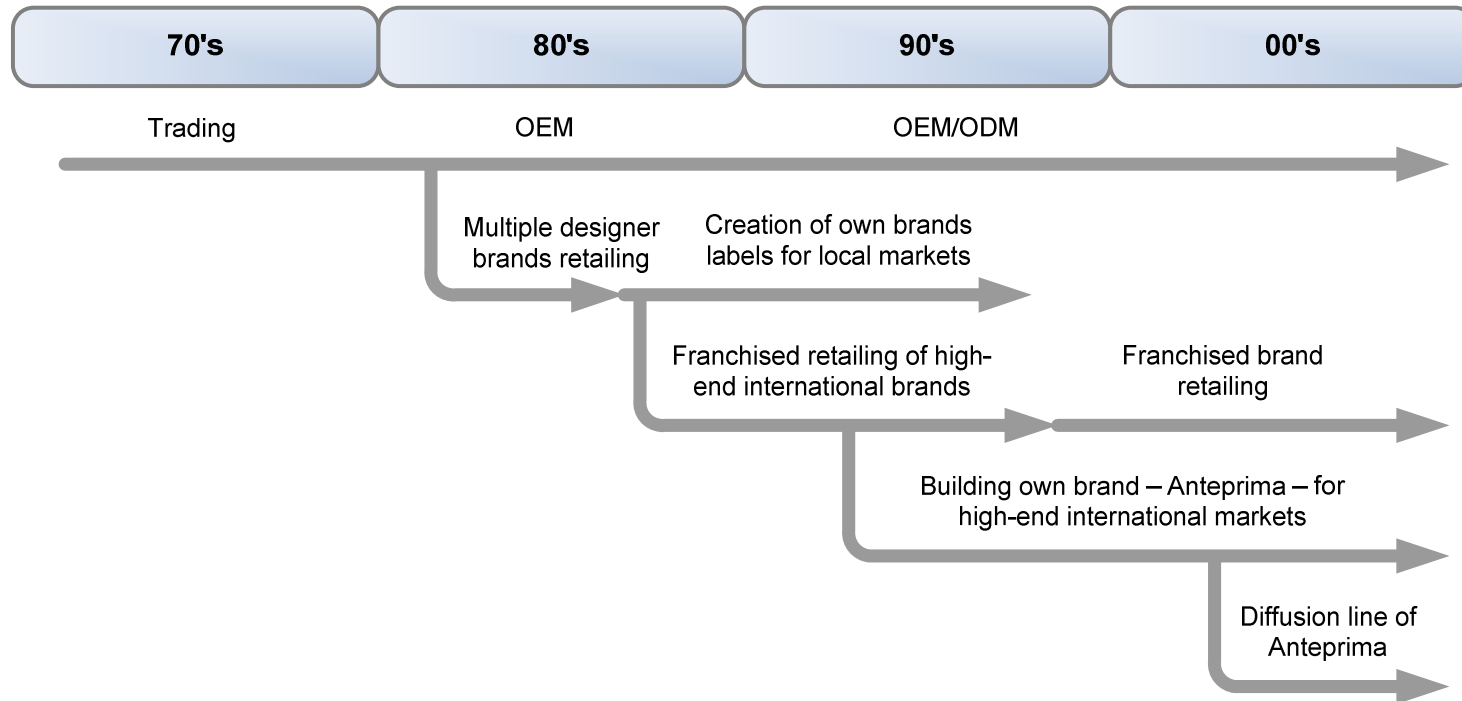
promising future of its OEM business at that time provided a sense of security and reduced the threat of failure of the new business model.

4.7.2 Development path and operational strategies

There were no pre-set upgrading strategies for moving towards OBM in Fenix but the stage learning through four business phases (see Figure 4.4), which were as follows:

- Multiple designer brands retailing;
- Creation of own brand labels for local markets;
- Franchised retailing of a high-end international brand; and
- Achievement of OBM - building own brands for high-end Asian markets.

Figure 4.4: Flow of Fenix's fashion business developments



Of these four phases, the introduction of brand retailing played an important role in the case of Fenix. Engaging in brands retailing, especially associated with an overseas brand with high growth potential internationally, provided Fenix with the opportunities to acquire exposure and connections and achieve an understanding about the high-end consumer markets. This further occasioned the creation of Fenix's own high-end brands – as the final phase of establishing OBM.

The operational strategies employed in each of the above-cited phases are summarized in Table 4.1. It was found that Fenix made considerable use of their external resources from OEM business connections in the first two stages, and their product strengths cultivated from OEM helped to create the comparative advantages for OBM. Commitment from the top managers and the set up of the design and production bases in Italy were two of the crucial actions for Fenix to establish a successful international brand for the high-end market. Especially, the latter action enabled Fenix not only to overcome the perceived disadvantage of limited creativity or innovative ability in design, but also to put emphasis on the country-image effect of design rather than country-image effect of brand origin. Taking such an action required a large investment and transnational management skills and this level of initiative was uncommon in the Hong Kong industries at that time.

4.7.3 Knowledge acquisition and development

Instead of directly shifting from OEM to OBM, the stage of learning also narrowed the knowledge gaps and reduced the derived risk. However, since that there was no cross-learning at the staff level between the OEM/ODM and OBM sections in Fenix, the stage learning was mainly the prerogative of the top managers who were the key persons crossing

between the two business models and learning in the process of changing from OEM to OBM. As a whole, Fenix obtained the knowledge of marketing and retailing management for branded business through recruiting professionals in the first three phases, and developed the know-how of design and branding mainly in the last phase – a complete OBM stage achieved through means of trial and error (Table 4.1).

Despite having acquired the fashion retailing experience including the experience of acting as the franchised retailer of Prada for more than ten years, Fenix's top managers still encountered difficulty in understanding the targeted market and brand value when starting their OBM business. Fenix engaged in Prada's expansion and growth in the Asian markets, yet Fenix did not benefit from Prada's 'inside expertise'. The key functions of OBM were rigorously kept by Prada as its core competencies. A power relationship existed in the franchised relationship between Fenix and Prada in terms of knowledge transformation. A better understanding into the targeted market and brand value achieved by the Fenix top-managers was developed after managing their own branded business for eight to ten years.

Table 4.1: Fenix's path from OEM to OBM

Time	Phases	Operational strategies	Acquisition & development of crucial knowledge /skills
Early 80's	Multiple designer brands retailing	<ul style="list-style-type: none"> ▪ Sourcing merchandise from Fenix's Japanese customers ▪ Setting up a separate company and recruiting new personnel with the retailing expertise to handle the new business 	<ul style="list-style-type: none"> ▪ Marketing/retailing expertise through recruiting new people
	Creation of own brand labels for local markets	<ul style="list-style-type: none"> ▪ Retailing and coordinating the merchandise sourced from familiar knitwear manufacturers 	
1986	Franchised retailing of a high-end international brand	<ul style="list-style-type: none"> ▪ Setting up a separate company to handle the franchised retailing ▪ Associating the brand image with shop location 	<ul style="list-style-type: none"> ▪ Gaining knowledge and experience about the high-end consumer markets
1994	Achievement of OBM - building own brand – Antepima - for high-end Asian markets	<ul style="list-style-type: none"> ▪ Commitment from top management ▪ Placing great emphasis on product innovation and collection development ▪ Using external resources for product development and production at the starting stage ▪ Presenting the brand image as Italian fashion by adopting an Italian name and establishing the design and production bases in Italy ▪ Applying transnational networks in material supply, design, production and distribution activities ▪ Incorporating production strength and resources in OEM and creating competitive advantages ▪ Associating the image between shop location and brands ▪ Concentrating company's limited resources in one brand and making use of emerging opportunity in obtaining the best shop location in HK during the Asia Crisis in 1997 	<ul style="list-style-type: none"> ▪ Branding ▪ Design ▪ International marketing

4.7.4 Challenges tackled and factors affecting the OBM execution

The major challenges for Fenix in implementing OBM were as follows:

- Thought patterns which had evolved as a result of working in OEM mode; especially in the market reasoning;
- Management capability of incorporating design with the brand philosophy; and
- Competencies of design and innovation.

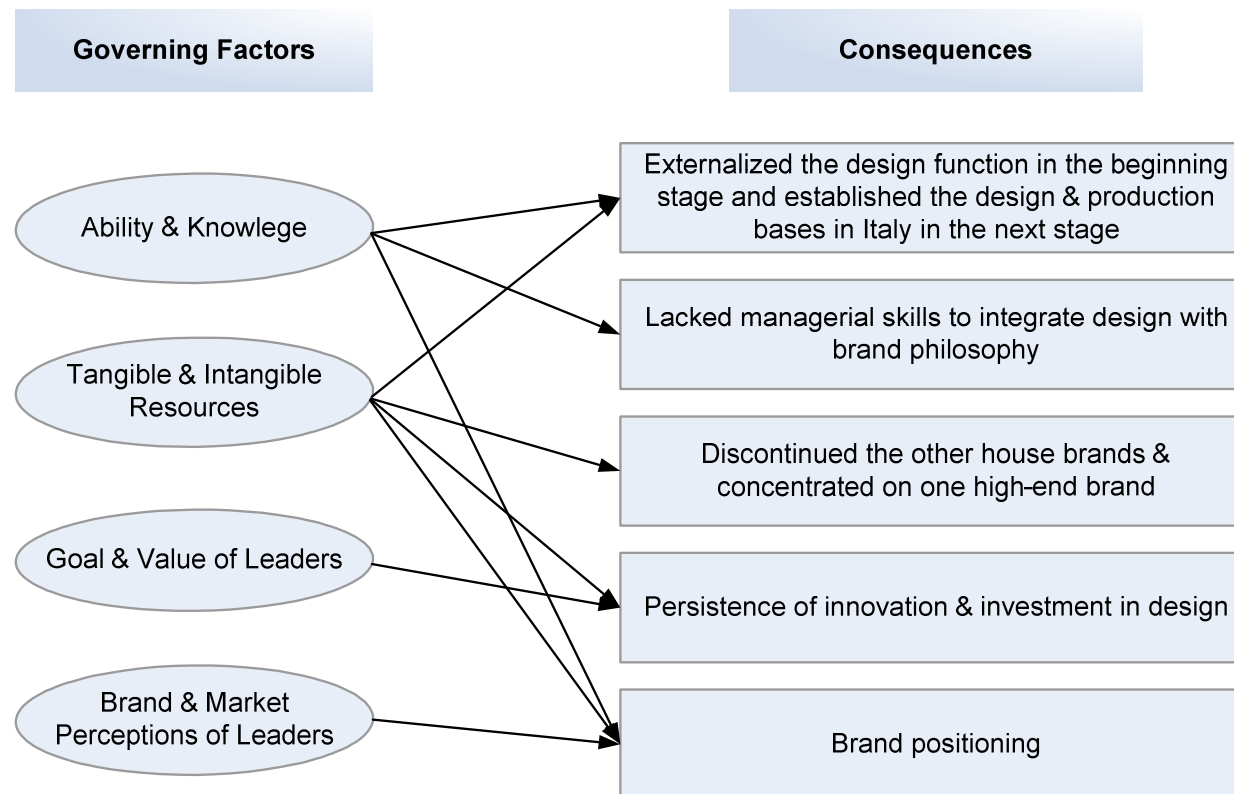
The governing factors influenced the decisions made and actions taken in the process of developing OBM were:

- Ability and knowledge;
- Tangible and intangible resources;
- Goals and values of the company's leaders; and
- Brand and market perceptions of the company's leaders.

Figure 4.5 further illustrates the consequences of these four governing factors.

Of these four governing factors, the ability/knowledge and the brand/market perceptions were the weaknesses impeding the upgrading process and mainly arose as a consequence of the company's long manufacturing history. Irrespective of this fact, engaging in GCCs also provided the comparative advantages for Fenix' upgrading to OBM in terms of cultivating the global view, having the international business connections and possessing the production strengths. The latter two advantages in particular enriched Fenix' resources and these resources had wide influences on Fenix's major decisions and actions for implementing OBM.

Figure 4.5: Governing factors and their impact upon the implementation of OBM



4.7.5 Co-existence and interrelations of the business models

In Fenix' case, the business of OEM/ODM was continuously expanding during the development of OBM and co-existed with the OBM. In addition, the reciprocal effects between these two business models appeared to be positive.

4.8 Amendments to interview guide and conceptual framework

This pilot case study was conducted in a small scale and did not focus on the issues of the social-economic perspective; however, the preliminary results of the pilot case fulfilled its purpose. The above findings, themes and issues arising from this pilot case study were mainly used to amend the interview guide and primary conceptual framework presented in Figures 3.2 and 3.4.

Chapter 5 Phase I – Taiwan Socio-economic Environments of Relevance

5.1 Introduction

This Chapter presents the findings of the phase one investigation of this study – the Taiwan socio-economic environments of relevance – which was then used to contextualize the case companies in the macro environments as well as assist the analysis and interpretation of the case study data.

These findings were structured as follows:

- Development of fashion brand business in Taiwan (Section 5.2);
- Supporting policies of government and trade organizations (Section 5.3);
- Insights into the branding environments (Section 5.4); and
- Analysis and discussion (Section 5.5).

5.2 Development of fashion brand business in Taiwan

5.2.1 The early stage of the domestic market (1950 – 1974)

According to the Department of Commerce (1990), the Taiwan domestic fashion market was relatively underdeveloped at a primitive stage before

1975. At the beginning of the 1950s, Taiwan did not produce sufficient textiles to supply its own domestic needs. The import value of cotton yarn and fabrics was more than US \$ 10 million per year (Lin, 1996). The Per Capita National Income was US \$ 137 in 1951 (see Table 5.1). An import-substitution policy was adopted by the Government and the textiles and clothing industries were given high priority status in the First Stage Economic Development Plan which began in 1953. Related economic measures were taken to protect the industries, such as restrictions on imported material and the new entry of domestic producers, the control of import goods and foreign exchange, and an increase in the import customs duty. During the period of import substitution (1949-1959), the production of textiles and apparel mainly supplied domestic needs, primarily for military and school uniforms (Pan, 1998). The clothing of the general public was either sewn at home or made by tailors.

Table 5.1: Major indications of Taiwan national figures (1951-2007)

Year	Average population		Exchange rates of the NT\$ against the US\$	Economic growth rate (%)	Per Capita National Income (At current prices)	
	Persons	Growth rate (%)	Average of daily figures		US\$	Nominal growth rate (%)
1951	8,255,000	-	10.30	...	137	-
1952	8,541,000	3.5	10.30	12.0	186	35.8
1953	8,822,000	3.3	15.55	9.4	160	-14.0
1954	9,134,000	3.5	15.55	9.6	168	5.0
1955	9,480,000	3.8	15.55	8.2	193	14.9
1956	9,823,000	3.6	24.78	5.7	134	-30.6
1957	10,133,000	3.2	24.78	7.5	151	12.7
1958	10,460,000	3.2	24.78	6.9	163	7.9
1959	10,806,000	3.3	36.38	7.7	123	-24.5
1960	11,155,000	3.2	36.38	6.3	144	17.1
1961	11,510,000	3.2	40.00	6.8	143	-0.7
1962	11,857,000	3.0	40.00	7.8	152	6.3
1963	12,210,000	3.0	40.00	9.4	167	9.9
1964	12,570,000	2.9	40.00	12.2	190	13.8
1965	12,928,000	2.8	40.00	11.2	204	7.4
1966	13,283,000	2.7	40.00	8.9	223	9.3
1967	13,617,000	2.5	40.00	10.7	251	12.6
1968	13,945,000	2.4	40.00	9.3	285	13.5
1969	14,264,000	2.3	40.00	9.1	323	13.3
1970	14,565,000	2.1	40.00	11.4	364	12.7
1971	14,865,000	2.1	40.00	12.8	414	13.7
1972	15,142,000	1.9	40.00	13.3	486	17.4
1973	15,427,000	1.9	38.25	12.9	648	33.3
1974	15,709,000	1.8	38.00	1.4	862	33.0
1975	16,001,000	1.9	38.00	4.9	900	4.4
1976	16,329,000	2.0	38.00	14.0	1,053	17.0
1977	16,661,000	2.0	38.00	10.3	1,207	14.6
1978	16,974,000	1.9	36.95	13.7	1,461	21.0
1979	17,308,000	2.0	36.00	8.4	1,784	22.1
1980	17,642,000	1.9	36.00	7.4	2,189	22.7
1981	17,970,000	1.9	36.79	6.2	2,486	13.6
1982	18,297,000	1.8	39.12	3.5	2,460	-1.0
1983	18,596,000	1.6	40.06	8.3	2,613	6.2
1984	18,873,000	1.5	39.62	10.7	2,937	12.4
1985	19,136,000	1.4	39.86	5.0	3,041	3.5
1986	19,357,000	1.2	37.85	11.5	3,698	21.6
1987	19,564,000	1.1	31.87	12.7	4,905	32.6
1988	19,788,000	1.1	28.61	8.0	5,917	20.6
1989	20,006,000	1.1	26.41	8.5	7,097	19.9
1990	20,230,000	1.1	26.89	5.7	7,556	6.5
1991	20,455,000	1.1	26.82	7.6	8,341	10.4
1992	20,654,668	1.0	25.16	7.9	9,792	17.4
1993	20,848,250	0.9	26.39	6.9	10,197	4.1
1994	21,034,899	0.9	26.46	7.4	11,040	8.3
1995	21,214,987	0.9	26.49	6.5	11,868	7.5
1996	21,387,815	0.8	27.46	6.3	12,418	4.6
1997	21,577,382	0.9	28.70	6.6	12,707	2.3
1998	21,777,096	0.9	33.46	4.6	11,522	-9.3
1999	21,952,486	0.8	32.27	5.8	12,324	7.0
2000	22,125,102	0.8	31.23	5.8	13,090	6.2
2001	22,277,933	0.7	33.81	-2.2	11,692	-10.7
2002	22,396,420	0.5	34.58	4.6	11,914	1.9
2003	22,493,921	0.4	34.42	3.5	12,242	2.8
2004	22,575,034	0.4	33.43	6.2	13,252	8.3
2005	22,652,541	0.3	32.18	4.2	14,075	6.2
2006	22,740,012	0.4	32.53	4.9	14,410	2.4
2007	22,828,559	0.4	32.84	5.7	15,078	4.6

Source: National Statistics, Taiwan, R.O.C. (2008b)

The restrictions on the new entry of domestic producers were abandoned in 1957. In the meantime, the Textile Export Committee was formed to promote the export business. With the support of a series of successful economic measures and the abundant labour resources, the industry achieved a significant growth in exports. By 1965, the largest export value was created by textiles and clothing products. The export expansion of textiles and clothing continued to the beginning of the 1970s.

Although the Per Capita National Income increased to US\$ 364 in 1970 and further to US\$ 900 in 1975 (see Table 5.1), the development of the domestic market was slow during the export-expansion period. There were very few foreign goods in the market¹⁸ due to the unchanged policies of high import customs duty and the control of imported goods and foreign exchange. Most of the garments sold in the domestic market were produced by the small clothing companies and consigned to sell through a number of small independent boutiques (Department of Commerce, 1990). Tailor shops were major sources for clothing, especially men's suits. There were only two large integrated textile companies offering the branded garments of the basic men items for the domestic market. One was the Far Eastern Textile Company which launched the licensed labels - Manhattan (for men's shirts) and BVD (for men's underwear) in 1968; another was the Chung-Shing Textile Company which marketed the private label 'Yi Er Shuang' - also for men's underwear - in 1973.

In addition to the above supplies to the domestic market, there were also the suppliers of low-cost ready-to-wear from the small-scale household production system. The Wufenpu garment area which emerged at the end of the 1960s was one such example. In the early stage (1970s), the low-

¹⁸ Foreign goods were hand-carried by the USA soldiers stationed in Taiwan and Taiwanese nationals who had opportunities to go overseas. Most of these goods were from Japan, Hong Kong and the United States and they were consigned to sell in the small boutiques.

cost garments produced in the Wufenpu garment area were simple in style and largely made using fabric offcuts or defective fabrics collected from the clothing manufacturers with significant export markets (Ka, 1993)¹⁹.

5.2.2 The start of the fashion brand market (1975 – 1984)

An Embryonic consumption society emerged in Taiwan in the second half of the 1970s (Chang, 2004; Chen, 2001). The Per Capita National Income sharply increased from US\$ 900 in 1975 to US\$ 1,784 in 1979 and further up to US\$ 2,937 in 1984 (see Table 5.1). Due to the increasing income, the living standard of Taiwan residents rose during this period. Consumers' expectations for clothing were also raised. There were more demands for quality and fashion clothing. Three features of a growing domestic fashion market were exhibited as described in the following sub-sections.

5.2.2.1 Franchised retailing and imitation stage of local companies

In 1975, the fashion brand Christian Dior was franchised and introduced to the Taiwan domestic market by 'Xiao Ya' - a new established fashion specialist store in Taipei (Taiwan Textile Research Institute, 2006b). A number of Taiwan companies followed the same business model – franchised retailing – and introduced a number of foreign designer brands to the local market. Such imported brand garments were sold in small quantities through boutiques (ibid.). Due to the popularity of foreign products, the local fashion companies started to imitate the foreign logos and copy the styles of imported goods (Department of Commerce, 1990).

¹⁹ After a period of evolution lasting three decades, Wufenpu garment area became the centre of Taiwan's 'Pronta Moda' – a low-price, fast fashion supply centre in the mid 1990s.

The clothing retailing channels expanded from the small boutiques to the department stores, the number of which increased rapidly during this period.

5.2.2.2 Gaps between domestic market and export manufacturing

At the same time, exports of textiles and clothing exports enjoyed strong growth. Two export-oriented manufacturers had created brands for the domestic market – Carnival²⁰ (a men's leisure-suits brand) in 1979; and IBS²¹ (a jeans brand) in 1980; other than these, most of the textile and clothing manufacturers used their capacity only to export. All kinds of garments were produced in the export production system and few of these styles were available in the domestic market.

When the first clothing outlet selling the excess (some of which contained goods with minor defects) of the export manufacturers opened in the late 1970s, it immediately attracted many customers (Department of Commerce, 1990) and soon generated considerable business – followed by the opening of several chain stores. One of the companies which succeeded in this business, the Madam Group, later created its own brand 'Net' in the early 1990s which became one of the successful local brands in the domestic market and further expanded to the Shanghai and Singapore in the 2000s²².

Other than having more styles at a moderate price and a wider choice in sizes, the reason why the shops selling export garments were so popular in the domestic market was that there was a market need for more casual clothing. No casual or semi-formal styles were offered in the domestic

²⁰ Carnival was the first ready-to-wear men's suit collection in the Taiwan domestic market.

²¹ IBS was created by the Kaosha Textile Company – one of the world's largest producers of corduroy and denim fabric.

²² Net is the local brand with the most retailing stores in Taiwan. In September 2008, Net had 130 stores in Taiwan.

market at that time. The available styles of the imported or local clothing were either too formal or overly-mature for housewives and the young generation.

The clothing produced by the export manufacturers met the customers' needs. Casual daily wear and outdoor garments such as active sportswear and down apparel were unavailable in the home market. Key informant I, who had marketed down garments using his own labels to the domestic market for 28 years, described his business operation in the late 1970s as follows:

The business opportunities started when my boss asked me to clear the export stocks and defective goods and sell to the local specialist store (which only sold the equipment for sports or outdoor activities at that time). After a few seasons of operation, I quit the job and started my own business selling down jackets under my own label. I placed small orders with the export manufacturers and followed the styles and working specifications of large orders provided by their overseas customers, only changing the fabrication (Key informants I, 07.31.2007).

5.2.2.3 Diversification of large companies and increase of fashion brands

In the early 1980s, two major government policies influenced the development of the textiles and clothing industries and fashion brand business. One policy, introduced in 1981 was to promote the high-tech electrical/electronic industries as a strategic measure. A number of large integrated textiles and clothing companies consequently started to diversify their business into various fields.

Another policy implemented in 1979 was to allow citizens to go overseas for tourism. Taiwan consumers therefore had more opportunities to attain

various kinds of information and experience cultural exchanges (Yueh, 1998). In addition, during this period a number of foreign magazines began to be imported to Taiwan, including fashion magazines (Department of Commerce, 1990). As a consequence, the fashion awareness of the general public was gradually enhanced.

Consumers also became familiar with the famous foreign brands through fashion magazines and overseas visits. More well-known foreign brands were introduced to Taiwan. The business pattern was expanded from franchised retailing to franchised manufacturing and retailing. Examples of brands franchised in manufacturing and retailing at that time were Pierre Cardin and Playboy.

Some local fashion companies with a rudimentary understanding about 'brand' began to create their own brands and open their own shops, such as Jiarja, Shiatze, Single Noble, O'girl and Jojo. In addition to having their own shops, these companies used sales channels such as the increasingly popular multi-brand specialist stores and department stores (Department of Commerce, 1990). During this period, ladies' fashion was dominated by the Japanese style (ibid.).

5.2.3 Changes in social and economic phenomena (1985 – 1990)

There were some marked changes of Taiwan socio-economics during the second half of the 1980s and this hence led to a big transformation in both social and economic developments from the mid-1980s to the 90s. These changes included: Taiwan's population reached 20 million; the growth rates of Per Capita National Income were at a peak – by 1990, the value of Per Capita National Income was US\$ 7,556 (see Table 5.1); the New Taiwan

Dollar appreciated by more than one-third in value between 1986 and 1988 (see Table 5.1); and the emerging middle class started to spend time and money on leisure activities (Watson, 2006). Besides, environmental consciousness was on the rise, and both a labour shortage and a sharp increase in the cost of land occurred. The standard labour laws were also implemented in 1985. After 1987, the service sector started to expand and the industrial sector began to fall in terms of the share of GDP and the employee population²³ (Zhao, 2005).

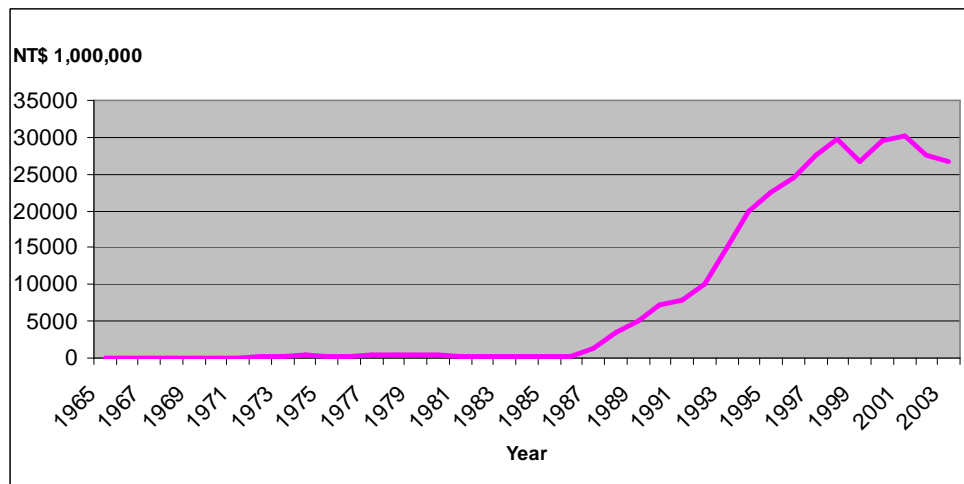
Two important national policies - the liberalisation in politics in 1987 and 1988 and the globalisation/liberalisation of economic affairs in 1986 - were adopted. The political liberalisation were the nullification of martial law and the easing of restrictions on travel to mainland China, as well as the lifting of partisan control and loosening of the newspaper censorship. The measures of the globalisation/liberalisation in economic affairs were mainly relaxing the foreign currency exchange control, reducing the customs duty, loosening the trade control and approving the foreign capital investment in the retail business.

The above socio-economic changes had a considerable effect upon the local fashion market and the development of the related brand business. The immediate consequence was that the quantity of imported garments and fashion accessories rose sharply after the customs duty had been reduced and trade controls relaxed (Figure 5.1). Some local fashion companies began to produce goods elsewhere or placed orders overseas

²³ The share of GDP by service sector remained between 45-50% before 1987 and increased after 1987. In 1990, the share was over 50% (Shiau, 1994). By 2003, the share was up to 67.8%, and the number of employees rose from 42% of the total work force in 1987 to 57.9% in 2003 (Zhao, 2005). The share of GDP by the industrial sector fell gradually from a peak of 47.1% in 1986 to 30.8% in 2003 and the number of employees fell from a peak of 42.8% of the total work force employed in 1987 to 34.83% in 2003 (Industrial Development Bureau, Ministry of Economic Affairs, Taiwan, R.O.C., n.d.a).

through the intermediaries due to the rising costs and disruption of local subcontracting networks of the clothing industry.

Figure 5.1: Import value of Taiwan garments & accessories (1965-2003)



Source: Center for the Studies of Everyday Life of Feng Chia University (1995)

In addition to the sharp increase in the imported garments, the key influence of liberalisation in politics and economics on the local brand business could be summarized as three major issues listed below, which are elaborated on in the following sub-sections:

- Raising the local fashion companies' and consumer's appreciation of design, quality and brands;
- Offering the opportunities for foreign companies to directly invest and engage in local brand retailing; and
- Opening trade as a result of the formal dialogue between Taiwan and mainland China.

5.2.3.1 Increasing the appreciation of design, quality and brands

Although the policy of travelling overseas for tourism was implemented in 1979, the number of people going abroad did not increase significantly until 1987. The high growth rate of overseas tourism between 1987 and 1990 (see Table 5.2) could be attributed to the following factors:

- The measure of loosening the foreign currency exchange control in 1986 (Yueh, 1998);
- The appreciation of the new Taiwan dollar between 1986 and 1988; and
- A prosperous stock market (Department of Commerce, 1990).

Table 5.2: Rate of increase in the number of Taiwan residents going abroad (1980 – 1990)

Year	Number	Growth rate (%)
1980	484,901	-
1981	575,537	18.69
1982	640,669	11.32
1983	674,578	5.29
1984	750,404	11.24
1985	846,789	- 4.00
1986	812,928	12.84
1987	1,058,410	30.20
1988	1,601,992	51.36
1989	2,107,813	31.57
1990	2,942,316	39.59

Source: Tourism Bureau, M.O.T.C., Taiwan, R.O.C. (2002)

Due to the popularity of overseas travel, consumers had opportunities to see fashion centres and become familiar with foreign brands through shopping abroad (Department of Commerce, 1990). This led to increasing appreciation of garment quality, design, country of origin and brand value on the part of both the consumers and the local fashion companies.

In this period, new local brands were created not only by local fashion companies but also by some of the brand importers and department stores (ibid.). Promotions of local designer brands were also attempted by the specialist store 'Xiao Ya' and the department store 'Chung-Shing' (Key informant D, 07.26.2007). However, the number of imported brands continued to increase, especially the high-end luxury and designer brands (Department of Commerce, 1990). Factors such as the appreciation of the new Taiwan dollar and the reduction of the rate of customs duty particularly increased the import of finished merchandise, and more companies adopted the business model of franchised retailing rather than franchised manufacturing and retailing.

5.2.3.2 Direct retailing operations of foreign companies

The policy of allowing the foreign investments in local retail business had two direct influences on the development of Taiwan's fashion brand business. The first was that the large Japanese department stores were introduced to Taiwan through joint ventures with Taiwan companies. Two of the largest chain department stores - Pacific Sogo and Shin Kong Mitsukoshi - were established (Department of Commerce, 1990). Since the department stores have traditionally been the primary retailing channel for branded fashion and the sales results of the Japanese department stores were usually higher than those of other department stores, the brand selection policies of these two chain department stores had a direct impact upon the brand business in Taiwan during the 1990s and 2000s (Key informant O, 07.21.2007).

The second influence was in creating the opportunities for the foreign brand companies to directly invest and engage in managing their retailing

operations in Taiwan. The best examples during this period were Hong Kong brands - Toppo (which started their Taiwan retailing operation in 1987) and Giordano (with the direct retailing operation in the Taiwan market from 1988). Both brands made significant contributions to the local Taiwan brands and retailers in terms of the know-how of the brand operation.

According to key informant B (08.01.2007), the contribution and significance of Toppo to the Taiwan brand market can be recognized from two perspectives. Firstly, it offered an alternative choice for the career women²⁴ (especially the young generation) who did not want to wear the severe Japanese-look office outfits which were the dominant styles in the market. Toppo's collections at that time provided the new outfits (e.g., the working suits with pants) of a good quality at affordable prices. Secondly, it demonstrated an integrated brand operation which included a fresh brand image and a well-coordinated merchandise assortment and display. An easy-to-shop environment was created in Toppo's shops and customers found it simple to select the garments without the help or advice of the sales assistants since the garments were coordinated for display. At that time, most Taiwan local brands did not have a clear concept about brand positioning and merchandise planning.

They usually displayed as many styles as possible at the beginning of season and decided which styles should be added to after gauging the customers' reactions. The collection was not planned according to the coordination principles or colour stories (Key informant B, 08.01.2007).

When the first Toppo shop opened in Taipei, people were sent from both the local brand companies and department stores and assigned to study the collections and merchandise displays (Key informant B, 08.01.2007).

²⁴ According to the government statistics (Directorate-general of Budget, Accounting and Statistics, Executive Yuan, Taiwan, R.O.C., 1994), the population of females employed rose from 2.71 million in 1985 to 3.17 million in 1991. In the same period the percentage of white-collar female workers rose from 24.7% to 32.8%.

The significance of the Giordano case was that they started the first chain-store retailing system in Taiwan (Key informant O, 07.21.2007). At that time, few of the Taiwan fashion brand companies had the experience of opening the shops in the high street as their outlets were in department stores or specialist stores. The shop-location appraisal system introduced by Giordano had a particular impact, and it was widely adopted by local brand companies in the 1990s (Key informant B, 08.01.2007).

5.2.3.3 Beginning of the era of interactions with mainland China

The policy of permitting Taiwan residents to visit mainland China led to significant developments in cultural and economic interactions in the following twenty years. Such developments offered new market opportunities to the Taiwan fashion brand business. For some Taiwan companies, China was an extension market; but for companies such as Tainan and Ruentex²⁵ - both of these large and GACC rooted companies - China was their starting market for OBM.

There are no statistics available to indicate the sales value of the Taiwan fashion brand market. It has been estimated that the total sales value of clothing in the Taiwan domestic market was around NT \$150 - 170 billion (Taiwan Textile Research Institute, 2006b). There is also no reference figure to indicate the share of brand garments in the domestic market. However, most of the large export-oriented companies considered the Taiwan domestic market to be a small scale investment when creating their own brands (Key informant C, 07.25.2007; Key informant O, 07.21.2007).

²⁵ Tainan has been one of the main suppliers to Gap for more than three decades and started its OBM in China since 1992. Ruentex – a diversified textile export companies – started its franchised retailing in Taiwan from 1990s and started its OBM in China from 2005.

This may explain why Tainan and Ruentex chose China as their first market for OBM rather than the nearby home market.

The phenomenon of moving or expanding to the China brand market appeared to have two peak periods – one was on the 1990s and the other was at the beginning of the 2000s. This will be further discussed in the next section.

5.2.4 An open and diversified domestic market (after 1990)

The opening up of Taiwan's domestic fashion market began after 1990. This opening was facilitated by the socio-economic developments in the first half of 1990s, when the Per Capita National Income exceeded US \$10 thousand for the first time in 1993 and several key national policies implemented. The former enabled Taiwan to enter into the category of high-income countries (Szirmai, 2005), and the latter assisted the industry transformation and were advantageous to the development of a more open and fair society. These related national policies included:

- The increase of students studying abroad due to the open policy adopted in 1990;
- Statute for upgrading industry for promoting industrial restructuring and increasing industrial value (1991);
- The legitimized cable TV in 1993;
- The implementation of national law of consumer protection in 1994;
- The introduction of the national health insurance in 1995; and
- The industrial promotion for three key industries – information technology, precision machinery and the biotechnology and pharmaceutical industries, in 1995.

The following two sub-sections summarize the changes in the domestic fashion market in the 1990s and 2000s respectively.

5.2.4.1 Internationalized domestic market and competition in the 1990s

In the early 1990s, the international fashion magazines – Harper's Bazaar, Elle and Vogue - issued their Chinese versions in Taiwan (Ye, 2001). New edge international designer brands were introduced to the Taiwan market by Joyce (a Hong Kong high fashion retailer) in 1992. Leading department stores became actively involved in developing their own franchised retailing of the well-known European brands and the newly-launched Japanese brands. Since then the Taiwan fashion brand market has diversified and been highly influenced by the internationalisation of Western and Japanese fashion brands.

In addition to being internationalized, the local fashion market also underwent two other key developments in the 1990s, which were the rise of middle-price imported brands and the chain-store brand retailing as well as the transformation and expansion to the China brand market of the local brands.

Rise of middle-price imported brands and chain-store brand retailing

The middle-price foreign brands – including the diffusion line of designer brands and cooperative brands - entered the local market during the period 1991-1995 and commanded a considerable market share (Department of Commerce, 1990; Wei, 1996). These brands became the main threats to

the majority of the existing local brands since both of them targeted the same consumer groups.

In the early 1990s, there was a significant growth in brand retailing in the chain-store section operated by several HK and domestic brands (Taiwan Textile Research Institute, 2006b), such as Esprit, Hang Ten, Theme, Single Noble, O'girl and Net. Most of these brand chain stores provided basic fashion items or young casual wear from the medium-low to the medium price range. Followed by the other cooperative brands from Europe such as Morgan, Mango opened their chain-stores in Taiwan in the second half of the 1990s. By 2005, approximately 12.9% of garments were sold at the brand chain stores (i.e., around NT \$19.5 – 22 billion), according to the estimate of the Taiwan Textile Research Institute (ibid.).

Imported brands vs. local brands

In the early 1990s, some of the companies which had established their brands in the local market began to experience severe competition and decided to switch their market to mainland China. The competition was mainly as a result of new imported brands available in Taiwan and the changes in consumers' preferences.

Although a growing number of brands had started chain-store retailing in the local market, the primary distribution channels for most of the local fashion brand companies were rented spaces in specialist stores or department stores (Taiwan Textile Research Institute, 2006b; Yueh, 1998). Since foreign brands from the advanced countries were very popular, department stores increasingly leased more floor space to the imported brands to the detriment of the local brands (Key informants M and O, 07.21.2007). Preferential lease conditions were offered to the imported brands including lower sales

commission rates and the best outlet locations. Such unfair treatment was particularly serious in the Japanese department stores (*ibid.*), which continuously increased²⁶ in number and expanded²⁷ from the end of the 1980s to the 1990s.

As reported in Section 5.2.3.2, by the end of the 1980s young career women did not want to wear the severe Japanese look. This tendency evolved and continued in the first half of the 1990s, and there were more consumers cultivating a modern and cosmopolitan appearance. Some local brands (especially the companies having a longer history) were not able to respond to the changes in consumer preferences. Some local brands found niche markets and underwent a successful transformation process, such as Jojo with a simplified black-and-white eccentric look, and Shiatzy Chen with a sophisticated Neo-Chinese style. However, a few companies having difficulties in changing their styles or deterred by the limited distribution channels decided to transfer their major business to China, such as Mysheros and Chaber.

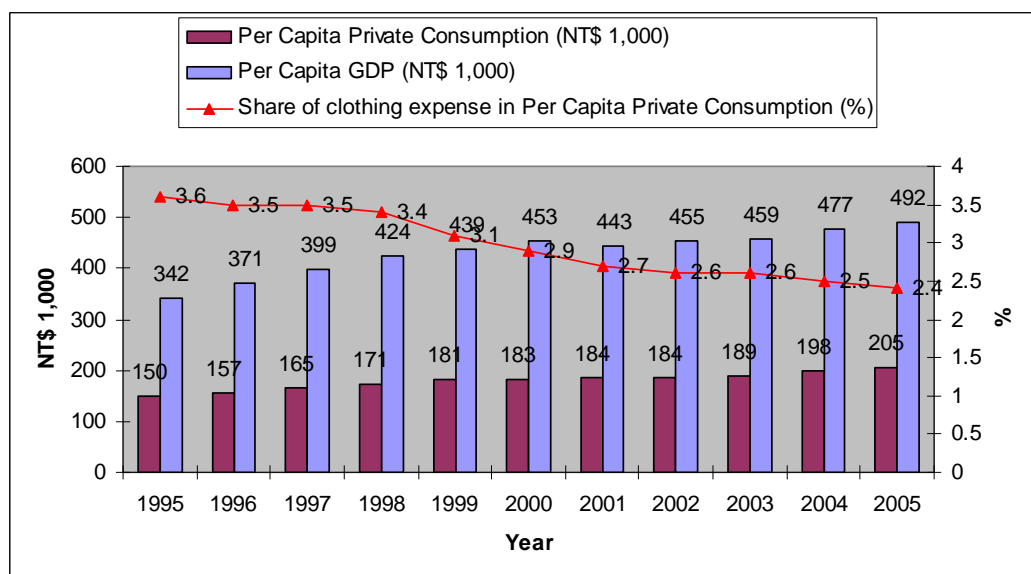
After 1995, although the average income continued to increase, the share of clothing expense in Per Capita Private Consumption continued to fall (see Figure 5.2). This indicates the consumers' clothing purchases did not increase at the same rate as their income. The competition in Taiwan's domestic market became much more severe when more internationalized brands from both the high-end and middle-end markets entered the Taiwan

²⁶ In the first half of the 1990s, several new Japanese department stores entered joint-venture agreements with the local companies, such as the Talee's Isetan, Dayeh Takashimaya and Hanshin. Some local department stores entered into technical cooperation agreements with other Japanese department stores, e.g., Seibu, Daiei and Keio.

²⁷ The first two Japanese department stores established at the end of 1980s - Pacific Sogo and Shin Kong Mitsukoshi - further developed into two of the three largest chain department stores in Taiwan during the 1990s and 2000s. As of August, 2008 Shin Kong Mitsukoshi had twelve stores in Taiwan; Pacific Sogo had eight stores in Taiwan and twelve stores in China.

market during the second half of the 1990s. The distribution channels in the department stores were even more limited for the local brands (Taiwan Textile Research Institute, 2006b). More local brands switched their business emphasis to China at the end of the 1990s including the designer brands such as Bianco (Fan Yi Wen) and Long Deed (Tsai Mong-Hsia).

Figure 5.2: Share of clothing expense in Per Capita Private Consumption in Taiwan (1995 – 2005)



Modified from Taiwan Textile Research Institute (2006b)

5.2.4.2 Expansion to mainland China and environmental changes in the 2000s

Second wave of entering the Chinese market

In addition to the period in the 1990s when a few Taiwan companies started their own brand business in China²⁸, another peak of entering the Chinese brand market by Taiwan companies appeared around the beginning of the 2000s due to the opening up of the Chinese retailing market after China joined the WTO.

Despite the fact that the Taiwan Government had adopted a tighter economic policy to slow the investment in China at the end of 1990s, there were many Taiwanese companies expanding their successful experience to the China brand market – including some local brands such as Jojo and U'db and a few brand importers, such as Carnival which had been the franchised retailer of Giorgio Armani in Taiwan and further acquired the regional franchised retailing in the north China area. Another large integrated and diversified enterprise - Ruentex – invested in their first in-house menswear brand - Charles River - in China in 2005 after a long period of exporting to the USA and running a franchised retailing operation for the Nautica brand in the domestic market.

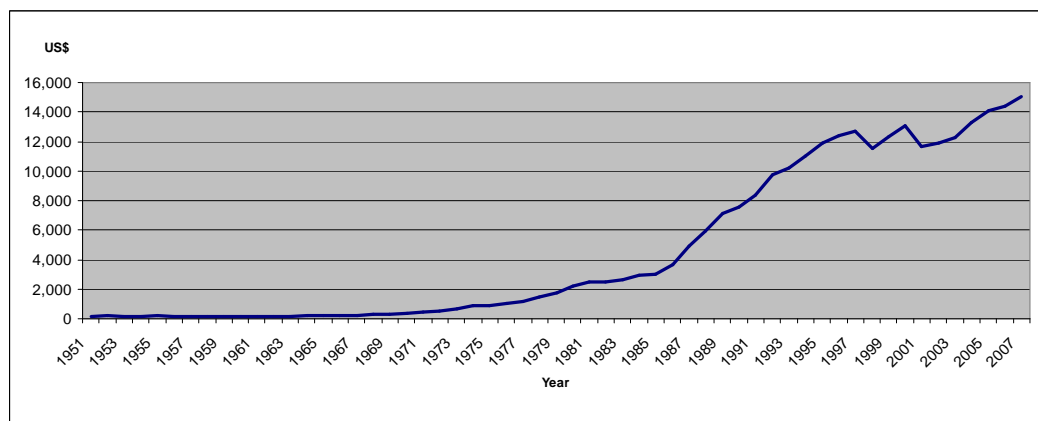
Based on their success in the Chinese brand market, two Taiwanese brands, Chaber and Tony Wear, both of which had started their OBM in China in the 1990s, further expanded from the Chinese market to other countries, specifically Japan and Singapore, in the middle of the 2000s.

²⁸ These companies included not only the established domestic brands such as Les Enphants, Ou Feng Underwear, Mysheros, Chaber, Bianco and Long Deed, but also the large textile and clothing export manufacturers, such as Tex-ray and Tainan which initiated their OBM in China.

Trends and changes in market environments

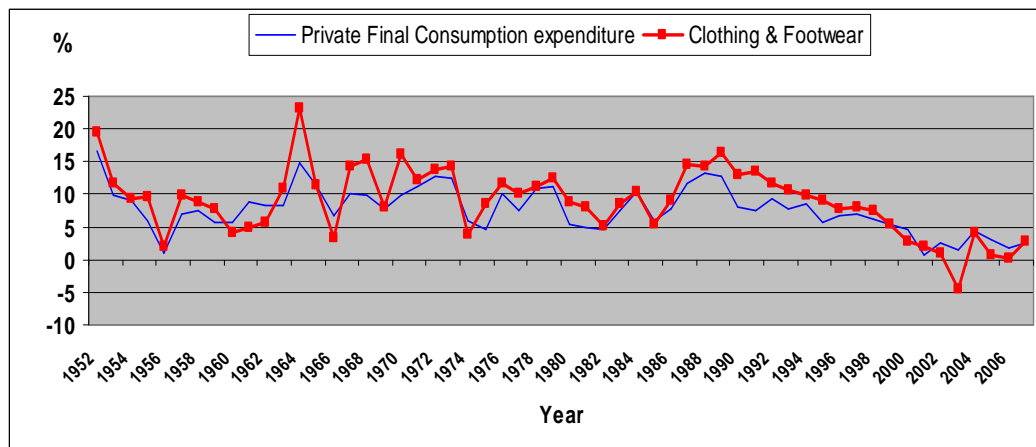
In 2001, Taiwan experienced its first negative economic growth rate. Since then the increase of economic growth rate (see Table 5.1) and the Per Capita National Income have been slow compared to the rapid growth in the 1980s and 1990s (see Figure 5.3). The growth rate of clothing and footwear consumption also dropped below 5% and had a negative growth of 4.5 % in 2004 (Figure 5.4). Despite the fact that the Taiwan economy was less prosperous, more open economic policies preceded Taiwan's membership of the WTO in 2002, and the open policy of the direct investment in China in the same year. By 2007, the Taiwan Per Capita National Income had risen to US\$ 15,078.

Figure 5.3: Changes of Taiwan Per Capita National Income (at current prices) (1951- 2007)



Source: National Statistics, Taiwan, R.O.C. (2008b)

Figure 5.4: Growth rate of clothing/footwear expense and the private final consumption expenditure in Taiwan (1952 - 2007)



Source: National Statistics, Taiwan, R.O.C. (2008a)

A major change related to the socio-economic environment in this period was the implementation of the five-day working week in 2001. This had an influence on the citizens' leisure activities and shopping behaviour, and further induced the establishment of several new shopping malls after the first one opened at the end of 1990s. Although the branded chain stores in high streets and the large shopping malls with entertainment functions have since gained in popularity, the primary selling channel for most of the branded fashion companies was still governed by the large chain department stores. The chain operation of these department stores has become more dynamic and powerful in the 2000s. Due to the loss of competitiveness, some independent department stores gradually phased out in the 2000s, such as LaiLai, Evergreen, Printemps and Sunrise department stores.

According to the estimate of the Taiwan Textile Research Institute (Taiwan Textile Research Institute, 2006b), approximately 22.1% of the garments were sold at the department stores and in shopping malls in 2005 (i.e., around NT \$33 – 37.5 billion in total). It was also reported that the

department stores considerably reduced the floor space for menswear and reallocated space to accommodate branded sportswear and ladies' fashion. One third of the floor space was hence for ladies' fashion. By 2008, in the ladies fashion market, the most competitive segment was that of the career women aged from 25 to 40. This market segmentation contributed around 70% sales of the Taiwan domestic womenswear market (ibid.).

5.3 Supporting policies from government and trade organizations

5.3.1 Related governmental plans before 2006

Before 2006, the Taiwan government had no strong policies supporting the development of brands. Awareness of the importance and value of brands for a national economy developed gradually over the last two decades. In the 1990s, the promotion of own brand creation was under the trade programmes and activities implemented by Taiwan External Trade Development Council (TAITRA) within a narrow extent by means of exhibiting the Taiwan brands in the international trade exhibitions for promoting the national image, conducting the Corporate Identity System enhancement programmes and awarding the national 'Symbol of Excellence' for the branded products created (Taiwan Institute of Economic Research, 1989).

The only one trade organization promoting own-brand creation was the the Brand International Promotion Association (BIPA). The association was formed by Taiwan major exporting manufacturers in 1989 with the support

from TAITRA and the Bureau of Foreign Trade and aimed to promote Taiwan brand names in international markets²⁹.

Although there were no governmental supporting plans directly targeted at brand creation in the 1990s and at the beginning of the 2000s, the related governmental plans which cultivated the core knowledge of implementing OBM (i.e., design, marketing and branding) for the textiles and clothing industries were reviewed in this investigation and are listed in the following text.

5.3.1.1 Three five-year plans for upgrading quality, design and image

Taiwan does not have a long-term national design policy. The design related policies were covered by the economic development policies in various stages and implemented mainly by the Industrial Development Bureau. Although two design centres were established by the two trade organizations³⁰ in 1978 and 1979 to promote design as a tool to increase the product competitiveness, the earliest government plans regarding product design can be traced back to 1988. There were three sets of five-year plans related to design and brand initiated by the Taiwan Ministry of Economic Affairs from 1988 (see Table 5.3). These strategic plans were for upgrading the made-in-Taiwan products and were the responsive measures to the challenges posed by the changes in the local manufacturing environment in the second half of 1980s (see Section 5.2.3), which no

²⁹ Up to August 2007, BIPA had 40 members including four from the textiles and clothing industries and later in the same year merged with the Taiwan Excellent Brand Association (TEBA).

³⁰ One design promotion centre was established by the China External Trade Development Council (CETRA – the former TAITRA) and another one was the Textile Design Center set up by the Taiwan Textiles Export Federation (TTF – the former Taiwan Textile Federation).

longer had any competitive advantage over other suppliers with lower labour costs and ready access to the international markets.

Table 5.3: Five-year plans for upgrading product quality, design and image

Plans	Years	Emphases
1 st five-year plan for upgrading quality	1988 - 1993	<ul style="list-style-type: none"> ▪ Raising product quality in the production & management process
2 nd five-year plan for upgrading quality	1993 - 1998	
3 rd five-year plan for upgrading quality	1998 - 2003	
1 st five-year plan for upgrading design	1989 - 1994	<ul style="list-style-type: none"> ▪ Stressing design planning & research, designer training, design counseling and public campaigns
2 nd five-year plan for upgrading design	1994 - 1999	
3 rd five-year plan for upgrading design	1999 - 2004	
1 st five-year plan for upgrading image	1990 - 1995	<ul style="list-style-type: none"> ▪ Encouraging the introduction of product innovations to the international market place ▪ Placing emphasis on ownership of brands, creative design, high quality and good marketing
2 nd five-year plan for upgrading image	1995 - 2000	
3 rd five-year plan for upgrading image	2000 - 2005	

Source: Cheng (2000)

Three sets of three successive five-year plans were mainly executed by CETRA, the other trade organizations and the educational institutes under the supervision of the Industrial Development Bureau. The sub-plan of the five-year plan for upgrading design – upgrading the design capability of the textile industry – was commissioned mainly to TTF after 1994, which included the provision of product information and related consultancy, assistance and consultation in product design and development, and administration of the international design cooperation projects.

The above five-year plans for upgrading quality, design and image were not limited to the export sector but the emphases were from the view of the international market place rather than the home market needs. In the first

and second five-year plan for upgrading design (1989-1999), one of the major programmes was the 'Mini-Europe Plan', by which four Taipei Design Centers were set up in Duesseldorf, Milan, Osaka and Paris (this Center was managed by TTF and served the needs of the Taiwan fashion industry). The initiation of the 'Mini-Europe Plan' was due to the large trade deficit with Japan. The idea was to increase the value of exports to Japan by improving the Taiwan products through use of European design, and at the same time to promote the Taiwan products exported to Europe and reduce the reliance on the Japanese market. The four Taipei Design Centers performed the role of interaction platforms in terms of exploring the trade opportunities for promoting the Taiwan products and introducing the European design and design services to the Taiwan companies which were upgrading their product design. This platform also opened the design interaction with the international professionals for Taiwan in the 1990s.

However, the operation model – 'design from Europe, made in Taiwan' - and the focus on exports, in particular electronic products, drew criticism from the design academia (Shan, 2005). This criticism was based on the perspective of long term design education, assuming that the design students were taught foreign design concepts, with consequential neglect of the domestic culture (ibid.).

Few of the fashion companies supplying the domestic market were involved in the activities related to these upgrading plans. Given that the economy had a long history of export-orientation, the local consumers' needs tended to be neglected by the governmental agencies (Yueh, 1998). One of the key informants, who started his ODM business in the domestic fashion market and moved to OBM in the middle of the 1990s, mentioned that during twenty years of business operation they were not given any assistance via the governmental enhancement programmes and did not know of any governmental programmes which were designed to raise the

competitiveness of the local fashion brand companies aiming at the home market (Key informant M, 07.21.2007).

The discrepancy in providing the design related aid by the government to the export companies and to the companies marketing in the home market was apparent. However, few programmes were offered by the Textile Design Center of the TTF in the late 1980s to link local designers and manufacturers to assist in the transformation of export-oriented companies from OEM to ODM. These programmes, supported by government funding, included the organization of national contests for young designers and a cooperative programme for the textiles companies. In this cooperative programme, the established local designers were introduced to the large export textiles manufacturers on a one-to-one basis, and designed the special collections by incorporating the fabrics produced by these fabric manufacturers. The collections arising from these cooperative partnerships were then presented in a fashion show during the Taipei Fashion Week.

The young designer contest was a success and still continues, offering an important platform for the talented, local young designers. The winners of these competitions were further promoted, and invited to attend the international activities arranged by the TTF. Some of them set up their own design studios or developed their own designer brand business for the local market at a later stage, such as Jane Hue, Jen Yu Hsu, Stephane Dou and Chang Lee Yugin. The programme of linking the established local designers and the large export textiles companies, however, failed due to the perceived gaps between these two parties.

According to key informant D who worked in the Textile Design Center and executed this programme, since the large export-oriented textiles companies were only interested in promoting their own ranges of fabrics which were of limited variety in terms of quality and end use, this was a constraint to the

fashion designers since the options for differentiating total look and style coordination were limited (07.26.2007). Furthermore, these textile companies focused on mass production and were unwilling to produce the necessarily small quantities of innovative fabrics for the assigned fashion designers who focused on the local, upper market segment. Such differences remained unsolved at that time and this led to the termination of such cooperative arrangements. Key informant O, executive of one of the fabric companies involved in the programme in the 1990s, who later became the head of the accessories design and fashion retailing department at Fu Jen University, commented that “the policy of initiating this programme by TTF was a clear mistake since at that time the market scale of the local consumption and the engagement of supporting the local designers gave no strong incentive to the export-led fabric companies” (07.21.2007).

5.3.1.2 Design as cultural and creative industries in the National Development Plan

Since 2000, design in Taiwan has been considered to be one of the cultural and creative industries rather than a tool to merely increase product competitiveness. The definition of cultural and creative industries in Taiwan was supplied in 2003 as follows:

“Cultural and creative industries are defined as industries originated from creativeness and accumulation of culture and formed and utilized through intellectual properties that have the potential to create wealth and employment opportunities and prospects to promote upgrading of the overall living environment” (Council for Cultural Affairs, Executive Yuan, Taiwan, R.O.C., 2004, Volume 2, Chapter 3, Section 1.1).

The defined scope of the Taiwan cultural and creative industries covered a range of thirteen categories including visual arts, music and performing arts, crafts, cultural display facilities, the design industries, publishing, TV and

broadcast, movie, advertising, digital recreation and entertainment, the designer fashion industry, the architectural design industry, and the lifestyle industry. These cultural and creative industries were listed officially in the 'Challenge 2008 National Development Plan (2002-2007)',³¹ in 2002. The development projects of cultural and creative industries were hence implemented by the four government agencies - the Ministry of Education, the Council for Cultural Affairs, the Government Information Office and the Ministry of Economic Affairs. Textiles and fashion design were covered by three categories - the design industries, designer fashion and lifestyle industry – which were administered by the Ministry of Economic Affairs. The promotion of design has thus been increasingly associated with the local cultural characteristics and been reinforced by corresponding cultural identities.

The fashion design associated with own culture identities in Taiwan started from the late 1970s. During that period, the Taiwan awareness as an ideology started from the literature and further influenced movies, music, fine art and design (Hsiao, 2001) – including fashion. According to Ye (2001), the Taiwan fashion designers were also influenced by this ideological awareness and created folkloric designs employing traditional hand-dye and printing techniques. In the 1980s, a number of local fashion designers were becoming aware of the importance of creating branded design from their own cultural heritage in order to distinguish themselves from the Western fashion designers. This awareness was also identified and supported by the local education institutions and a few retailers; however, there was no large-scale recognition from industry and consumer markets.

³¹ The 'Challenge 2008 – National Development Plan (2002-2007)' included three reforms – the political, financial and fiscal reforms - and ten individual plans which were the investment in manpower, in innovation and R&D, in global logistics distribution channels and in living environment (Council for Economic Planning and Development, Executive Yuan, Taiwan, R.O.C., 2002).

Promoting design as cultural and creative industries in the national development plan in the 2000s created different impacts and effects from the ideological movement initiated by the non-governmental societies of culture and education in the 1970s, which involved large government resources. In addition to the fundamental plans in human resources, capital, technologies, information, lands and environmental structuring for cultivating the design industries, one of the key programmes related to textiles and clothing design in the 'Challenge 2008 National Development Plan' was the programme of 'Taiwan Clothing Party - Fashion and Styles' which was listed as one of the two flagship plans.

This programme was launched in 2003 by the Council for Cultural Affairs with the collaboration of the Industrial Development Bureau, and was commissioned to the 'Textile and Fashion Designers' Association of R.O.C.' for implementation. 23 locally established and potential fashion designers were invited to join the four sub-projects of this programme – i.e., the development of fabric production in Taiwan, fashion innovation brainstorming session, thinking globally and fashion shows. The Council for Cultural Affairs attempted to "inspire designer's creativities and coagulate a consensus in the industry through various aspects of the culture and actively seeking outlets for Taiwan style fashion and products" via these projects (Council for Cultural Affairs, Executive Yuan, Taiwan, R.O.C., 2004, Volume 2, Chapter 3, Section 6.1).

According to Key informant H, who was one of these 23 local designers, "another valuable outcome of working in these projects was that we had the platform to exchange our creative experience in incorporating local cultural characteristics with the local and foreign designers from other fields" (07.26.2007). Some of these projects are still implemented today but on a smaller scale. In 2007, 16 fashion designers – 11 were the established

designers and 5 were the new potential designers – were promoted through these projects.

In addition to promotion of individual creative designers, there are also the financial-aid programmes offered to the designer brands which use local cultural heritage as inspiration for their collections. Since 2005, the Ministry of the Economic Affairs has organized the annual 'FUSE Textiles Fashion Week' in cooperation with other textile-related agencies. This annual activity combined design, technology and local cultural elements into the textiles and fashion creation, and was targeted at the general public. The cooperation agencies included the established local designers, young design talents and the companies involved in the government supported programmes. These agencies incorporated indigenous cultural characteristics in their R&D and design, then collections were presented in the fashion week in order to attract the interest of visitors and subsequently the general public, thereby raising their design awareness in terms of their own cultural identities.

The Design Promotion Center of TAITRA, established in 1979 was further transferred and formed an independent and semi-official organization - Taiwan Design Center - in 2003 in accordance with the national plan 'Challenge 2008' under the guidance of the Ministry of Economic Affairs. The new Center acts as an integration platform for communication and cooperation among the domestic industries, government agencies, academics and researchers. Their major mission is not only to provide guidance and assistance for the local companies in upgrading the product design and innovation, but also to promote the design concept and knowledge not only to the industries but also to the general public. The fundamental know-how, such as consumer behaviour research methods, user interface researches and method, living style research, and marketing and management concepts, such as design marketing strategies and design

management, were both introduced to the industries so that they could integrate them with their design and innovation activities.

By 2005, after having implementing the development project of cultural and creative industries for three years, the annual production value reached NT\$ 581.1 billion from NT\$ 503.2 billion in 2003; and the number of international awards gained by related sectors in the Taiwan cultural and creative industries increased from 47 in 2002 to 464 in 2005 (Taiwan External Trade Development Council, 2007). This included the 37 design awards in iF, 5 awards in IDEA and 20 awards in Red Dot (Yan & Chen, 2007). 90% of these winning awards were designs for computer, communication and consumer electronic products. In 2006, Taiwan won the second place in iF Award by 72 design awards, which was only inferior to Germany and higher than South Korea and Japan (Tseng, 2008).

5.3.1.3 National policy and plans for textiles industry development

In 2002, the Taiwan Ministry of Economic Affairs enacted the 'National Textile Industry Development Policy' which listed nine major directions:

1. Enhancing the investment environment;
2. Strengthening the investment on research and development (R&D), enhancing the technical capability and developing innovative and high value-added products;
3. Promoting e-commerce for Implementing quick-response in production and distribution;
4. Enriching the human resources and introducing high-tech personnel;
5. Improving the foundation of fashion design and establishing the Taiwan fashion design centre;
6. Facilitating the industries in developing the global deployment;

7. Exploiting the emerging opportunities for establishing the integrated production networks and marketing the products in mainland China;
8. Assisting companies forming the responsive strategies to reduce the impact of the liberalisation of world trade on the textiles industry; and
9. Developing the export-processing zones into the textiles logistic centres.

‘Assisting brand development’ was one of the sub-directions for the theme ‘improving the foundation of fashion design and establishing the Taiwan fashion design center’.

More government support was given to the high-tech textiles sector, since it was one of the top two competitive strengths of the Taiwan textiles industry in the international marketplace³². Hence, the development and innovation of functional textiles with high performance characteristics was highlighted and covered in the ‘Industrial Value Heightening Plan’ – the sub-plan of the ‘Challenge 2008 National Development Plan (2002-2007)’. More than NT\$ 2 billion of the R&D funds were injected by the government to the high-tech textiles field between 2002 and 2007 to facilitate the formation of strategic alliances between industry members for developing the inno-value textiles (Ministry of Economic Affairs, Taiwan, R.O.C., 2003).

The Taiwan Technical Textiles Association was hence organized in 2004 and consisted of 233 members including 180 enterprises by July 2008. The Textile Industry Development Facilitation Office was further established in the middle of 2008 for implementing the three ‘A Hundred Billion’ programmes - the ‘Technical Textile Productivity Doubling Project’, the

³² Another competitive strength of the Taiwan textiles industry in the international marketplace was the supply of polyester fibre, polyester yarn and nylon fibre.

‘Functional Textiles Development and Promotion Alliance’ and the ‘Taiwan in Fashion’.

It was envisaged that Taiwan would become the key supplier for the functional textiles in the world by 2015, and the corresponding production of textiles by end use would shift from 80% in apparel, 10% in home furnishing applications and 10% in technical use in 2001 to 50%, 20% and 30% respectively in 2015. The expected growth in terms of the total output value of textiles and the share of the textiles production in terms of the end use are provided in Table 5.4 by year 2005, 2010, and 2015. Since the actual results of these shares reached 69%, 13% and 18% in 2005 and 67%, 11% and 22% in 2007, the targeted share for 2015 was further reviewed and adjusted to 50%, 17% and 33% in 2008 (National Applied Research Laboratories, 2008).

Table 5.4: The targets of Taiwan textiles production set in 2002

		2001	2005 (f)	2010 (f)	2015 (f)
Output Value of Textiles (NT\$ billion)		-	46.8	55	58
The Share of Textiles Production by End-use (100%)	Apparel textiles	80%	70%	60%	50%
	Home furnishing textiles	10%	10%	20%	20%
	Technical textiles	10%	20%	20%	30%

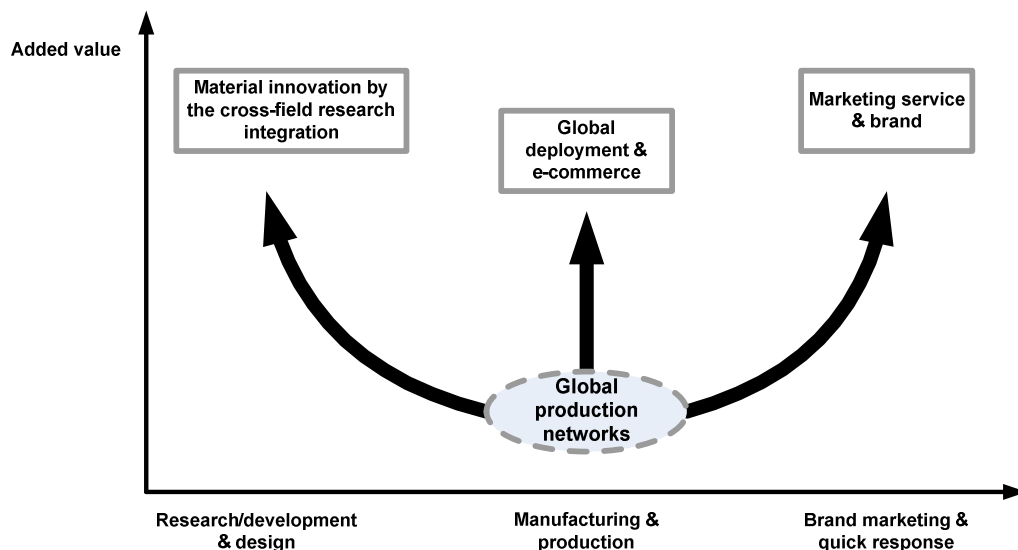
Note: f represents the targeted figure produced in 2002

Source: Industrial Development Bureau, Ministry of Economic Affairs, Taiwan, R.O.C. (2006)

In addition to the development and innovation of the high-tech textiles, providing incentives for investment in international distribution channels and brands was also included as one of the key strategies in the ‘Industrial Value Heightening Plan’. However, this strategy was not specific to the textiles and fashion industries and applied to all of the industrial categories.

It was stated that the overall strategy for the recent textile industry development initiated by the Taiwan governmental agencies was a shift leading to the three higher value-added directions – material innovation by the cross-field research integration, global deployment and e-commerce, and marketing service and brand (Industrial Development Bureau, Ministry of Economic affairs, Taiwan, R.O.C., 2006). These three directions are graphically presented in Figure 5.5.

Figure 5.5: Strategic development of the Taiwan textiles industry



Modified from the Industrial Development Bureau, Ministry of Economic Affairs, Taiwan, R.O.C. (2006)

When the various textiles enhancement programmes proposed in the national plans outlined above are examined, it may be seen that most of the ones which were funded by the government were executed by the two major commissioned semi-official organizations³³ – TTF and Taiwan Textiles

³³ The major execution agencies for implementing the textile policy and related programmes were the Material and Chemical research laboratories in the Industrial technology Research Institute of Taiwan, the Footwear and Recreation Technology Research Institute, TTF and TTRI.

Research Institute (TTRI). There were no programmes designed for assisting brand developers in every phase of development. The few programmes associated with branded companies and the emphases of these few brand related programmes were largely given firstly to the R&D and design service to the individual branded companies via the design centre of TTF (Key informants K, 07, 26, 2007); and secondly to the establishment of the communication platform for sharing the individual experience in brand creations among the industrial members, such as the 'Textile Apex Forum' held monthly by TTRI. The other fundamental know-how, such as brand marketing and brand management, were not covered by the enhancement programmes by TTF and TTRI.

It was noticeable that from 2006 TTRI implementing the development of the core technologies for textiles actively extended their innovation technology to the final consumer products. A number of companies such as Atunas, Merids and Sporty were supported by TTRI to develop high performance active sportswear for the local markets. The active sportswear developed in these projects partially funded by the government not only used the functional fabrics and garments developed by TTRI, but were also marketed and promoted in terms of new brand concepts in the market (Key informants L, 07.23.2007).

5.3.2 Branding Taiwan in 2006

According to the background information reported in the early plan for the important social development 2007 by the Ministry of Economic Affairs (2006), there were few governmental plans initiated in the beginning and middle of the 2000s for assisting the domestic companies in brand

development³⁴. In addition, Taiwan Design Center was also supported by the government in assisting the local companies to develop their own brands as one of its eight missions starting 2005, and from 2006 the Department of Industrial Technology also expanded their project scope to include the brand related research and the consultation for aiding the industries to integrate the R&D with the brand development.

However, it was found that there was a lack of cross-unit communication and integration at the administration level since the existing plans and actions related to the brand creations were implemented by various governmental and semi-governmental agencies. In order to provide the enterprises with comprehensive assistance and create a favourable environment for brand creation and development, the Executive Yuan (the highest administrative organization of Taiwan) ratified a new programme, named 'Branding Taiwan' in 2006 January. This new programme integrated all the available governmental resources and supplemented the existing plans with new measures to help the domestic companies to establish their own brand overseas.

5.3.2.1 Focus, measures and implementation

'Branding Taiwan' mainly focused on the SMEs which represented more than 97% of the total number of companies in Taiwan (Small and Medium Enterprise Administration, Ministry of Economic Affairs, Taiwan, R.O.C., 2008). This seven-year programme (from 2006 to 2012) with a total budget of NT \$1.69 billion – around US\$ 50 million (Research, Development and

³⁴ These plans were: 'Developing International Brand (2003-2007) with a budget of NT\$ 119 million; 'Assisting SMEs in Building Brand and Managing Brand Marketing' from 2005 with a budget of NT\$ 2.3 million; 'Assisting the Enterprises in Developing Brands by Design' since 2005 with a budget of NT\$ 12 million; three-year plan for 'Franchise Marketing Consulting Service' from 2005 with a budget of 9.32 million; and '4th Five-year Plan for Upgrading Image (2006 – 2010)' with a budget of NT\$ 380 million.

Evaluation Commission, Executive Yuan, Taiwan, R.O.C., 2008) - apply to all the potential products categories in Taiwan, including textiles and fashion. The main implementation agencies for 'Branding Taiwan' were the Taiwan Excellent Brand Association (TEBA) which merged the BIPA in 2007, the iD Branding Ventures Inc., the TAITRA, the Tourism Bureau, the Government Information Office and the five subordinate units of Ministry of Economic Affairs³⁵. The implementation measures included:

1. The establishment of a branding venture capital fund;
2. A favourable environment for brand development;
3. A brand appraisal system;
4. Human resources and training;
5. A brand consulting and e-business platform; and
6. Raising the international image of Taiwan products and brands.

These implemented measures and tasks focused on building the necessary software and hardware for the creation and development of own brands by the domestic companies to compete in the international marketplace.

The main incentive packages of 'Branding Taiwan' programme included the establishment of NT\$ 2 billion (i.e., US\$ 6 million) 'Branding Investment Fund'³⁶ to invest in the companies with the potential to develop international brands, of which their start-up markets for branding were not limited to the home markets, nevertheless they kept their core brand

³⁵ These five governmental agencies were the Bureau of Foreign Trade, the Industrial Development Bureau, the Small and Medium Enterprise Administration, Department of Industrial Technology, and the Department of Commerce.

³⁶ The 'Branding Investment Fund' was established by the government and private companies. A total 51% of this fund was financed by the private companies and the remaining 49% was contributed by the governmental and related organizations. The targets of this investment were mainly the companies in the industries of digital technology, life and leisure, agriculture, cultural and caring industries, and any companies with strong potential in other industries.

capabilities in Taiwan; offering loans of NT\$100 billion for international brand acquisitions, domestic brand overseas marketing loans and distributive services loans on favorable terms; providing grants and direct funding to the brand companies for international marketing; and brand awards with cash prizes and other incentive measures. These awards were the Taiwan Excellence Awards, the Taiwan Excellence Gold and Silver Awards, the Taiwan Superior Brands and the Top 20 Taiwan International Brands³⁷.

5.3.2.2 Targets and current performance

It was targeted that by 2012, 1,500 people would have received the related training and be competent in terms of their brand marketing knowledge and skills; 170 loans were made to the companies for developing their own in-house brands or engaging in the acquisition of international brands; 50 international brand acquisitions were made by the domestic companies; more than 30 companies with distinctive brands were supported by the 'Branding Investment Fund' for branding in the international markets; the value of the top five brands was more than US\$1 billion individually, and two Taiwanese brands were able to enter the list of the top ten global brands.

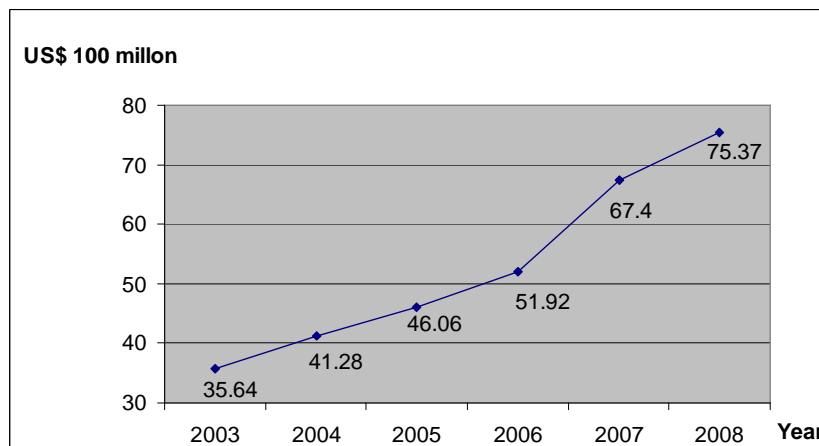
After a two-year period, in February, 2008 312 companies were assessed by the 'Branding Investment Fund' and three companies were then selected to receive financial incentives (Bureau of Foreign Trade, Ministry of Economics Affairs, Taiwan, R.O.C., 2008). One of these three targeted companies was the G-Fun Industrial Corporation which specialized in the development of functional textiles. Six companies received loans for the

³⁷ Except for the Top Taiwan International Brands, the other three awards were initiated in 1992 and 2004 under the 'Five-year Plan for Upgrading Image' implemented by TAITRA and further incorporated into the programme of 'Branding Taiwan' in 2006.

creation of their own brands, the total value being NT\$ 193 million. For the training in branding and sales personnel, 72 people with brand marketing knowledge and skills were supplied. The virtual brand school and branding information platform were also established.

According to the annual survey of the brand value for Taiwan International Brands³⁸, the total value of the top ten Taiwan global brands (see Figure 5.6) continued to increase by an average growth rate of 16.4% from 2003 to 2008. By 2008, the top four brands were worth more than US\$1 billion in terms of brand value; and the total value of the top 20 Taiwan international brands was NT\$ 287.87 billion (i.e., US\$ 9.14 billion) an increase of 8% compared to 2007 (Taiwan External Trade Development Council, 2008a). It was also noticed that 60% of these top 20 brands marketed computer/electronics related products and none of these brands were in the textiles or fashion related fields.

Figure 5.6: Total value of the top 10 Taiwan international brands (2003-2008)



Source: Taiwan External Trade Development Council (2008b) and Ministry of Economic Affairs, Taiwan, R.O.C. (2007)

³⁸ This survey was conducted by TAITRA and undertaken by Interbrand, a UK-based consulting company, and Business Next, a Taiwan-based magazine publisher, commencing 2003. The criteria and calculation method of the value of Taiwan international brands were developed by the Interbrand and were applied to the 'Top 100 Global Brands' published in Business Week and other publications.

From the starting year 2004 until 2008, 133 brands were recognized as Taiwan Superior Brands and only six of these brands were in textile and garments categories – four in apparel, and two in the functional apparel and its applications. Of these six brands, one brand – Tony Wear started their branding market in mainland China which was also their main market and further expanded to the other Asian markets.

5.4 Insights into the branding environments

5.4.1 Gaps in supporting environments

The domestic needs and the changes in the consumer market had been neglected by both the governmental and industrial agencies for a long period (see Section 5.2.2.2, 5.2.3.2, 5.2.4.1 and 5.3.1.1). As a consequence, many of the preparatory stages had been overlooked, including sizing, labeling, intellectual property rights standardization and fashion retailing education.

5.4.1.1 Sizing

Taiwan lacked a credible and effectively standardised apparel sizing system. Although the Chinese National Standards for apparel sizes were available as a reference for the clothing manufacturers, these standards were out of date and unrepresentative of the contemporary Taiwanese body sizes.

In the 1980s, anthropometric surveys for product design and other applications were initiated on a small scale by few academic researchers, e.g., Chiu (1988; 1989) and Tu (1988). These surveys included a garment project commissioned by the Industrial Development Bureau to the National Taipei Institute of Technology³⁹ in 1988, which was to set up the standard apparel sizes for young men and women and only covered a limited age group - from 18 to 24. The results of the surveys were considered questionable on the basis of the methodology adopted and they were not widely used in the industry. More comprehensive and larger anthropometric surveys sponsored by the governmental agencies – e.g., the National Science Council, the National Institute of Occupational Safety and Health, and the Department of Physical Education - were conducted in the 1990s and 2000s.

In spite of the fact that several Taiwanese anthropometric databases have been available since the 1990s, no standardised apparel sizing system is yet available. The lack of both a reliable reference source for Taiwanese body measurements and a standardised sizing system resulted in the adoption of apparel sizing labelling systems from different advanced countries by the brands which supplied the Taiwan domestic market.

As a consequence, consumers experienced difficulties in selecting styles which fitted. Each fashion brand company interpreted sizing and body measurements for the targeted consumers, yet the management of size assortments and provision of products was unsatisfactory.

³⁹ The former National Taipei University of Technology.

5.4.1.2 Labelling

Although the Commodity Labelling Act was enacted in 1982, the Labelling Criteria for Textiles and the Labelling Criteria for Apparel and Garments in Taiwan were not promulgated until 1994 – a few years after the opening up of Taiwan's domestic fashion market and the same year as the implementation of the consumer protection law. Before that, there were no regulations for labelling requirements and the garment suppliers were thus not compelled to attach labels on garments sold in the domestic market. Insufficient and potentially misleading information could often be found on the garment labels. This led to difficulties, particularly in the case of care instructions which were either incorrect or impossible to implement given the conditions prevalent in Taiwan. Disputes between the garment suppliers and consumers were common due to the delineation of responsibility.

In the process of becoming a more mature consumer society, the promotion of the consumer protection concept to the industries has become one of the key directions in the governmental policies in recent few years (Small and Medium Enterprise Administration, Ministry of Economic Affairs, Taiwan, R.O.C., n.d.). More educational activities were organised by several governmental agencies for the local suppliers in order to raise awareness of consumer rights and provide the details for the implementation of the Commodity Labelling Act.

5.4.1.3 Intellectual Property Rights (IPR)

The laws and regulations related to IPR in Taiwan were mainly introduced or modified between the end of 1990s and the beginning of 2000s in order ensure compliance with the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) when Taiwan joined WTO in 2002. The

changes of the amended Trademark Act in 1997 were in accordance with these measures. In this amended Act, the dilution of the distinctiveness or reputation of the well-known trademark was considered to be one of the conditions for rejecting a new trademark application, and the legal protection for the use of geographical indication was also strengthened in the articles (Laws and Regulations Database of the Republic of China, Ministry of Justice, Taiwan, R.O.C., n.d.).

Apart from amending the law of trademark, the protection and enforcement of other IPR, such as trade secrets, geographical indications, copyrights and patents, which enhanced the branding environment, were also strengthened and undertaken to meet for the requirements of TRIPS during the above period. In 1999, the Intellectual Property Office was set up after reorganising the related governmental units. This office was mainly responsible for the formulation of the IPR enforcement policies, legislation, administration and management the related affairs, as well as the promotion of the awareness of IPR to the industries and general public (Intellectual Property Office, Taiwan, R.O.C., n.d.).

Before Taiwan joined the WTO in 2002, IPR was relatively unknown to the general public in Taiwan. The above legal actions and measurements in IPR improved both public awareness and the protection of IPR. This not only led to the encouragement of the activities in creation and innovation, but also enhanced the branding environment in Taiwan in terms of protecting the IPR of the local and foreign brands. Furthermore, acceding to TRIPS also ensured that Taiwan brands were protected in the case of international trade and some overseas markets.

5.4.1.4 Fashion retailing education

Taiwan's fashion education was considerably influenced by the direction of the national industrial development - a long period characterized by an export and manufacturing orientation. In most of the fashion departments, the teaching emphases and adopted materials were more related to the knowledge for the export markets than the home market (Key informant K, 07.26.2007). In particular, the development of fashion retailing education of relevance to the domestic consumer was initiated at a relatively late stage compared to the education in fashion technology and design. The supply of skilled personnel and fashion retail professionals in Taiwan was therefore limited.

Although fashion retailing specialists were increasingly in demand - especially after the relaxation of policy governing foreign investments in local retail business in 1986 (see Section 5.2.3.2) - there was a lack of comprehensive courses in fashion retailing in the higher education institutions. The subject of retailing was taught as a part of the marketing programmes in the Taiwan business schools, which generally neglected aesthetic and life style subjects. On the other hand, the subject of fashion business taught in the clothing or fashion departments mainly focused on business-to-business topics, which did not involve local retailing in depth. The managerial personnel and professionals engaging in the Taiwan domestic fashion retailing mainly came from backgrounds such as graphic design, fashion merchandising, advertising, and the department stores.

In 1998, a two-year bachelor's course in fashion retailing, which admitted 55 junior college graduates from the technological and vocational education system per year, was offered by the Fu-Jen University. According to the head of the accessories design and fashion retailing department, this course aiming at a niche and promising market in fashion education did attract the

attention of the business schools as a result of academic research interest (Key informant O, 07.21.2007). However, there were some difficulties in running this fashion retailing degree course which affected its outcome.

These major difficulties included the availability of qualified teachers with academic qualifications and industrial experience, as well as the poor image perceived by the students and their parents, who assumed a job in retailing would entail front line duties as a trainee or junior manager (ibid.).

Such a conventional perception created the social pressure for our graduates to learn and collect their field experience from the real retailing environments. [...]. As a consequence, some graduates encountered difficulties in supervising and managing the retailing operation due to their lack of sufficient appreciation for the front line retailing situation (Key informant O, 07.21.2007).

After 2006, no further degree course targeted specifically at fashion retailing was available in Taiwan since Fu-Jen's two-year bachelor course in fashion retailing was absorbed into a four-year bachelor course of textiles and fashion marketing⁴⁰. In the Taiwan education system, fashion retailing is now offered as a taught subject in most of the fashion and clothing departments.

⁴⁰ This merger was due to a re-defined policy of Ministry of Education at a later stage. This new policy encouraged and promoted the transformation of the traditional polytechnic into a polytechnic university or a science and technology university. Hence, the polytechnic universities and the science and technology universities were the only educational institutions offering the two-year degree course for the junior college graduates from the technological and vocational education system.

5.4.2 Acquisition and diffusion of supporting knowledge for practice

Unlike South Korea which supported their 'chaebol' in creating world class brands as the national export strategy by means of exploiting the home market as the starting platform from the 1960s (Wee, 1994), the Taiwan government did not initiate a national policy for cultivating any strong brands either for the export markets or for the home market until 2006 (see Section 5.3.2). The approaches to fashion branding by individual Taiwan companies varied according to their economic stages, company nature and business scale, and were mainly twofold – the creation of own in-house brands and the engagement in franchised brands including franchised retailing and/or franchised manufacturing/retailing. The supporting knowledge for branding practices in TTC industries was hence gradually developed through knowledge interchange between these two models and knowledge transferred from the foreign companies who directly managed their brands in the Taiwan market.

5.4.2.1 Know-how acquired from the operation of imported brands

Apart from the creation of an easy-to-shop environment and shop-location appraisal system introduced by the direct-retailing of the HK brands (delineated in Section 5.2.3.2), the know-how of branding practice introduced by the foreign brands was mainly through the franchised operations of the large and integrated textile companies, specialist chain stores, department stores and the local and foreign brand agencies⁴¹, by means of franchised retailing or franchised manufacturing/retailing.

⁴¹ The foreign brand agencies in Taiwan were mainly from HK, such as Joyce, Blue Bell and Dickenson.

Marketing and retailing know-how of an established brand operation was introduced to the Taiwan local industries through franchised retailing, such as standardizing the operations for the merchandising plan, inventory and logistic control, sales training and evaluation, customer relationship management, visual display and public relations/promotion (Key informants A-E, 07.25/26/31 and 08.01/09. 2007).

The franchised manufacturing/retailing was implemented mainly by the large integrated textile companies which had the necessary manufacturing background. The contribution of the foreign franchiser to the Taiwan franchisee was mainly in the areas of marketing, retailing and product development of relevance to fashion brand operations. The Taiwan franchisee shared the advantage of an established brand reputation and gained benefits in the form of marketing support for advertising and visual communication from the foreign franchisor. The standardised controls in the back-end of the fashion brand operation – i.e., sales and marketing - were less extensive in most of the cases. In the middle of the fashion brand operation – product development - the design input in terms of trend information, concepts, themes and the style designs was partially provided by different brands, mainly in the following three formats (Key informant C, 07.25.2007):

1. The product designs were provided by the franchisor;
2. Only the design concepts and graphic design for visual promotion were offered and framed by the franchisor; and
3. The franchised collections were an extension from a non clothing, generic brand. Only the brand concept in terms of life style and the level of the targeted consumption were adopted by the franchisee.

The Taiwan franchisee was required to have the essential knowledge and ability to develop the designs, then manufacture and market quality products

for the targeted markets. This competence was particularly essential for the operation of the third format.

According to key informants A (07.31.2007) and C (07.25.2007), both were Vice Presidents of large and integrated textile companies engaging in both franchised retailing and franchised manufacturing/retailing for the international brands. The third format of the franchised manufacturing/retailing operation was close to a complete OBM operation except for the initial stage of creating the brand name and embedding the brand philosophy. This near-OBM experience encouraged their companies to initiate the in-house brands for the local and Chinese markets in the 2000s.

5.4.2.2 Knowledge retained by the local branded companies

Except for the few early brands launched by the large integrated textile companies such as Far Eastern Textile, Chung-Shing Textile, Carnival and Kaosha Textile before the 1980s (see Section 5.2.1 and 5.2.2.2), most of the local fashion brands were created by the SMEs with non-export backgrounds. Most of these SMEs were unfamiliar with international trade and lacked the necessary financial support to compete with the large agencies in obtaining the franchises for retailing or manufacturing/retailing from the international brands.

Due to the absence of franchised experience in branding, the know-how for fashion brand operation adopted by these SMEs was mainly generated from their own practices and further stimulated from observing and studying the cases of the established foreign brands in the local or leading foreign markets. Few of these local brands expanded into chain-store operations in the local and overseas markets. The essential know-how for such

expansion and internalisation were acquired from recruiting the people trained by the large imported brands.

According to key informants B (08.01.2007) and E (08.09.2007), there was a high turnover of trained personnel of the imported brands and this facilitated the transfer of knowledge of branding operations among the branded companies - including the knowledge flow from the imported brands to the local branded SMEs. By way of contrast, due to the distinct differences in production patterns, management styles and working culture, the interflow of professionals between the export manufacturing companies and domestic branded companies was apparently less (Key informant M, 07.21.2007).

However, it was also found that the experience and knowledge generated by the local branded SMEs for their fashion brand operation – a full coverage from the initial stage of brand creation to the marketing - was often retained within the organizations. This was due to the fact that most of the Taiwan SMEs were characterised as family businesses, in which the major business resources and functions, and the key decisions were governed by the family members who tended to be the stable force for the companies and had a very low turnover.

According to key informant C, it was difficult in Taiwan to find a brand manager equipped with the comprehensive understanding of the whole branding operation based on her long-term observation and personal experience (07.25.2007). In her case, instead of having one chief manager who had the entrepreneurship and could be in charge of a new OBM business, she finally compromised to set up a management team composed of individuals with various kinds of expertise for branding and coordinated the team members herself.

5.5 Analysis and discussion

5.5.1 Progression of fashion brand market

In order to contextualize the selected companies for further analysis in Chapters six and seven, the background of the progress made in the Taiwan fashion brand market in the context of the socio-economic environment was firstly examined. At each stage, the brand market development was analyzed according to consumption and demand, emerging retailing types, introduction of imported brands and development of local brands. The progressive features of these four dimensions at each stage are summarized and presented in Figure 5.7. In Figure 5.8, the progression of the local fashion brand market is further juxtaposed with the development of TTC industries (refer to Section 2.2) and the Taiwan economy⁴². This juxtaposition facilitated the examination of the case companies' contextual background from their OEM stage to the OBM stage.

⁴² The classification of Taiwan economics stages adopted in this study was based on two references – the World Bank (1993) for the history before 1990 and the Industry Development Bureau of Ministry of Economic Affairs, Taiwan, R.O.C. (n.d.b) for the history after 1990.

Figure 5.7: Progression of Taiwan fashion brand market

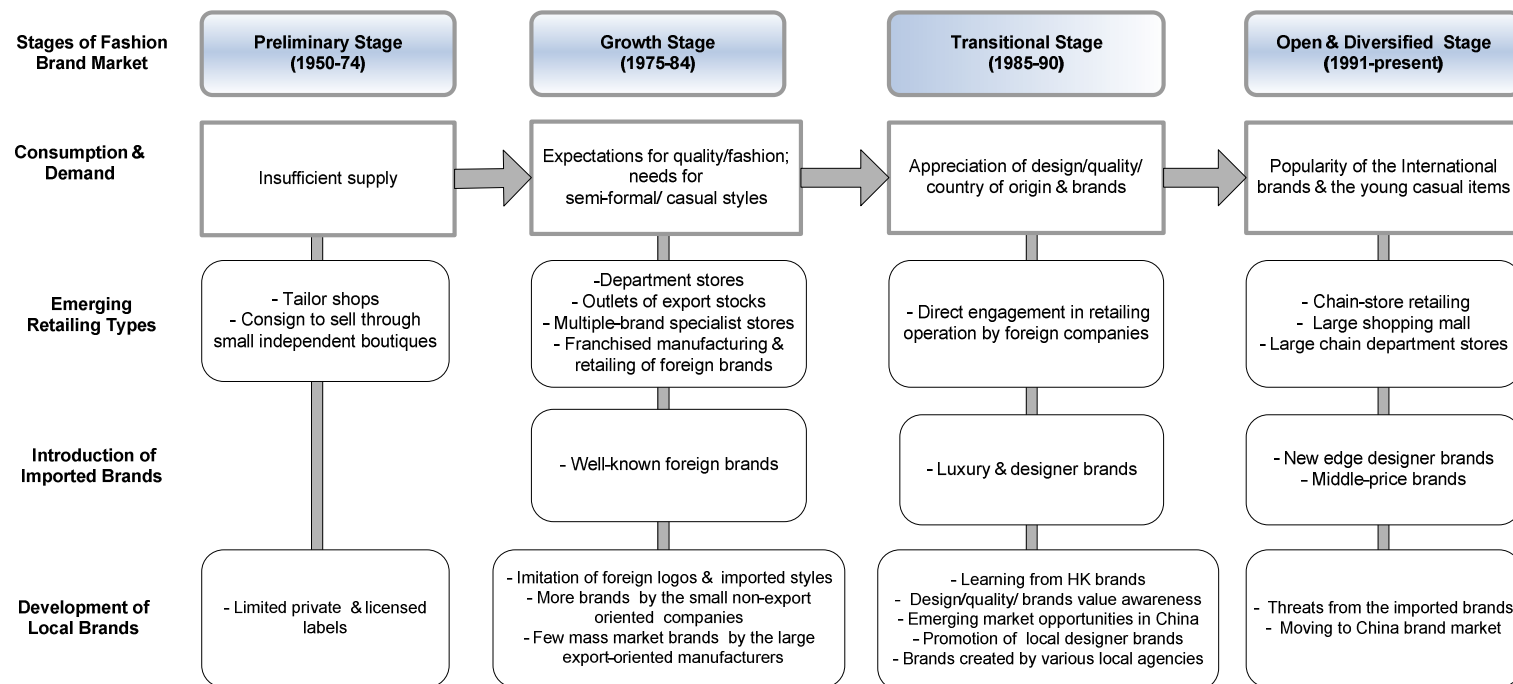
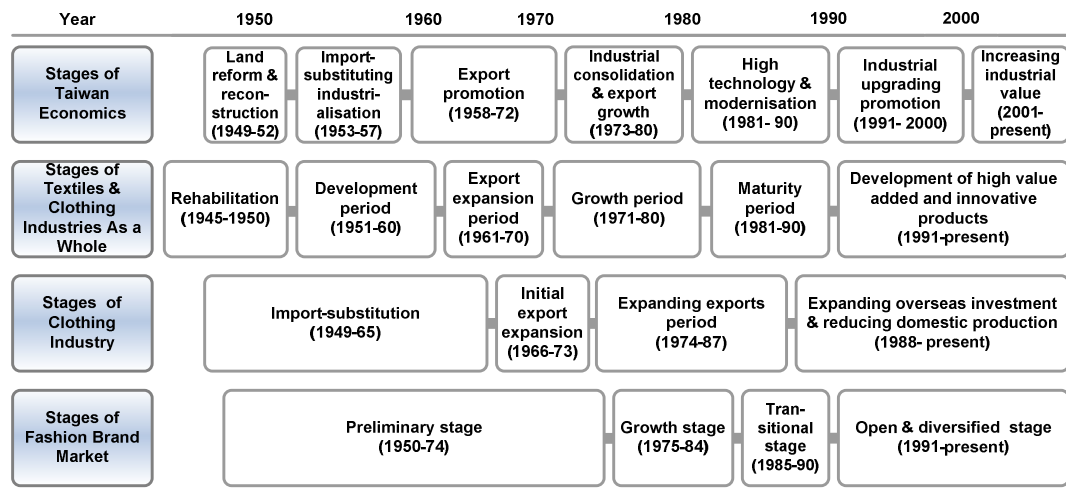


Figure 5.8: Juxtaposition of the development stages of the TTC industries, the Taiwan economics and the local fashion brand market



5.5.2 Socio-economic changes and their impact on brand business

The major socio-economic changes which had an impact on the development of Taiwan fashion brand business identified in this study are graphically depicted by the time line in parallel with the stages of the fashion brand market in Figure 5.9.

Five major themes which emerged from the categories of these socio-economic changes of relevance were:

1. National policies for industrial and economic development;
2. Globalisation vs. indigenisation;
3. Open policies for politics and cultural interaction;
4. Increasing income and purchasing power; and
5. Structural changes of industry, employment and society.

Figure 5.10 displays the major socio-economic changes of relevance under the five themes listed above. As also exhibited in this figure, the impact from these socio-economic changes on the development of Taiwan fashion brand business is further categorized into the four progressive dimensions adopted in Section 5.5.1.

Figure 5.9: Stages of Taiwan fashion brand market in the context of socio-economic environment

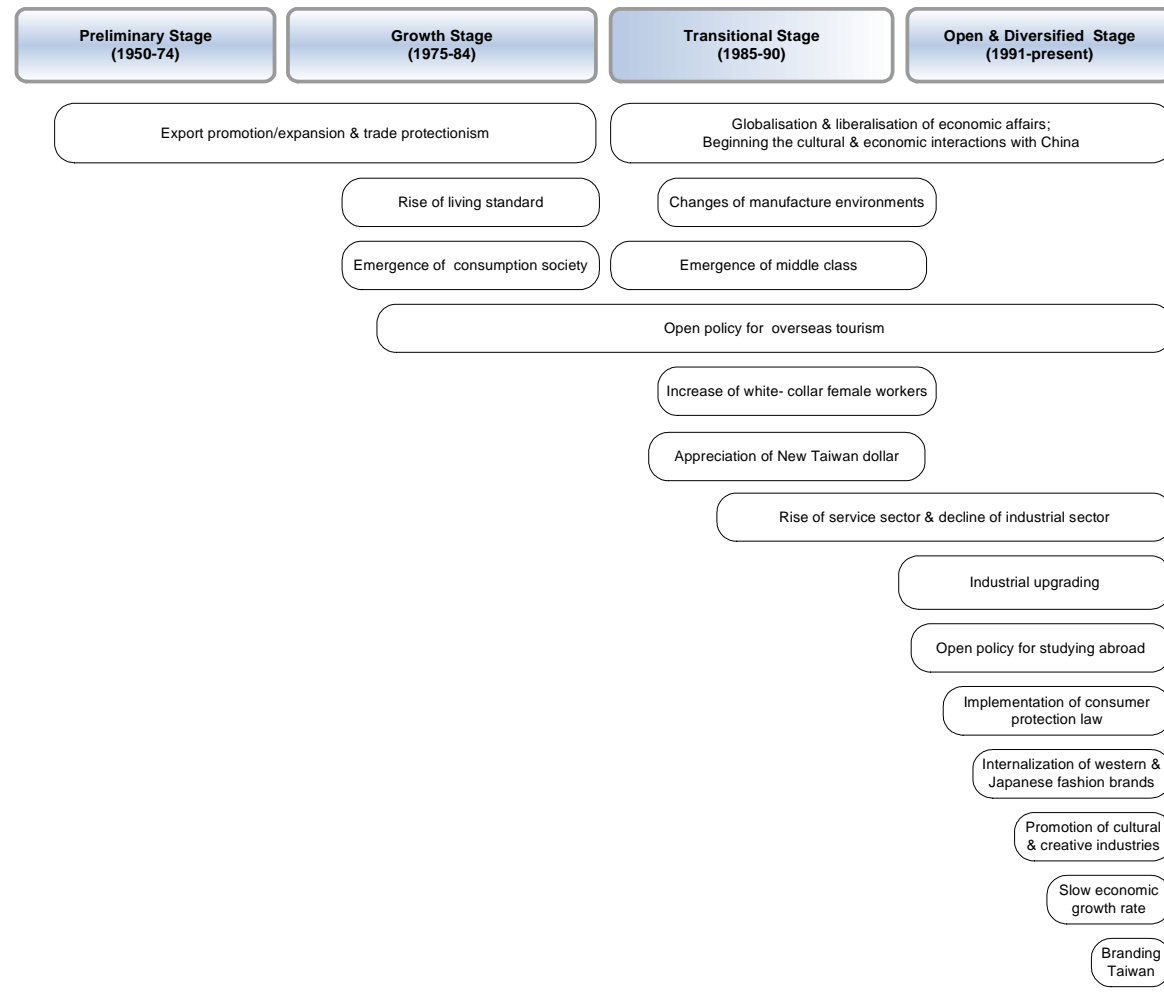
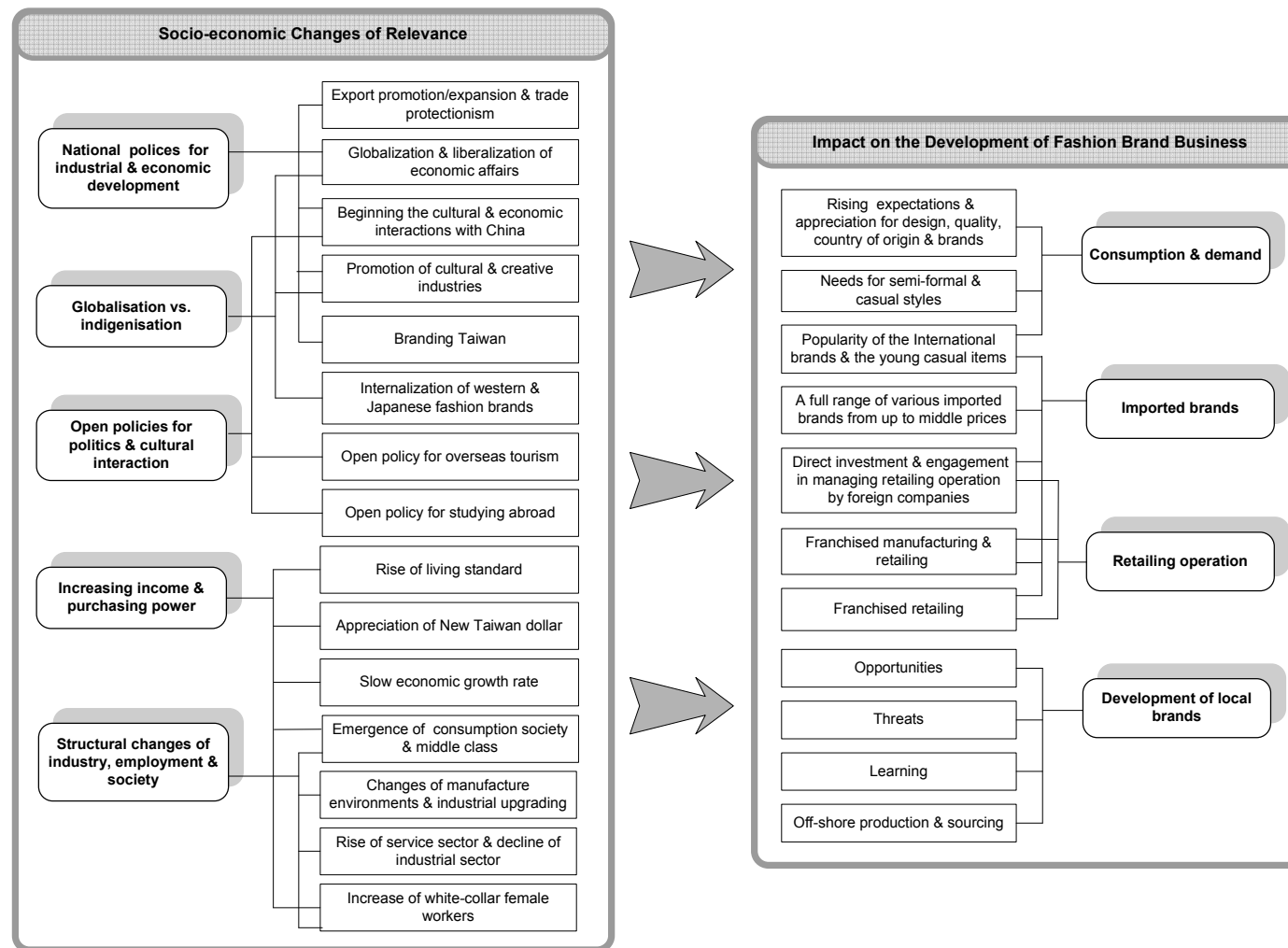


Figure 5.10: Socio-economic changes and their major impact on the development of Taiwan fashion brand business



5.5.3 An explanatory framework - factors affecting the development of brand business

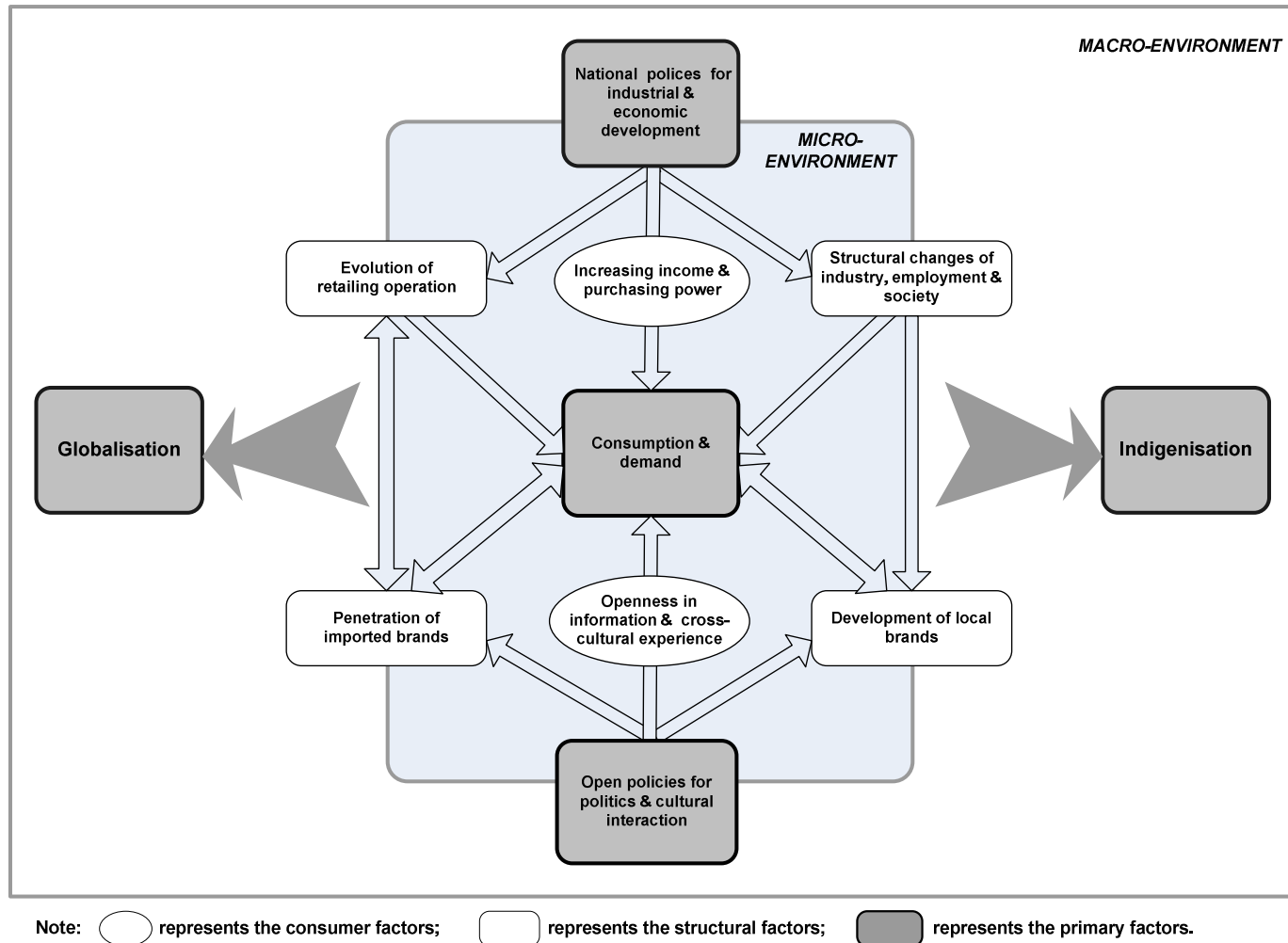
An explanatory framework for the development of the Taiwan fashion brand business influenced by the socio-economic changes was further constructed by linking the causal relationships between the environmental changes and the development of the fashion brand business. This framework was used to identify and interpret how the upgrading opportunities/barriers/challenges to OBM of the case companies were influenced by the closest tier of the socio-economic environments.

In this explanatory framework, the factors affecting the development were categorized into three groups - the consumer factors, the structural factors and the primary factors. These factors in each group are listed as follows:

1. The consumer factors – increasing income and purchasing power, and the openness in information and cross-cultural experience;
2. The structural factors – evolution of retailing operation, penetration of imported brands, development of local brands, and structural changes of industry, employment and society; and
3. The primary factors – consumption and demand, national policies for industrial and economic development; open policies for politics and cultural interaction, globalisation and indigenisation.

The development of Taiwan fashion brand business in this explanatory framework was centered on the primary factor – consumption and demand – and contextualized by the other four primary factors in the micro and macro environments (see Figure 5.11).

Figure 5.11: An explanatory framework for the development of Taiwan fashion brand business



The two primary factors – the national policies for industrial and economic development, and the open policies for politics and cultural interaction – had an extensive impact on most of the consumer and structural factors. However, the arrow key in this framework delineated only the strong and the direct connections.

The other two primary factors - globalisation and indigenisation – were the trends of the macro-environment which affected the overall direction of national policies and the development of fashion brand business.

The two consumer factors – i.e., the increasing income and purchasing power as a result of the performance of the local economy, as well as the openness in exchanging information and cross-cultural experience leading to the changes of consumers' awareness and preferences - were directly governed by the national policies and immediately enhanced the consumption and demand.

The four structural factors also had a considerable impact on the consumption and demand and were subjected to influences from the micro and macro environments. In addition to the direct impact arising from the two consumer factors and the four structural factors, the consumption and demand as the centered primary factor also had a direct influence on two of the structural factors – the penetration of imported brands and the development of local brands. Among the four structural factors, the evolution of retailing operation and imported brands were interrelated; this further significantly influenced the development of the local brands in terms of learning, competition and market opportunities.

5.5.4 Branding challenges to the local industries

The analyses in this section were to identify what were the general branding challenges derived from the socio-economic environments of relevance to the local companies. This was to facilitate the recognition of which of the branding challenges from the external environments were relevant to the case companies and hence affected their OBM implementation. Furthermore, the progression of these challenges was also examined in order to get insights into the adaptation made by the case companies after having initiated the OBM.

5.5.4.1 Market opportunities, competition and threats by stages

The branding opportunities in the Taiwan fashion market grew out of a progressive consumer society against the backdrop of an export-prioritised, fast developing and globalised economy. In view of this particular background, the development of the local consumers' awareness for branded fashion and quality items in the preceding thirty years, was in accordance with their increasing purchasing power, their higher living standard, the influence of their education, and the effects of the international interactions from the individual and structural levels, especially after the series of open policies from the mid-1980s onwards.

Compared to some of the private organizations and other Asian governments, the Taiwan government became aware of the importance and value of brands to the national economy relatively late and the governmental policies of encouraging own brand creation and fostering the core competencies of brand creation were only developed and implemented in the 2000s (see Section 5.3.1.2, 5.3.1.3, 5.3.2 and 5.4.1.3). Such gaps - in terms of the timing for developing brand awareness at the consumer, private

organizations and government levels - together with the other key influences on the Taiwan brand business identified in Section 5.5.2, posed a number of branding challenges to the local textiles and clothing companies. Table 5.5 summarises these general branding challenges in terms of market opportunities, competition and threats specific to the local companies at each stage of the development of Taiwan's fashion brand market.

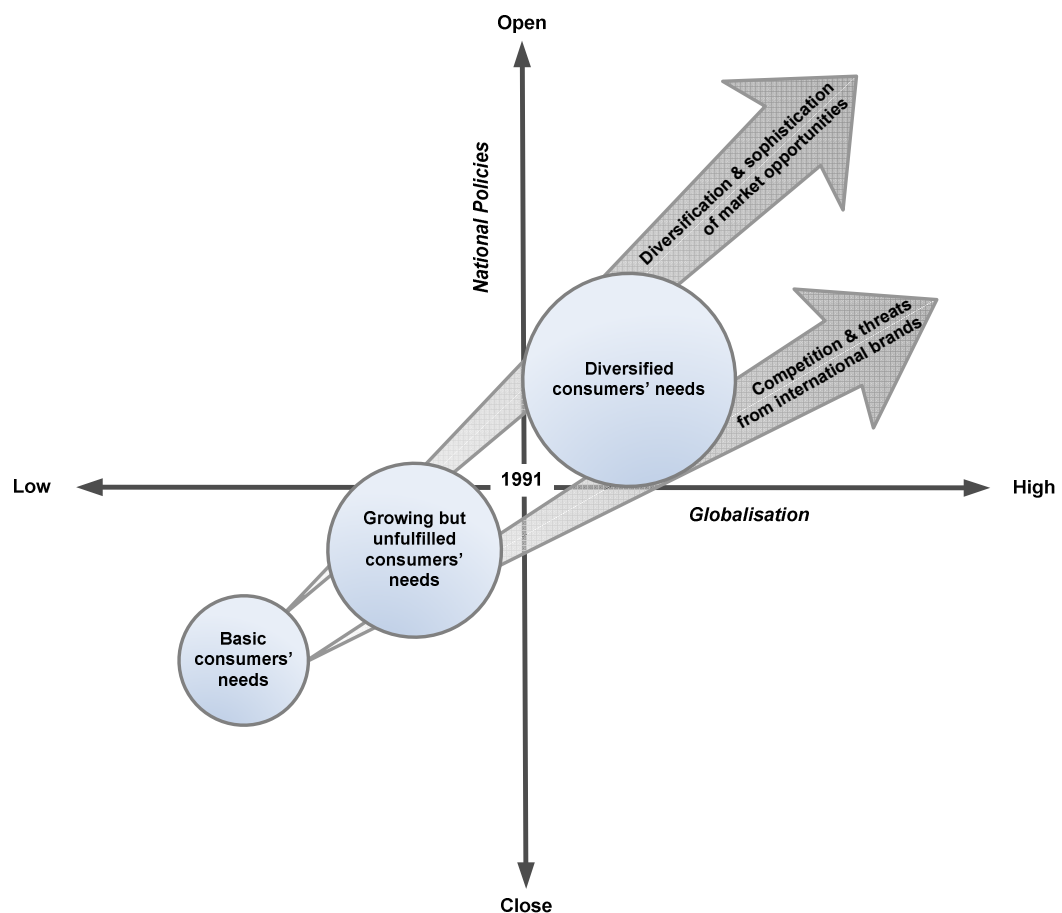
Table 5.5: Branding challenges to the local companies by each market stage

Market Stages	Branding Challenges from Socio-economic Environments
Preliminary Stage (1950-1974)	<p><u>Key facts</u></p> <ul style="list-style-type: none"> ➤ Low purchasing power ➤ Minimum competition ➤ Availability of the branded basic items
Growth Stage (1975-1984)	<p><u>Market opportunities</u></p> <ul style="list-style-type: none"> ➤ Rising consumers' fashion awareness & expectations for quality ➤ Increasing retailing channels ➤ Gaps between supply and consumers' needs ➤ High customs duty for the imported products <p><u>Competition & threats</u></p> <ul style="list-style-type: none"> ➤ Admiration of foreign brands and products ➤ Production & material resource prioritised by export industries ➤ Lack of understanding and knowledge about branding
Transitional Stage (1985-1990)	<p><u>Market opportunities</u></p> <ul style="list-style-type: none"> ➤ Having the highest growth rate of income ➤ Consumers' appreciation of design, quality, country of origin & brands ➤ Emerging consumer segments ➤ Emerging market opportunities in China <p><u>Competition & threats</u></p> <ul style="list-style-type: none"> ➤ Increasing number of new local brands & imported brands ➤ Subjected to the influence of international fashion trends ➤ Sharp increase in the number of the imported products ➤ Increasing cost of local production ➤ Direct investment & management in retailing by foreign companies ➤ Primary retailing channel controlled by the department stores
Open & Diversified Stage (1991- present)	<p><u>Market opportunities</u></p> <ul style="list-style-type: none"> ➤ Diversified & globalised consumer's needs & preferences ➤ Popularity of the designer clothes & young casual items ➤ Availability of various retailing channels ➤ Supported by a increasingly favorable environment in legal aspects, consumer education & high-educated young generation ➤ Opening up of the Chinese retailing market ➤ Opening the direct investment in China in 2002 <p><u>Competition & threats</u></p> <ul style="list-style-type: none"> ➤ A crowded market ➤ Severe competition from the high-end & middle-end imported brands ➤ Prevalent chain store retailing from medium-low to medium-priced brands ➤ More floor space leased & the preferential lease conditions offered to the imported brands by retailers ➤ Primary selling channel governed by large chain department stores in 2000s ➤ Entering the stage of slower economic growth after 2000 <p><u>Other favourable facts in 2000s</u></p> <ul style="list-style-type: none"> ➤ Cultivation of the overall competitive strength in terms of promoting creativity and innovation, integrating design with local cultural, consumers' needs, & marketing by the government agencies ➤ Initiating the governmental policy for Branding Taiwan

5.5.4.2 Progression of branding challenges

It also appeared that, on the basis of a progressively growing national economy, there were the positive relations between the progression of the general branding challenges and the primary factors affecting the development of Taiwan fashion brand business (identified in Section 5.5.3). Such relations are graphically delineated in Figure 5.12.

Figure 5.12: Progression of branding challenges to Taiwan local companies



In this graphic coordinate model, the three dynamics – the national policies, globalisation and the changes of the consumers' needs – were further condensed from the five primary factors affecting the development of the Taiwan fashion brand business (refer to Section 5.5.3). The former two dynamics constructed the two axes of this coordinate. The last dynamic was defined by its three evolving states – from the basic consumers' needs, to the growing but unfulfilled consumers' needs, and to the diversified consumers' needs. These three evolving states in relation to the openness of the national policies and the degree of globalization were identified and displayed by their location in this coordinate.

It was demonstrated that the three states of consumers' needs evolved along with the increasing openness of the national policies and the added degree of globalization. The market opportunities in terms of diversification and sophistication as well as the competition and threats from the international brands were also simultaneously increased in accordance with the evolution of consumers' needs.

An additional sign of year 1991 was marked in the centre of the coordinate. This sign signifies not only the beginning of an open and diversified stage of the Taiwan fashion brand market, but also marks an important dividing point for the TTC industries and national economic stages, i.e., the commencement of a period of reducing domestic clothing production, the development of high value added and innovative textiles, and the promotion of the industrial upgrading (refer to Figure 5.8).

5.5.4.3 Challenges from the consumers, imported brands and globalisation

The state of the growing but unfulfilled consumers' needs in the above progression model (Figure 5.11) was revealed in Section 5.2.2.2 and 5.2.3.2. Before the 1990s, some of the major local consumers' demands were not adequately met by the local fashion suppliers. This was not only due to the fact that the priority for industrial development was given to the export-oriented companies against the backdrop of an export-led economy, but also because the local brands failed to preempt the changes of the consumers and serve the needs of the emerging market segments. The national policies – a tight control on the international interactions and communications as well as trade protectionism – further hindered the local companies from making reference to the leading experience gained by the neighboring or advanced countries.

These un-preempted consumer changes and inadequately catered-for consumer segments in this period were mainly the popularity of casual wear, the increasing number of working women, as well as the shifts in fashion preferences and taste. Such consumer changes and new market segments were derived from a transformation of the Taiwan social structure and lifestyle, and would hence become the new branding opportunities for the local companies given the support of a prosperous economy. However, these emerging opportunities were not promptly seized by the local companies. The foreign brands introduced at this stage, which had the advantages in terms of a stronger brand image and country image, as well as the associated value such as cosmopolitan appeal or value for money, catered to many of these market gaps given a favorable condition – the under-developed competition.

The success of these foreign brands further stimulated changes in some local branded companies in terms of their business vision, brand positioning and the options for their next markets through learning from and competing with these foreign brands. It also attracted the major integrated TTC companies to cooperate with these foreign brands by means of franchise arrangements instead of developing OBM for the domestic market. Furthermore, the consumers' awareness and taste for fashion was also influenced by the increasing presence of the foreign brands. The impact and competition from the imported brands on the Taiwan fashion market continued to expand into the next market stage - an open and diversified phase after 1990.

At this latest stage, due to the evolution of a global fashion phenomenon and the internationalisation of fashion retailing (Frings, 1999; Moore & Burt, 2001), most of the foreign brands present in Taiwan were international brands with an across-the-board market appeal. In addition, Taiwan opened up its domestic market, the Taiwan consumers were exposed to these global influences and were able to keep up with the international trends as well as gain access to the various forms of brand information. As a result, these international brands were well perceived by the local consumers and became popular brands in the Taiwan fashion market.

These international brands mostly originated from the advanced countries and had the competitive advantages of product design, marketing and management know-how as well as the country image effect (CIE) of the brand origin. Together they covered a wide range of market segments and prices in the Taiwan market. This hence posed an enormous threat to the local brands and may have reduced the incentive for some local companies to initiate the OBM business.

Having the comparative advantage of market proximity to identify and react to the emerging market opportunities from the increasingly diversified consumer segments and the young generation with their higher fashion and brand consciousness, the local brands were nevertheless restricted by two disadvantages - the lease conditions offered by the major department stores, and the preconceived ideas of the consumers about the Western and Japanese fashion brands, since these brands represented an advanced, trendy and international image. The former fact might have led the local brands to encounter a vicious circle in their brand performance and/or switch to the overseas markets; and the latter fact might have caused the local companies to adapt their branding strategies. Both consequences would also present the big challenges to the local brand companies.

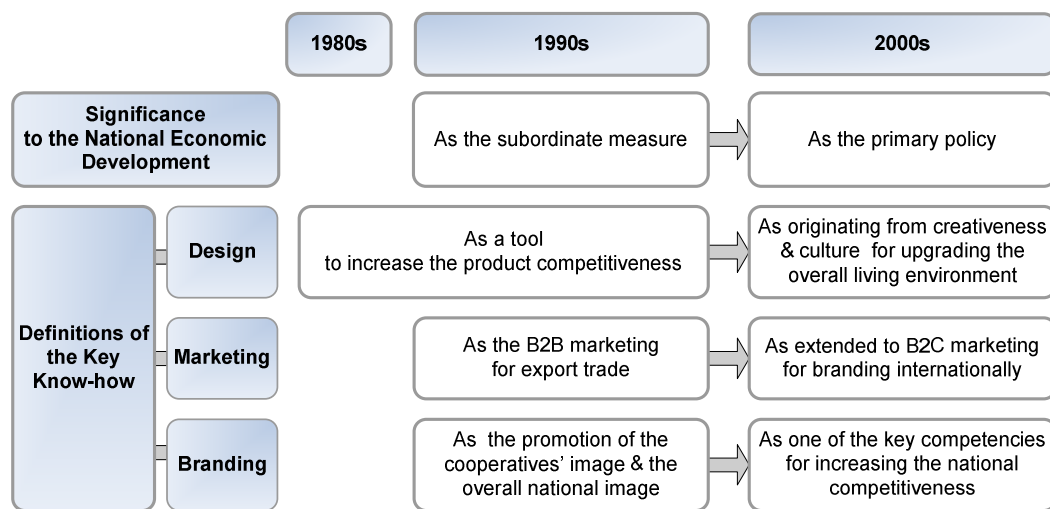
5.5.4.4 Challenges posed by the government supporting programmes

Due to fact that the development of the Taiwan economics was formerly dependent upon exporting the industrial products to the foreign markets, the direction of the industrial policies and the allocation of industrial resources hence placed great emphasis on providing the assistance to and cultivating the competitive competencies for the exports at every economic stage (see for example Section 5.3.1.1). Despite the fact that there was no limitation for the targeted markets, the emphasis of the recent national policies for promoting the brand creation and development initiated in the 2000s was primarily placed on the cultivation of the international brands which could compete in the overseas markets.

From the industrial progression perspective, these recent national policies for brand cultivation ought to be reviewed as a continuity of a series of related policies and plans starting from the end of the 1980s, which aimed at leading the export industries into the higher value-added activities and

cultivating the core competencies required for the same (see Section 5.3). Examining these national policies administered from the 1980s to 2000s, there was a gradual shift of emphasis with respect to promoting the brand development. This shift in terms of the significance of the brand development to the national economic development and the definitions of the key know-how denoted in these related plans (presented in Figure 5.13), reflected a late awareness of the importance of the brand value to the national economy and the insights given into the core competencies for brand creation and development, when judged against a background of export-oriented production.

Figure 5.13: Shift of promoting the brand development by the Taiwan government



As identified in Section 5.3.1, before the 2000s, promoting brand development was managed by the TAITRA which focused on the promotion of the individual cooperative's image and an overall national image for the export markets. This was because the focus of the development of the Taiwan economy was the export sector and the business model of the exports was B2B based, hence Taiwan's exports were developed and

marketed under the buyers' brand names. Most of the Taiwan export companies concentrated only on the production, the associated management and service functions, and the R&D for the technology-intensive products at a later stage. Their expertise did not include retailing and communicating directly with the end consumer, i.e., the business of a B2C based company. The related design and market know-how obtained and applied by the Taiwan export companies were limited to the production associated scope. The other key activities of the B2C business, such as consumer research, brand establishment, retailing and consumer communication, were implemented by their buyers - the foreign companies which procured the products for their brands.

When promoting brand development became one of the primary national policies in the 2000s, the definitions of the key know-how denoted in the national policies were also changed in accordance with the newly promoted business model – B2C. This included an elevation of the design as originating from creativeness and culture for enhancing the overall living environment; an expansion of the marketing know-how from the scope of B2B to B2C in the context of international branding; and viewing the creation of powerful brands as one of the key competencies for increasing national competitiveness. These identified changes were the principle directions taken by the Taiwan government in promoting brand creation and development in the 2000s.

Both the immediate and long-term measures to enhance the brand creation and development were found in the national policies. The former measures were mainly the brand appraisal system, brand consultation and financial incentives. The latter measures were the reinforcement of the fundamental knowledge - such as consumer research, R&D, brand marketing, and the cultivation of a favourable environment covering matters such as legal protection, the encouragement of creativity and innovation, the cultivation of

human resources, and enhancement of design awareness and cultural consciousness, at both the industrial and consumer levels (as indicated in Sections 5.3.1.2, 5.3.1.3, 5.3.2.1 and 5.4.1.3). All these measures led to the establishment of the requisite environment for fostering the necessary core competencies for own brand creation. Since they were only implemented in recent years, except for a few cases of positive progress identified in Section 5.3.2.2, it is too early to assess the overall effects of the measures introduced by the government.

However, it may be stated that the textiles and fashion companies as a whole did not perform appreciably better, except for the few companies for which core products were functional textiles – a sector in which the government had invested heavily (see Section 5.3.2.2). It was revealed that governmental resources cultivating core knowledge of fashion branding were primarily for design and R&D - but increasingly the direction became that of non-apparel applications. Although marketing services and branding combined represented one of the three major developmental strategies for TTC industries proposed by the government, it was found that there was a lack of expertise to support the introduction of know-how in areas such as brand marketing, brand management and fashion retailing (see Sections 5.3.1.3 and 5.4.1.4).

Government support was also limited in the area of cultivating design competencies by elevating the creative and cultural contents. The existing governmental programmes focused only on a limited number of the local designer branded companies and the young designers, and anticipated to exert their influence to forge a consensus in the fashion industries for establishing the design identity of Taiwan and differentiating the image of Taiwanese brands in the marketplace. This target may have been difficult to achieve due to the relatively low coverage of the industrial members. Besides, it seemed that there was a lack of active programmes to assist the

export-led companies to gain insights into how the design related competencies were originated and cultivated, especially from the creative and cultural dimensions, in order to assist their transition to OBM.

5.5.4.5 Challenges for the companies from export origins

Against the export background, the challenges of own brand creation for the companies from export origins might be classified according to three categories – the market incentive, gaining sharp insights into the core competencies, and the acquisition of key know-how.

Market incentives for the TTC industries to do their own brand development in the home market changed after 2000. Before the 2000s, except for few large integrated companies, most of the TTC export companies were not inclined to introduce OBM in the domestic market, despite the increase in branding opportunities for quality items from the 1980s onwards. Unlike the size of the middle-price markets in the early developed countries, which were the main concentrated markets for the TTC exports, the scale of the domestic market was too small for most of the TTC export companies to achieve economies of scale (see Section 5.2.3.3 and 5.3.1.1). After the 2000s, due to the openness of the China brand markets, the home market was considered by several large export companies to be the starting or tested market for OBM before branding in China (see Section 5.2.3.3). The importance of branding in the home market was hence reevaluated from the business strategy perspective.

The vision and the mind-set of most of the TTC export companies, characterised by an emphasis on the production cost and short-term return on investment was highly possibly derived from their previous role locked and experience gained in the GACC. In spite of the fact that their major

customers were the established brand marketers in the advanced countries and their position in the GACC moved up, the TTC export companies only engaged in the mid-end business activities of the branded clothing value chain.

These mid-end business activities were the 'partial design' (defined in Section 2.4.2) and production associated tasks, such as sourcing, quality control, and production chain management. Their foreign customers – the brand marketers -were responsible for front-end and back-end activities, i.e., establishing the brands, developing and marketing the branded products, setting up the quality requirement, coordinating the entire supplying chain, communicating with the targeted consumers, creating the brand value and maintaining the brand image locally and internationally in some cases. This entire value-creation process for branded fashion was based on comprehensive consumer and marketing knowledge, brand management expertise as well as the creation in line with lifestyle of the targeted markets. Such a process and the involved know-how, however, were not open to and penetrated by the TTC export companies due to their existing role in the GACC (see Section 2.4.3).

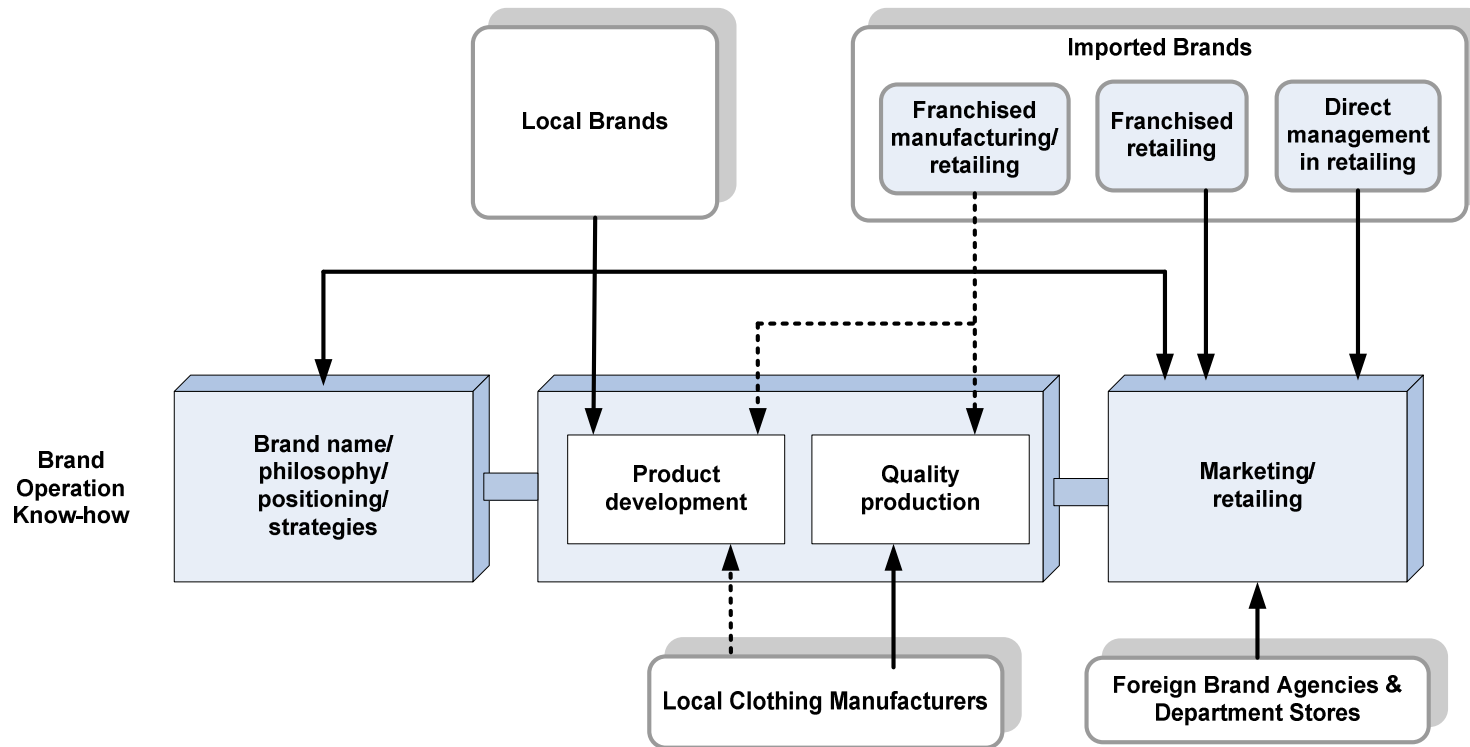
As a possible consequence in terms of the collective experience, the TTC export industries had incomplete understanding of the core competencies for the fashion branding and limited insights into the prerequisite environments for supporting such a value-creation process. This, therefore, might have posed big challenges not only to the individual export company when initiating the OBM, but also to the government in promoting own brand development to the export companies.

Since the know-how required for the own brand creation was limited in the TTC export companies and was not available from their closest tier of the trade environments, the tendency was to rely heavily on obtaining the know-

how from the other business systems outside the GACC when beginning OBM. This hence posed another challenge for the export-oriented firms.

As revealed in Sections 5.2.3.2 and 5.4.2, fashion branding knowledge in Taiwan was developed through various market stages and contributed by various systems. Figure 5.14 delineates these knowledge contributions in terms of the operation know-how by various business agencies in Taiwan's fashion brand market. It shows that the weakness was the front-end knowledge, i.e., the establishment of the coherent brand philosophy, a differentiated brand-position and the formulation of a competitive brand strategy. It was also identified that this particular type of knowledge was not easily transferred through or acquired from the two major business systems – the imported brands and local brands systems. Furthermore, due to the fact that a large part of the branding knowledge was experience-based and tacit in nature, the knowledge diffusion was mainly through the mobility of the people with the required knowledge. The human factor in terms of the availability and stability of the recruited expertise had a potentially great influence on implementing the OBM and cultivating the competitive competencies for the export companies.

Figure 5.14: Contribution of the brand operation know-how by various business agencies in Taiwan fashion market



Chapter 6 Phase II Part One - Individual Case Studies of Three Taiwan Companies

6.1 Introduction

This Chapter reveals the findings from three individual case studies conducted in the phase two investigation of this research. Three stand alone reports providing the holistic descriptions and within-case analyses of each individual case are presented in the sequent sections as follows:

- Case one – Companies A and B (Section 6.2)
- Case two – Companies J and K (Section 6.3)
- Case three – Company M (Section 6.4)

The development and organization of these reports were based on the report design outlined in Section 3.4.4.6.

6.2 Case one – Companies A and B

6.2.1 Introduction of the case implementation

Data from case one - companies A and B - were mainly collected between July 2007 and April 2008 in the course of the on-site studies. The methodological/data triangulation and data collection protocol designed in Section 3.4.4.3 and 3.4.4.4 were applied.

The in-depth interviews were conducted with the seven key personnel who were/had been responsible for the major business functions of the case companies and/or closely involved in the OBM process of the case companies (see Appendix B). The formal observations included attending one internal meeting, as well as visiting the show room and four retail outlets⁴³. The brand image materials and actual products developed for the Autumn/Winter 2007/2008 were studied as the major part of the physical artifacts examinations. Related documentation, which encompassed the visual records over the years - such as the shop images, promotional exhibitions and fashion shows - as well as the released news and reported articles, was reviewed. These historical data and publications were mainly used to supplement and validate the findings from the observational results and the interviewees' accounts.

⁴³ The observed retail outlets were the three outlets in the department stores (two in Taipei and one in Tainan) and one of the stand alone shops (i.e., the flagship shop) in Taipei.

6.2.2 Company profile

Company A is a Taiwan-based company providing trendy fabrics to leading overseas fashion brands since the middle of the 1980s. Their major customers range from the middle to the upper markets in Asia, Europe and North America (see Table 6.1).

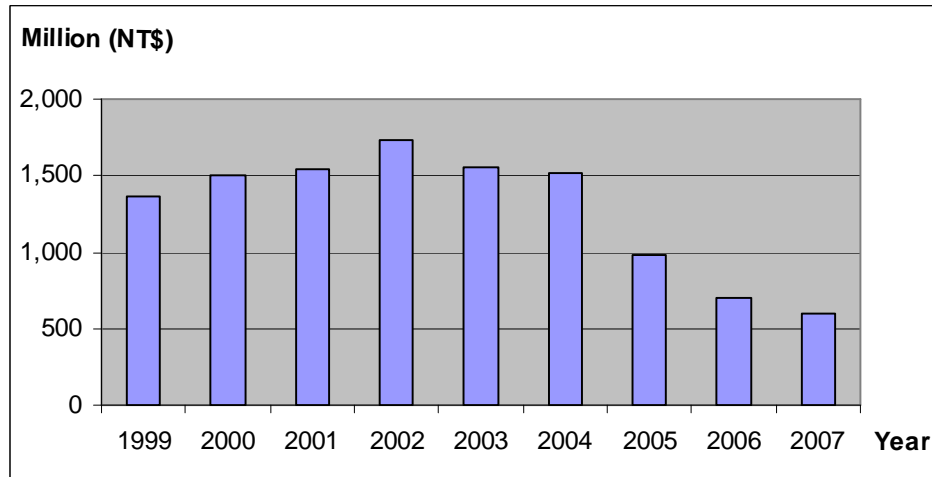
Table 6.1: Market distribution and major customers of Company A in 2007

North America (80% of revenue)	Asia (15% of revenue)
Ann Taylor, Anthropologie, Banana Republic, Eddie Bauer, Marc by Marc Jacobs	Ports, Mitsubishi
	Europe (5% of revenue)
	Cacharel, Christian Dior

The price range of their fabric collection is from US\$ 3 to US\$ 7 per yard and the minimum quantity accepted for each order varies from 100 yards to 3,000 yards. Their order-taking capacity for printing and dyeing is around 1,250,000 yards per month in dyeing and printing respectively, and 500,000 yards per month for yarn dye. The total revenue in 2007 was NT\$ 596 million (Figure 6.1). In addition to the head office in Taipei which has 58 staff, Company A has also set up overseas sales offices in Paris, New York and Shanghai in recent years.

Company B is the subsidiary company of Company A and was established in 2000 in order to initiate the own-brand business in fashion retailing. At present, Company B has 90 employees and owns the fashion Brand C which created NT\$ 180 million revenue through 28 stores in Taiwan in 2007.

Figure 6.1: Revenue of Company A (1999 - 2007)



6.2.3 Origins and development in GACC

6.2.3.1 Start and expansion

Company A was established by the President, Mr. Wang, in 1982 as a grey goods converter and infants' wear fabric supplier, and further extended its business to supply finished fabrics working together with one of the large printing and dyeing factories in Taiwan. During the second half of the 1980s, most of Company A's fabrics were sold to the overseas markets via the local trading companies. Only ten to twenty percent of the fabrics were sold to the local apparel companies and the branches of the transnational companies in Taiwan, such as Triumph, Wacoal, Single Noble, Chickabiddy⁴⁴ and Les Enphants.

⁴⁴ At that time, Chickabiddy did not possess the in-house brand but had the franchised manufacturing and retailing of Absorba – a French brand for infants' and children's wear.

In the early 1990s, Company A started exporting directly to Hong Kong, Japan, Europe and the USA markets. It has been a supplier to Liz Claiborne and Esprit since the early 1990s and to Express and Itokin (Japan) since the middle of the 1990s. After having recruited the present General Manager in 1998, who had a long and close link with Liz Claiborne, Company A's business with the USA grew rapidly and it has since become its largest market.

In 2002, the company reached the highest revenue of its own records – i.e., NT\$1,736 million, eighty percent of which was generated from the USA market.

6.2.3.2 Positioning in the global market

From the outset, Company A focused on the design and development of the fashion fabrics. The cooperative culture, which centered on the philosophy of 'creation and sharing' as a consequence of the management philosophy of Mr. Wang, created an encouraging working environment for cultivating the design competence. It was one of the pioneer companies in the world for the development of woven cotton fabric containing Lycra® during the early 1990s. Despite the fact that Company A is a converter and has no production factories⁴⁵, it has been listed as one of the Lycra Accredited Mills from 2000 until now. In 1995, Company A further defined its future positioning in the global market as an international fabric converter specializing in design and marketing.

To achieve the targeted positioning, an in-house design team was set up in 1998 to share the increasing responsibility of product development with Mr.

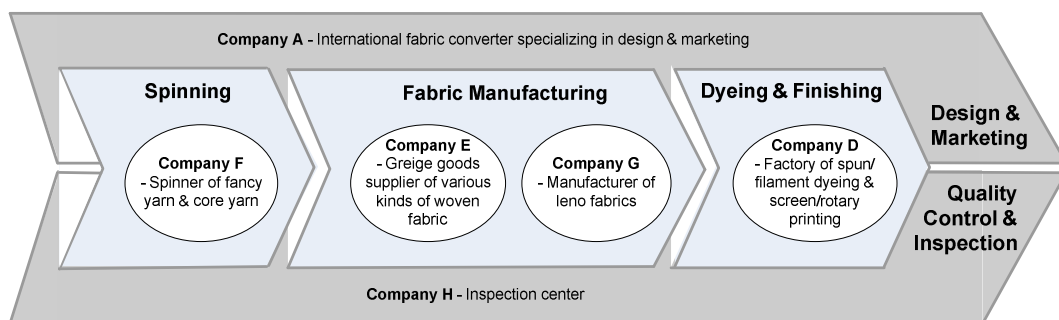
⁴⁵ Since 2007, Company A has monopolized one production site of Great Bell Printing & Dyeing Co., Ltd., in order to produce the key products exclusively.

Wang, who had been both president and designer of company A from the company's inception. In addition, internal presentations were given by a freelance trend consultant to supply up-to-date trend information and raise the overall design competence.

6.2.3.3 Strategic alliance of new product development and its outcome

In order to create competitive advantages in the marketplace and reduce the risks incurred in the new product development, Company A initiated a strategic alliance of new product development with other two Taiwan companies (D and E) in 1995. The strategic alliance of new product development was led by Company A and further expanded by recruiting new partners. Eventually, there were six member companies (D, E, F, G, H and A) representing different segments of the textile supply chain, i.e., spinning, fabric manufacturing, dyeing and finishing, quality control and inspection, as well as fabric design and marketing (see Figure 6.2).

Figure 6.2: Strategic alliance of Company A



A design team of this strategic alliance, which operated across the six member companies, was established in 2004. This team consisted of 18

people from the member companies and was led by the freelance trend consultant of Company A who had a close liaison with Du Pont. The original fabric collections were hence developed through the cooperative efforts of the team. The results of this new product development initiative enabled Company A to provide 200 new items per year and join Première Vision – a leading international fabric exhibition - as an exhibitor. In 2005, Company A became one of the few Taiwanese companies⁴⁶ accepted by Première Vision (Paris), followed by the Première Vision Preview New York in 2007. The acceptance by the organizers of these two exhibitions proved they could present seasonal fabric collections to international buyers earlier than the other companies.

6.2.3.4 Threats and challenges

After the elimination of global textile and clothing quota in 2005, Company A lost a number of customers due to the low price competition from China. Simultaneously, Company A found that their ideas and designs were quickly copied by their competitors. New plans were therefore formulated to counter these competitive threats, which included broadening the product range by developing a new product development programme with one of the large woven textiles companies in Taiwan, cooperating with a dyeing and finishing factory for the production of new products and exclusive designs.

The investment in design and product development enabled Company A to distinguish itself from the other Taiwan fabric suppliers with a higher profile and a better image. The fabric ranges marketed to the European designer

⁴⁶ By the end of April 2008, in addition to Company A, there were five Taiwan fabric companies exhibited in Première Vision (Paris), i.e., Formosa Taffeta, Eclat Textile, Everest Textile, Ruentex Industries and Meichuan Enterprise (Première Vision pluriel.2008); and one company - Ruentex Industries - exhibited in Première Vision Preview New York (Première Vision New York: The premier textile workshop.2008).

brands were supplied at a lower cost than those of the European suppliers. Consequently, Company A started to supply merchandise on a quick response basis, with small quantities but higher prices, to the European designer brands.

In the long term, Company A planned to seize the niche opportunities emerging from the recent developments in GACC. There were a number of fashion brands and retailers in the developed countries, especially in Japan, which further externalized their fashion design function and related expertise mainly to cut down the design cost and had the optimum design options when reacting to the volatile markets. Company A aimed to integrate and incorporate its know-how of brand creation into the fabric export business. In the newly created business model, their fabric merchandise could be packaged together with ideas for the new brand concept explored from the potential markets, the fashion designs of the branded garment collection and the patterns for garments tailored to the individual customer's requirements. This business package would make the best use of the competitive advantages and comparative strengths of both the parent and the subsidiary companies as a whole.

6.2.4 Development of OBM

Despite the successive failures experienced by the large textile manufacturers in Taiwan during the 1980s and 1990s⁴⁷, Mr. Wang was interested in extending his business from the fabric to the fashion sector.

⁴⁷ These examples included the cases of Tai Yuen Textile, Tah Tong Textile, Chia Her Industrial and Great Bell Printing & Dyeing, and these textile companies became involved in the branded fashion business by means of purchasing the established brands, becoming the brand agent or engaging in the franchised retailing for the foreign brands.

The reason for starting the branded apparel business was the enquiry and suggestions from the designers of Les Enphants⁴⁸ – one of his local downstream customers - who sought jobs after retirement. A subsidiary, Company B was hence formed in 2000 and Ms. Wang⁴⁹ – a senior employee of Company A and now the General Manager of Company B – was assigned to be in charge of this new venture. The rationale for this personal appointment was based on the philosophy of Mr. Wang, who believed that aesthetic sensitivity and fashion consciousness were two of the key qualities for a fashion brand entrepreneur in his business category.

6.2.4.1 Phase I - Launching a maternity brand via the retailing channels of others

This new business started with a budget of five million New Taiwan Dollars and a team of four people. After assessing the resources available from Company A - mainly the stock fabrics and business connections - a brand of maternity clothes was launched through the retailing networks of Company A's downstream customer - Les Enphants. The collaboration was based on mutual benefits, by which Les Enphants could have a new extended merchandise line and Company B could share the established retailing channels to avoid an immediate and considerable investment in the retailing operations. The collaboration lasted for one year and was discontinued

⁴⁸ Les Enphants is a transnational company based in Taiwan and specializing in designing, manufacturing and distribution of high quality branded accessories and garments for infants and children. By the end of 2007, Les Enphants has over than 1,000 retail outlets distributed in mainland China, Taiwan and a few South East-Asian countries.

⁴⁹ Ms. Wang majored in Applied Art and joined Company A after her graduation from a polytechnic. Before transferring to the subsidiary - Company B, she worked for twelve years in Company A and was involved in the work of print design, sales promotion to the local customers and financial management. She has been the General Manager of Company B since it started and is one of the shareholders of the company.

because of the poor sales results, attributed to the lack of information supplied to the potential customers about this new collection⁵⁰.

Collaboration then began with the Wacoal Taiwan Branch, who marketed their own branded ladies' undergarments, including maternity underwear, through their retailing outlets in the department stores. This collaboration was similarly unsuccessful since the exposure of other companies' brand names in Wacoal outlets was not approved by the department stores. The collection of Company B's maternity clothes was presented for sale without its own brand name. In addition, the sales value was adversely affected by the limited merchandise displayed on the shelves due to the confined space provided by Wacoal. In view of the constraints of these collaborations, new directions were then sought by Company B. With a new opportunity derived from the merger of a small designer's company at the end of 2000, Company B decided to focus on new markets and the brand business of the maternity was gradually discontinued.

6.2.4.2 Phase II - Branding a designer-led collection for the young ladies' market

A new brand, targeted at the middle-priced market of young office ladies, was launched by Company B in 2001. The creation of this new brand was occasioned by the appointment of a young fashion designer - a graduate of an established fashion school in the USA participated in the TITAS⁵¹ Young Fashion Designer Show and had launched a fashion brand in his own name.

⁵⁰ The majority of expectant or new mothers would shop for the infants and children's wear in the Les Enphants a few months before or after having the babies. When they eventually found out that Les Enphants also provided the maternity clothes, it was already too late for them to purchase any.

⁵¹ TITAS was the abbreviation of Taipei International Textile and Apparel Show. This show was re-named after 2004 as the Taipei Innovation Textile Application Show.

Company B purchased the young designer's company, and he became a shareholder of Company B and the first designer of Company B's new brand. This arrangement not only enabled Company B to acquire a sampling team and a designer to start a new brand, but also facilitated their negotiations in leasing retail space.

Having the retailing outlets in the department stores was prioritized by Company B in branding since it was less costly and complex than setting up their own stores. However, without a history in fashion retailing or branded goods marketing, to have an ideal location with preferential terms for brand outlets was a difficult task for Company B. Merging a designer's company which had already been known to the department stores helped Company B in tackling this task. After only half a year, a designer-led collection of Brand C was marketed through the retailing stores of Company B in the department stores in the area zoned for the local brands.

In the first four years, Brand C was mainly characterized by a product-oriented approach. Due to the fact that "the members in the company lacked sufficient understanding about brand and did not have the integrated expertise/knowledge to run a branded fashion business" (Ms. Wang, 26.12.2007), there was an excessive reliance upon the designers, who were believed to be the key to the success of Company B. It was hoped that the designer-led collections would be well received by potential customers. As a result, the brand image was mainly projected by the sole designer and the style ranges were a reflection of the designers' own preferences. Neither of these factors was based on sufficient consideration of market reality.

As explained by Ms. Wang (26.12. 2007):

At that time, our attention was often drawn to the styles created by the designers. After sharing the enthusiasm for the new designs, we did not turn to examine what we actually wore in reality, [...]. For example, the percentage of the evening

dressess in the collections was somehow too high, which did not correspond to the real life style of the local consumer. [...]. As a whole, we did not see [acknowledge] the areas beyond the products which were far more important than the products themselves.

On the other hand, the designers were also confined by the requests to incorporate the fabrics, including those which were in stock, provided by parent Company A in order to benefit from the combined advantages of fast supply and low cost. This material constraint further impacted on the collections in terms of appropriate use of the fabric for some styles⁵², the limitation of varieties offered, as well as the freedom to independently develop a seasonal colour palette.

Despite the fact that the brand enjoyed certain recognition in the press and trade, especially through the promotion of creative fashion shows and celebrity spokespersons, as well as the innovative design of the retail installations⁵³, the sales results were not as expected. Only a small group of customers was attracted by the collection and this could not sustain the Brand C 'on an economic scale in a highly open and competitive domestic market. The above discrepancy caused considerable conflict and tension within the organization, especially between the designers and the top manager. Due to the lack of sufficient understanding of consumers and prior experience of branding operations, the cause of the problem was not directly identified and acknowledged. This resulted in a waste of time and effort expended when moving in the wrong direction and caused high employee

⁵² The main strength and major portion of Company A's fabrics are the blends with high cotton contents, of which the characteristics, such as the degree of lustre and drapeability, might not be applicable to some designs of evening dress.

⁵³ The design of retail installations was one of the major responsibilities of Ms. Wang.

turnover, the replacement of the sole designer⁵⁴, and a period of employing multiple designers.

6.2.4.3 Phase III - Increasing commercial orientation

The personnel instability created many problems in the branding operation, especially the changes of the designers which brought about several visible changes in the style of the brand and adjustments of the brand positioning during the first four years. This resulted in further customer fluctuations and did not benefit the sales growth, but improved the understanding and knowledge about the targeted consumer and brand operation in the organization.

Some key problems were gradually detected and the adjustments were then made between the second half of 2004 and the beginning of 2005. These problems derived from the area of design, brand positioning, retail locations and marketing, and the related adjustments which were made in order to overcome these problems led the brand collections to an increasing commercial orientation.

Employing multiple designers and changing to French brand name

According to Ms. Wang (26.12.2007), the major weaknesses of the early collections were not only in the acceptance by a small group of the customers (as mentioned in Section 6.2.4.2), but also in the limited combinations of the coordinated items. The latter weakness was due to the

⁵⁴ After ceasing the design cooperation with the first young fashion designer in 2002, the selection of the successive designer for Brand C remained the same before, i.e., a potential designer with overseas design education abroad and a reputation in the fashion field.

limited experience of the recruited designers in building a commercial collection and the confinement of the floor space leased from the department stores (i.e., an average of 50 square metres per store).

Considering the need to expand the number of customers and improve the style coordination, a multiple-designer phase was introduced and the selection criteria for the new designers were also adjusted. The priority at this stage was to select designers with experience in designing for the mass market instead of those who had established their reputations with distinctive signatures. Three designers were recruited and they worked together as a team without compromising their individual styles. After half a year, one of the designers gained prominence and became the sole designer of the brand for the next one and half years. She is also the chief designer of the brand at present⁵⁵.

The brand name was translated from the Chinese into the French, which has a meaning similar to that of the original Chinese name. It was believed that the new name could generate more interest in the brand than the original Chinese version. However, this change did not have any influence on the store locations of the brand in the department stores.

Shifting responsibility of brand positioning and product finalization

The major responsibility for brand positioning was shifted to Ms. Wang when the company began to employ multiple designers. Although one of the designers was assigned to be the head, the final decision for the production of the new design was made by Ms Wang. In other words, Ms. Wang, as

⁵⁵ The present chief designer of brand C, Ms. T. Chen, received a master degree in fashion design from a local university and had four years fashion design experience in a renowned local designer brand targeted at the ladies' market before joining Company B in 2004.

the General Manager of the company, assumed the leading role in the brand positioning instead of the designer and monitored the development of the collection based on the targeted market. She also became the main coordinator between the designer and other departments. This arrangement remains up to the present.

Improving retail locations while adjusting brand positioning

Due to the fact that the Taiwan department stores had continuously reduced the leased floor space available to the local brands, Brand C encountered difficulties in increasing the number of retail stores. Being a new local brand with limited bargaining power, Brand C seldom obtained the targeted retail locations. Hence, Brand C was obliged to accept some offers which were not ideal for its targeted brand positioning in the first place, and gradually improved the retail locations at a later stage.

Such a compromise, however, meant that the management of Brand C was often faced with a predicament when adjusting the brand to the targeted customer group. Since the new positioning was not supported by the obtained retail locations, the adjustment direction and range of the new brand positioning could not readily be tested and refined through the corresponding retail locations. The sales performance of the existing stores which did not match the new brand positioning was unfavourably influenced by these changes. This discrepancy between the brand positioning and retail locations further adversely affected the company's judgment in deciding the subsequent adjustments and hence delayed the progress of the branding.

Offering marketing perspective and concept of merchandise plan

Despite the fact that the stores within the department stores were considered to be the primary retailing outlets of Brand C, it was found that the company lacked sufficient knowledge to integrate the Brand C's collections with the marketing activities led by the department stores. Besides, the company needed to reinforce relationships with the department stores in order to get prompt feedback from them⁵⁶. These two identified weaknesses considerably affected the sales performance of Brand C in the department stores. In order to overcome these problems, efforts were made to recruit marketing professionals.

In the second half of 2004, Company B recruited a full time marketing consultant, Mr. Fukuda⁵⁷, who not only had experience in running a retail operation in the department stores but also had already established a good personal network with the Japanese department chain stores in Taiwan. Under his guidance and influence, close personal interactions between Company B and the Japanese department stores were initiated. The concept of a merchandise plan particularly geared to the marketing activities of the department stores was also introduced to the designers and top managers. This led to a change in the development of Brand C's product line in the following expansion stage.

⁵⁶ The development and maintenance of a good relationship between the local brands and the department stores in Taiwan was largely built upon personal interactions, which often involved social activities.

⁵⁷ Before joining Company B, Mr. Fukuda worked in fashion brand retailing in Hong Kong and Taiwan for many years.

Juxtaposing designer-oriented and sales-oriented collections

In order to ensure quick sales growth and further enhance the store expansion, a diffusion line of Brand C as represented by I, which was priced at 40% of the Brand C's collection and only focused on value-for-money items, was marketed through the Brand C's stores at the beginning of 2005.

The decision to start this diffusion line was made in order to increase the business turnover within a short time and without a large investment. This new product line was totally sales-oriented and directly managed by Mr. Fukuda. A range of the best selling styles combining features from both the previous Brand C's collections and the current market trend was selected, and then quickly reproduced in the newly sourced garment factories using the stock fabrics provided by Company A.

The merchandise of diffusion line I was displayed on specific shelves in the Brand C's stores and often served as a special promotion range in coordination with the marketing activities of the department stores, in which the discount period was increased and the percentage of discount extended year by year. As planned, the launch of diffusion line I created satisfactory results within a short period of time and this facilitated the negotiations for increasing the number of new stores and changing the store sites to a better location in some of the department stores in 2005.

After having made the above major adjustments, the number of stores increased by 41% from 17 in 2004 to 24 in 2005 and the revenue increased 160% from NT\$ 50 million in 2004 to NT\$ 130 million in 2005 (see Table 6.2).

Table 6.2: Store number and total revenue of Company B (2004 - 2007)

Year	Retail stores		Total revenue	
	Number	Increase rate (%)	Value (NT\$ million)	Growth rate (%)
2004	17	-	50	-
2005	24	41%	130	160%
2006	27	13%	160	23%
2007	28*	4%	180	13%

Note: * including three independent stores

6.2.4.4 Phase IV - Reinforcing management in design and other areas

After the expansion phase in 2005, Company B focused on strengthening management skills and knowledge in the areas of design, central coordination, human resources and garment suppliers. These reinforcements further improved the general performance of Brand C.

Holding a regular internal assessment meeting for new styles

In the beginning of 2006, an internal assessment meeting for the new styles was initiated and has been held every two months ever since. This meeting involves all the key staff from the design, merchandise and marketing departments, as well as the top managers. A group of sales girls, working in the front line of retailing and knowledgeable about consumer buying behaviour, were specially selected and invited to participate in the assessment meetings.

In these meetings, the new styles were presented and then assessed and accorded both scores and comments by the sales personnel. The subsequent improvements to these new styles were decided by the designers and the final decision for production of the new styles still

remained in the hands of the General Manager, Ms. Wang. Such meetings not only improved the internal communications about the new styles, but also provided the designers with opportunities to examine their new designs from the perspectives of sales and marketing.

According to Ms. T. Chen (08.01.2008) who had worked in the company for nearly four years as the chief designer, the assessment meetings reduced the risk associated with launching innovative styles, especially when the production order immediately expanded from 60 pieces per style to around 200 - 300 pieces per style within a short period. Some of the designers could not accept the critique of their designs and left the company as a consequence. However, these meetings did assist the chief designer and Ms. Wang in making better decisions in terms of finalizing the production quantity, colour and size assortments, and pricing. This therefore resulted in an improvement of the overall performance in design, sales and inventory control.

Laying merchandise requirements prior to collection building

In spite of the fact that the designer still played a central role in determining the style of the brand, Ms. Wang determined that it was necessary to introduce a market-supported merchandise framework before the designers started their work. This framework would reduce the company's risk of having a tenuous brand positioning as a consequence of the replacements of the designers and the preferential influence of the individual designers.

According to Ms. Wang (26.12.2007), although her awareness of the need for such a framework was developed at an earlier stage, the implementation process was quite time consuming. Thorough understanding and ability were achieved gradually on a trial-and-error basis and the framework was

only adopted relatively recently. Therefore, from the second half of 2007, a preliminary stage merchandise framework was proposed by Ms. Wang jointly with the chief designer. This framework was adopted by the design team when developing the Brand C collections.

This merchandise framework specified the style compositions by garment categories, preferential fabric properties in tune with the market schedule as well as the targeted cost range. All these specifications were based on the analysis of the previous sales, comparative advantages of the company's own products and up-to-date market information. The initial results were very positive and this operation continued into the second season.

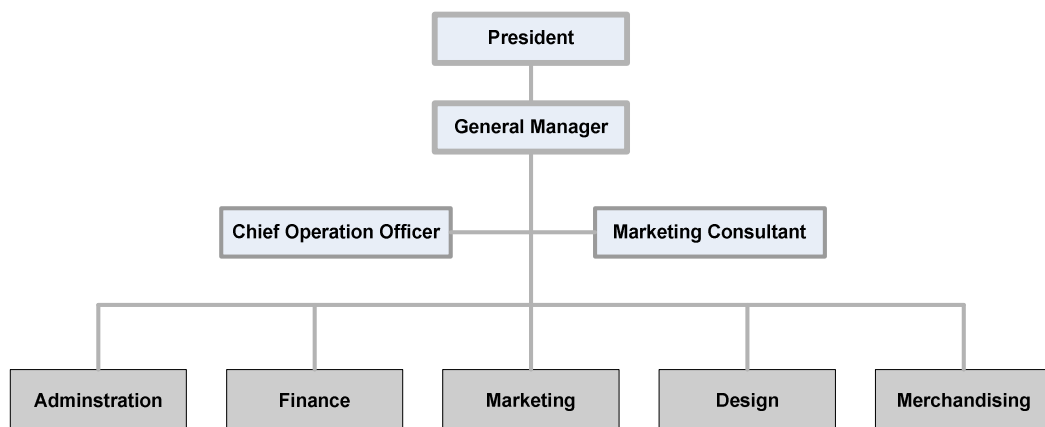
Strengthening central coordination, internal control and sourcing

From the start of Company B, the President, Mr. Wang, was not directly involved in the execution of the business but observed the consumer market and gave support to the General Manager. In view of the fact that the turnover of personnel was one of the key problems adversely affecting the company's development, after 2006 Mr. Wang spent more time in helping the General Manager to identify the cause of the problem and find the solutions. A cross-departmental top managers' meeting, which included the head of each department, chief designer, marketing consultant and general manager, was introduced and scheduled on a weekly basis. Supported by the presence of Mr. Wang, these meetings were considered to be quite successful by the employees in cultivating mutual consensus and hence the brand operation became more integrated.

In order to strengthen the internal management, a chief operation officer, Ms. Tsai was recruited in the middle of 2007 to assist Ms Wang in the internal control and internal auditing. Several measures were then adopted. Firstly,

in order to improve the efficiency, the organization structure was re-designed, specifically with the departments of administration and financial management, and the design and merchandising teams being separated (see Figure 6.3). Secondly, the company management policies and regulations which were slack and flexible were reviewed and updated in compliance with laws and regulations. Thirdly, in order to reduce the high employee turnover of the front line staff, the human resource management was also reinforced by improving the incentives and rewards system, as well as organizing the related care and supportive activities.

Figure 6.3: New organization chart of Company B



It was also found that the supply and delivery of garments represented weaknesses in the business operation. Since Company B did not have any production capacity, the production orders were placed with the four clothing manufacturers in China. Of these four manufacturers, only one had satisfactory performance in terms of quality and delivery. The problems derived from the garment supply not only affected the brand performance but also caused conflict between the various internal departments. From the end of 2007, Ms. Tsai made solving this production problem, which included

improving the work flow and sourcing new suppliers outside of China, a priority.

6.2.4.5 Current brand profile, operation, performance and challenges

By the end of on-site observation (April, 2008), Brand C was positioned at a medium price point in the domestic market as a Taiwanese fashion brand and was targeted to career women aged from 25 to 35, favouring a work outfit with a casual twist, and appreciating material with comfortable and natural features. The major competitors for Brand C were the other two local fashion brands - DITA⁵⁸ and Xing⁵⁹, both of which were launched by long-established fashion companies⁶⁰.

There were three product lines developed by Brand C, i.e., I, C1 and C2. The diffusion line I is the promotional line focusing on the value-for-money items as discussed in Section 6.2.4.3; C1 is the image line designed by the chief designer; and C2 is the younger version of C1 which is designed by a new young designer and priced between I and C2. Table 6.3 shows the price range of these three product lines using an example of the core product of Brand C – a dress in the Spring/Summer 2007 collection. The individual shares of the total revenue in 2007 were 45% from line I, 30% from line C1 and 25% from line C2.

⁵⁸ DITA was marketed by JO-AN Garment Co., Ltd in 1995 and has 36 stores in Taiwan by the end of 2007.

⁵⁹ Xing was marketed by BIGI Co., Ltd which had 27 ladies brands including the franchised Japanese brands and own in-house brands by the end of 2007.

⁶⁰ Both companies have engaged in the domestic ladies market since the beginning of 1970's.

Table 6.3: Price range of Brand C's dress in Spring/Summer 2007

Product lines	Price range (NT\$)	Difference by percentage
C1	2,980 -5,980	100%
C2	1,980 -2,480	66%
I	1,280	40%

By the end of 2007, Brand C had 28 retail stores including three independent shops in Taiwan. The first franchise for manufacturing and retailing was given to a Chinese company based in Guangzhou in 2007. The number of garments produced in 2007 was 165,000 pieces. With a 19.8% stock, the total revenue was NT\$ 180 million which increased 13% compared to 2006 (see Table 6.2). Since the brand has not yet reached the break-even point⁶¹, the next main challenge for Brand C will be to create profit based on the existent foundation. According to the President, Mr. Wang (10.01.2008), "The business model of Brand C has only just been established. Now, we need to accelerate the business growth of Brand C".

In addition to achieving a break-even point, Brand C also confronted some weaknesses which needed to be remedied in the next stage in order to increase the brand's competitiveness in the marketplace. These included: store locations; standardization of retail store operation and front line staff training; balance between the core and image items; brand profile and identities.

By the end of on-site observations, there were some stores-within-stores misallocated on the floors of the department stores, which aimed at different age groups from those targeted by Brand C, and the sizes of the stores within the department stores varied. According to the field observations, the store operations lacked standardization and the appearance of the front line

⁶¹ By the end of 2007, Company B had accumulated a loss of NT\$ 80 million.

staff did not correspond with the brand image. Although the design traits of the brand were appreciated by the targeted customers, such as the quality fabric, garment style incorporating the draping techniques, the ways of coordinating outfits and the inspiration from classic Western costume, the brand profile and identities needed to be clearer. Ms. Wang consented (27.12.2007):

If the logo of the brand was removed, our garment could not be easily distinguished. The brand identities were not distinct enough. [...]. Some design features which could be further amplified to reinforce the brand image if our brand did not target the consumers of the mass market, [...].

Ms. Wang also explained that, since the brand targeted at the middle priced mass market, the balance between the commercial core products and the creative image items has been always a big challenge for Brand C and this also affected the brand image.

6.2.5 Insights into the transition

6.2.5.1 Business vision and operational principle

The business vision and operational principle of Company B mainly came from the President, Mr. Wang. In his vision, the growth of Taiwan fashion brands was confined by the small scale of the domestic market, and in order to transcend this constraint the local Brand companies, such as Company B, would need to expand their business to overseas markets. However, in view of the fact that extending to overseas markets was a big challenge for most of the local fashion brands created by SMEs, Mr. Wang decided not to adopt the initiative strategy often used by the local SMEs. This strategy entailed

pursuing short-term financial success by 'headhunting' experienced designers and executives who had gained their branding knowledge mainly from working in the conventional local companies. These local companies featured the involvement of family members in controlling the main business functions, short term investment, and high mobility and flexibility along with limited concentration on standardizing operating procedures and establishing clearly-defined quality responsibilities.

According to Mr. Wang, adopting the initiative strategy used by the local SMEs would enable Company B to reach the break-even point in a shorter period of time, but entail a painful restructuring process when expanding to overseas markets. This was because the development of a business model and allocation of the company's resources would be shaped by the designers and executives who were confined by their local experience and lacked international vision. Therefore, instead of "taking a shortcut" (Mr. Wang, 26.12.2007) to achieve quick financial success in the domestic market by recruiting executives and designers who had experience in local branding, Mr. Wang insisted on using a different route. This route was to cultivate the competitive strength in the long term for sustaining the business in both home and overseas markets by cooperating with the potential young designers and promoting a loyal and potential employee to the position of top executive.

Based on Mr. Wang's long-term vision, two major implementation decisions were made at an early stage. One was the major criteria for selecting the top executive and the other one was the principle of business operation. Since establishing the brand philosophy and creating the branded collections were perceived by Mr. Wang as the key competencies for his branded business, developing a supportive environment in the organization to nurture and cultivate these competencies was an important task for the top executive of Company B. Mr. Wang, therefore, prioritised aesthetic

sensitivity and fashion consciousness over the general management skills and related marketing experience as the key qualities for selecting the top executive. Ms. T. Chen, the chief designer appreciated the aesthetic sense of the selected General Manager which greatly benefited their design communication. “I felt that we shared the fashion taste. My ideas were easily understood and valued” (Ms. T. Chen, 08.01.2008).

With regards to the business operation, Mr. Wang’s principle was that trying to find a healthy way of continuing the business was the first priority and taking expediency measures was the next. The timing and decision of introducing the value-for-money diffusion line I was a case in point. Diffusion line I was introduced in order to generate revenue as a response to short term considerations (see Section 6.2.4.3). Most of the resources were still used to support the original line and only minimal resources were allocated to the operation of diffusion line I. However, although this arrangement of juxtaposing the merchandise of the main line (i.e., the designer-oriented collections - C1 and C2) and the diffusion line I (i.e., the sales-oriented collection) did result in better sales performance as expected, it also resulted in a gap between the core customers. Furthermore, the display problems of blending the merchandise of these two categories together remained unsolved and this hence weakened the visual effects of the merchandise in the stores and adversely affected the total image of the brand.

6.2.5.2 A learning-by-doing path and major difficulties encountered

Company B acquired and developed the required knowledge and skills for implementing the OBM throughout the four stages in the path through various means. In spite of the fact that business links of its parent company were the leading overseas fashion brands, Company B did not gain access

to the knowledge or know how of brand creation and operation through these business links. When the company started the OBM, the value of own brand creation was not widely appreciated in the Taiwan fashion industry and the know-how for OBM was scarce. Ms. Pan, who was the former trend consultant of Company A and worked for the design centre of Taiwan Textile Federation (TTF) in the 1990s, described the external environment in Taiwan when Company B began (Pan, 25.07.2007):

At that time, the perception of branding and the understanding of brand operation were quite limited for most of the people [in the Taiwan textiles and clothing industry]. Since the scale of the domestic market was small and could not sustain the development a new brand into a big brand by generating large turnover, the creation and development of a cooperative fashion brand for the mass market did not merit attention or arouse interest.

[...]. Besides, the TTF, being a major organization in promoting the Taiwan Textiles and clothing industry, had been conducting the related training and consultation programmes in assisting the export industry transformation from OEM to ODM between the end of the 1980s and the end of the 1990s. The industry focus still largely remained on the design not the brand.

With insufficient knowledge and expertise of branding in the mass market and in the absence of franchised retailing experience executives in the initial stages, “the path of establishing the OBM business by Company B included a considerable part of learning-by-doing,” according to the senior manager of Company A and the former Vice General Manager of Company B, Ms. A. Chen (03.01.2008).

According to Ms. Wang, the General Manager, the major difficulties encountered by Company B in the path to OBM were as follows:

- Being confined by the limited financial resource;
- Obtaining the appropriate retail locations;

- Recruiting the qualified designers; and
- Finding a market-supported brand positioning.

In the case of launching Brand C, these difficulties interrelated and interwove with one another, and this added to the complexity of the emerging problems. Especially, the brand positioning and its associated problems were regarded by Ms. Wang as the most difficult parts in the branding operation. One such example was the discrepancy between the brand positioning and retail locations described in Section 6.2.4.3. Ms Wang perceived that the difficulty she experienced in the brand positioning in Brand C mainly arose as a result of the lack of sufficient understanding and knowledge about the branded retailing and consumer market, and this was the major gap originating from the business background of Company A.

6.2.5.3 Reciprocal effects between the parent and subsidiary companies

At the outset, the business linkage of the local downstream customers and the stock fabric of Company A were the resources for Company B (see Section 6.2.4.1). Later on, Company B benefited from Company A in the following ways:

- Accessing the leading information of material and market trends gathered by Company A;
- Attending the trend study and product development meetings held by the design team of the strategic alliance led by Company A;
- Using the original and updated fabrics of Company A at a preferential price;

- Using the quality stock fabric⁶² of Company A to develop a competitive advantage by supplying value-for-money items.

Since the locations⁶³ were close, the designers of Company B were often invited over to assess and select the new fabrics developed by Company A. The opinions and comments of the fashion designers, which were expressed from the perspectives of garment technology and fashion design, were highly supplementary to those of the fabric designers and salesman in Company A. After having incorporated the ideas to further improve the new fabrics, the sample fabrics were then produced for marketing promotion.

Company A made use of these sampling production opportunities to include the small orders placed by Company B and dyed the sample fabrics according to the specific colours requested by Company B. Company B was able to use some of the most up-to-date fabrics, made according to their own colour palette, without being confined by the minimum quantity. Between 2006 and 2008, Company B produced extra sample garments using the new fabric of Company A, and these additional sample garments from the Brand C's collection were then used by Company A to promote the new fabric collections to their overseas customers.

Although further design cooperation between these two companies could potentially have resulted in benefits for both parties, Company B was hampered by the limited human resources in design, therefore no further plans were drafted and promoted. Nevertheless the newly created business model, which integrated the know-how and exploited the advantages from

⁶² The stock fabrics of Company A were mainly accumulated by the inevitably redundant production to serve the needs of the high end customers whose orders were too small and could not satisfy the minimum quantity for dyeing the specific colours. The production quality and colour selections of these stock fabrics were carefully monitored since the fabrics were classified in the high priced ranges.

⁶³ Companies A and B share the two stories offices with the same entrance and the common areas including an open space show room.

both business parties for catching the niche opportunities emerging from the recent development in GACC as described in Section 6.2.3.4, was appreciated by the top managers of both companies and will perhaps be the next challenge for Companies A and B.

6.2.6 Analysis and interpretation

6.2.6.1 Significance of the parent company in GACC

In this case study, the rise of the parent Company A resulted from their engagement in the GACC during the 1980s and 1990s – i.e., the maturity and the value-added periods of the Taiwan textiles industry, and simultaneously the reducing domestic production period of the Taiwan clothing industry (refer to Figure 5.8 - the juxtaposition of the development stages). During these periods, the Taiwan industrial policies switched to promote the high-tech sectors and the industrial upgrading; and the world clothing production shifted from the NIEs to the emerging successors. The emphases of the Taiwan governmental policy and the related resources allocated for supporting the TTC industries were placed on assisting the export companies to change from OEM to ODM given the changing and unfavourable manufacturing environments (see Section 5.2.3, 5.3.1.1 and Section 6.2.5.2).

The growth of Company A demonstrated a Taiwan SME which had successfully seized the upgrading opportunity and evolved from the GACC in the above context through developing competency in product development. Their business model concentrated the value creation only on the fabric design and the sales service to the fashion branded companies in

the middle-to-high end markets, and further leveraged their competitive advantages and order-taking capacity by strategic alliances with a number of upstream manufacturers. Such a business setup enabled Company A - a SME having limited resources - to avoid a large investment in production equipment, focusing instead on the cultivation of a culture of creativity, mobility and flexibility. This enabled Company A to promptly respond to the volatile needs of their fashion customers on a B2B basis, and facilitated them to achieve a position in a niche market from which they could compete with the large enterprises in the global textile markets.

6.2.6.2 OBM opportunities and vision

In spite of having established a number of close business links with the large fashion brands from the middle to the high end markets in the advanced countries, Company A neither exploited any OBM opportunities nor drew upon the related know-how for implementing OBM from their networks in the GACC. The initiation of the OBM business originated from their early business connections with the local branded customers and benefited from the entrepreneur's business vision improved by involvement in the GACC.

The finding of this case corresponded with the analysis of market incentive provided in Section 5.5.4.5, specifically in that the Taiwan export-originated companies did not confine their entrepreneurial vision to the home market, but rather used this as a starting point to cultivate the essential competencies, especially after 2000.

6.2.6.3 Branding environments in the socio-economic context

The transition to OBM in this case started in Taiwan at the beginning of the 2000s, by which time the Taiwan domestic fashion brand market had already been in the open and diversified stage for ten years. Based on the phase one findings of this research (presented in Chapter Five), at this stage, Taiwan had entered the phase of slower economic growth, the related policies for entering the Chinese brand markets were more open to the Taiwan companies, and the major Taiwan governmental supporting programmes and measures in favour of brand creation were introduced one after another. The local fashion brand market was in a mature state in terms of consumer brand awareness and retailing environments, and crowded with the increasing number of international brands from various market segments and price ranges which severely threatened the survival of the local fashion brands.

The external branding challenges against the above socio-economic environments experienced by the case company may be summarized as follows:

- Distinguishing the brand profile and identity in an open but crowded market, in which the market opportunities were supported by the diversification of consumers' preferences and retail was dominated by foreign brands;
- Obtaining good retail locations, especially from the large chain department stores, which were the primary channels for branded fashion; and
- Acquiring the key know-how and expertise for brand creation and operation.

6.2.6.4 Challenges inherent in the differences of the business models

To Company A – an export fabric supplier, directly expanding to the OBM business not only involved the critical changes of the business operation model and market scope from a B2B overseas market to a B2C home market as well as the vital value creation activities from product to brand, but also entailed a switch of the product category from the intermediate products – trendy fabric - to the end product – fashion garments. These fundamental differences formed the inevitable and inherent challenges in the two major areas for the case companies in moving to OBM:

- Obtaining retailing channel and locations; and
- Acquiring the knowledge/skills essential to the achievement of an understanding of consumer, garment production, branded fashion design, retailing management, brand operation and management, and consumer marketing.

Although the above challenging areas formed the immediate tasks for the case company when starting OBM, the insights into these same areas were not adequately provided until the later stage – in which the experienced and qualified personnel were recruited and the branded know-how gradually accumulated from their own business practice. The absence of experienced executives and insufficient qualified personnel at the initial stages, however, meant that the business links and pre-knowledge of the case company for initiating OBM depended on the existent resources and knowledge of the parent company which was in an approximate ODM stage⁶⁴.

⁶⁴ Considering Company A did not possess its own production sites but provided finished fabric featuring its own designs according to the customers' orders, the term of 'an approximate ODM stage' was adopted in this context.

6.2.6.5 Strategic operation and sequential shifts

There were no pre-set upgrading strategies for moving to OBM but a series of sequential shifts in the strategic operation conducted by the case company in implementing OBM. These sequential shifts of the strategic operation started from the characteristic of resource-orientation, to the product and designer orientation, to the market-orientation and further the management orientation. The pattern of these sequential shifts not only displayed the progress of an incremental penetration into branded fashion business beyond the product design area achieved by a case company, but also demonstrated how a Taiwan SME with the GACC background adjusted its business operation to the market reality and further established an applicable business model in the home market.

In the course of four identified stages, the strategic operation - in terms of personnel recruited and deployed, resources obtained and allocated, as well as the brand and marketing strategies formulated - had a direct relationship with the other two key aspects – the challenges encountered, and the crucial knowledge/skills acquired and developed. .

The company entered into the new business through a combination of learning-by-doing and trial-and-error in the OBM path. This influenced the case company's judgement in the decisions made and actions taken in the development of OBM, causing delay and adversely affecting its performance in the market place.

6.2.6.6 Challenging areas and their interrelationships

The inherent challenges from changing the business model and the external branding challenges from the socio-economic environments further evolved with the strategic operation adopted, and this developed into the specific challenging areas for the case company during OBM implementation. These areas were:

- Development of design competence;
- Adjustments in brand positioning;
- Improvement of retailing locations;
- Enhancement of marketing input;
- Integration of brand operation; and
- Sustainability of business performance.

The encountered challenges derived from the above areas were varied by phase. Of these six challenging areas which were interrelated with each other, the development of design competence and the adjustment of brand positioning reflecting the great complexity are further analysed and discussed in the following text.

Development of design competence

From the initial stage, the company valued design as the key competence in order to distinguish their brand identity in the competitive fashion market. The development of design competence was therefore regarded as a vital task by the top managers. Four internal factors in favour of the cultivation of this key competence in the case company were further identified:

- The design strength and resources of the parent company;

- The supportive environments provided in nurturing and cultivating the designers in the organization;
- The fashion knowledge and aesthetic sense of the top executives; and
- The major business decisions based on the consideration of a long term investment.

In spite of having recognised the importance of design at an early stage and having had the insights into the prerequisite foundation for supporting the design creation, the case company did not see satisfactory sales results from the designers' collections until the later stages (phase III and IV) – four years after their own brand had been established. In the latter two stages, the marketing and merchandise concept were then largely introduced and integrated with the design and store operation. This hence narrowed the gaps between market need, retailing operation and design, and caused a further adjustment of the strategic operation which then led to an improvement of the overall business performance.

Both the phenomena - the early recognition of the design importance as the core competence and the late awareness of the design-associated gaps – observed in this case could be explained by the influence of the parent company. The two advantages exploited by the parent company – the design strength gained and business vision induced by engaging in the GCAA – gave the subsidiary company an insightful understanding of the design value to a branded fashion business. This led to a choice of brand strategy with a strong design emphasis and the cultivation of the design competence based on a long term vision.

On the other hand, the experience gained by the parent company in the GACC - which was limited in the mid-part of the value-creation process for branded fashion business as was the case for most of the TTC export

companies (discussed in Section 5.5.4.5) - also created some barriers for the top managers of the subsidiary company in appreciating and assessing the design-associated problems during the transition to OBM. These barriers formed the perception gaps, in which the top managers not only overlooked the importance of market research to the product development aiming at the a consumer market, but also neglected the linkages between the design and marketing inputs required by operating a brand retailing business. This hence led the case company to rely excessively upon the designers and a product- and designer-oriented stage in their OBM path.

It was also identified that the late awareness of the case company in identifying the design-associated problems was not enhanced by the recruited fashion designers, who transferred their existent knowledge and experience mainly accumulated from the local branded companies to the case company. In this case, the designers' creations were either not in line with the lifestyle of the targeted local consumer or they lacked a merchandise concept. Both the deficiencies were the prevalent weaknesses found in the local designers as a consequence of socio-economic background, in which the design and brand knowledge was developed against a long term exported-oriented backdrop and the short collective experience in brand creation/development.

Despite the fact that these common deficiencies were recognized at a latter stage, the case company did not participate in any of the programmes organized by the governmental agencies for improving their design-related knowledge, but instead they remedied the weaknesses during their business practice. This may have been due to the two facts identified in Chapter Five (see Section 5.5.4.4) - a low coverage in the industrial members by governmental enhancement programme and a lack of active programmes to assist the export-led companies. However, the case company benefited directly from the outcome of the governmental measures in terms of

obtaining the necessary human resources, i.e., the designers promoted as a consequence of the young designer contests and the trend information consultant from the TTF. These professionals played important roles in the transition to OBM.

Adjustment of brand positioning

The role of branding positioning was to devise the brand's offer and image which could lead to the establishment of the points-of-difference in the targeted consumers' minds when compared with the competitors (Keller, 2008). In the case of the branded fashion business, the brand positioning not only orientated the development of branded collections and the creation of brand image, but also set the principal direction for the marketing activities. Identifying and establishing the brand position was essential when implementing OBM. This challenge was regarded by the executive of the case company as the most difficult task in the OBM development exercise.

In the case of Company B, the brand positioning was achieved in the largest and the most competitive segment of the ladies fashion market in Taiwan by providing the local designers' collections. Developing such a brand positioning began with a choice made by the limited existing resources and the partial understanding of the branded fashion market rather than solid market research and strategy evaluation. The brand positioning was then gradually adjusted along the OBM path to match the requirements of the mass market. This enabled the case company to sustain their branded business performance but costs were incurred in the process of reducing the design intensity. The other associated costs were the personnel instability, time expended, fluctuations in the number of customers and poor sales performance during the adaptation periods, as well as a blurred brand image.

In the course of the adjustments, decisions made about improving the brand positioning were further complicated by a range of other challenges. These challenges were the adjustment to achieve the economic scale in phase II, the acquisition and improvement of the retail locations in phase III, as well as the balance between the expedience for sustaining the business and the maintenance of a consistent brand profile/identity in Phase IV. Such interrelated challenges hence increased the complexity and difficulties involved in operating the business.

The relationship between the brand position and economic scale in phase II was dependent upon whether the number of customers buying the primary brand could sustain the business in the long term. Since the case company was also experiencing a number of associated difficulties at the same time, this could not be judged objectively. They included the matter of the immaturity of the designer collection, the limited number of material choices, insufficient appreciation of the local consumer clothing culture, unsophisticated branding operation skills, the limited financial investment for expansion, as well as over reliance on the designer to open up the potential market without proper market identification. The last issue was the consequence of the internal phenomena discussed earlier - the partial penetration into branded fashion retailing and the perception gaps in appreciating the role of marketing. All these weaknesses had a considerable influence on the brand performance. The market potential of the primary brand was therefore difficult to distinguish.

The impact from the existent external environments of relevance did not enhance the case company in promptly detecting their brand positioning problems and then shortening their trial-and-error period. At that time, the methods whereby they might identify the problems associated with branding positioning were unknown to the case company. The integration of the consumer study, marketing and management know-how with branded

design were not largely developed in Taiwan and promoted until the case company had been working in OBM for a few years (refer to Section 5.3). Even then, the diffusion of such integrated knowledge was not characteristic in the trade. Having insufficient understanding of branded design and the influence from the intensive promotions of the local designer organised by the publicity and the governmental agencies, the case company was able to magnify the designers' power and capabilities in the branded fashion business, and overlooked the other prerequisite knowledge which provided the essential support for the success of a fashion brand. This included identification of the brand position which was feasible in the market place.

Another important factor affecting the identification of brand positioning associated problems at every phase was the increasing difficulty of introducing the local fashion brands through the primary distribution channels – the specialist stores and the department stores. As revealed in Chapter Five, these stores reduced their floor space and offered the less popular locations for lease to the local brands because of the popularity of the foreign brands. Therefore, the case company could not obtain the appropriate retail locations and sufficient floor space to test their adjusted collections. Furthermore, they could not expand to achieve the desired volume of sales at a specific time as they planned and required. This led to a vicious circle in the brand performance as discussed in Section 5.4.4.3 and further affected their judgment in evaluating the brand positioning.

The endeavour to improve the retail locations despite the unfavourable lease conditions also caused a substantial change on the case company's brand positioning at a later stage, i.e., the introduction of a sales-oriented line as an expedient measure. Such an expedience together with the personal business relationships strengthened by the recruited marketing consultant enabled the case company to gain and maintain their retail locations in the large chain department stores and consequentially improved the financial

performance of the brand. This took the case company to the next stage using a management-oriented approach, which aimed at improving the brand operation efficiency in order to achieve a financial balance as the next vital challenge and assure their future business model.

Despite the fact that the case company assumed that the expedience would be a short-term measure, its influence on the brand positioning was significant in terms of placing themselves to compete in a highly price-sensitive market and blurring the established brand image. Both of the outcomes may have jeopardized the potential opportunities for the brand development from the long term perspective. This posed a substantial challenge which had not yet been addressed by the case company at the end of this study.

6.2.6.7 Governing factors and their impact upon decisions and actions

A further analysis revealed that the major decisions made and actions taken upon the establishment of OBM in the case company which further influenced the strategic operation adopted were governed by four major factors, i.e., the vision and aspiration of leaders, tangible and intangible resources, competencies and knowledge, and retail channel and locations. The consequent decisions and actions of these four governing factors further impacted on four major dimensions of the OBM, i.e., market entry strategies, cultivation of core competencies, business model and brand strategy.

Of these four governing factors, the competencies/knowledge and the retail channel/locations were the weaknesses impeding the upgrading process and had an overall influence on the four major dimensions. Both the

weaknesses were inherent from the changes of the business model and also the key areas connected to the two external branding challenges. These two weaknesses were largely improved by recruiting qualified personnel at a later stage of the transition.

The other two governing factors - the vision/aspiration of leaders and the tangible/intangible resources - were mainly developed by engaging in the GACC and had both beneficial and detrimental consequences for the case company's transition. With the exceptions being the market incentive and business philosophy, the prominent impact of the vision and aspirations of the case company's leaders was evident in two particular areas, these being the cultivation of core competencies and the formulation of the brand strategy. As for the tangible and intangible resources, their impact upon the OBM implementation was in all the four dimensions, and particularly prominent in the cases of the market entry strategies and business model.

6.3 Case two – Companies J and K

6.3.1 Introduction of the case implementation

Data for case two – companies J and K - were mainly between July and August in 2007 in the course of the on-site studies. In addition to the triangulation methods described in Section 3.4.4.3, two additional methods – mail correspondence and telephone interviews – were used to replace the face-to-face interview in the case of the four key informants - one retired manager and three former employees working abroad during the investigation period.

The face-to-face in-depth interviews were conducted with ten key personnel (see Appendix B) who were/had been involved with the major business functions of Company J and K, ranging from financial, sales and marketing, design, production, human resources and top management. The formal observations included attending two internal meetings and visiting the show room in the course of the on-site study, as well as studying a number of retailing outlets in Taipei between 2007 and 2008. The brand catalogues over the years and the actual products of five seasons' collections (2007 S/S, 2007 A/W, 2008 S/S, 2008 A/W, 2009 S/S) were provided for the physical artifact examinations. Related documents, including consultation records, reports of the governmental enhancement projects, relevant meeting minutes, China market research reports and news articles, were reviewed and used as supplements; they also assisted in corroboration of the findings from the observational results and the interviewees' accounts.

6.3.2 Company profile

Company J and K was the Taiwan-based SME established in the early 1980s by the same investors. Company J mainly engaged in the OEM/ODM production and exports. Its products covered from 3 to 12 gauge ladies knitwear and were mainly exported to the importers and stores in the European and the USA markets. In addition to setting up the production sites in Taiwan and China between the mid-1980s and the beginning of the 1990s, Company J also began off-shore production in Cambodia and Thailand at the beginning of the 2000s.

The annual turnover was between US\$ 10 million and US\$ 12 million and the exported quantity was between 1 million and 1.2 million pieces. In 2005, the turnover of Company J was US\$ 10 million and the ODM business contributed approximately 50% of this sum. The market distribution of their OEM/ODM business in the same year was 10% in Taiwan and China markets, 30% in European markets, and 60% in the USA market. Their major customers included C&A, Macys and Saks and TJX.

Company K was originally involved in the small-scale import business of knitting material and the OEM/ODM business for the domestic market. After initiating the OBM business in 1995, Company K gradually concentrated only on managing the fashion retailing business of its own brand – L. In 2008, Company K had 145 employees (i.e., 65 in Taiwan and 80 in China) and 55 retail stores (i.e., 17 in Taiwan and 38 in China), which together created NT\$ 328 million revenue (see Figures 6.4 and 6.5).

Figure 6.4: Revenue of Company K (1997 – 2008)

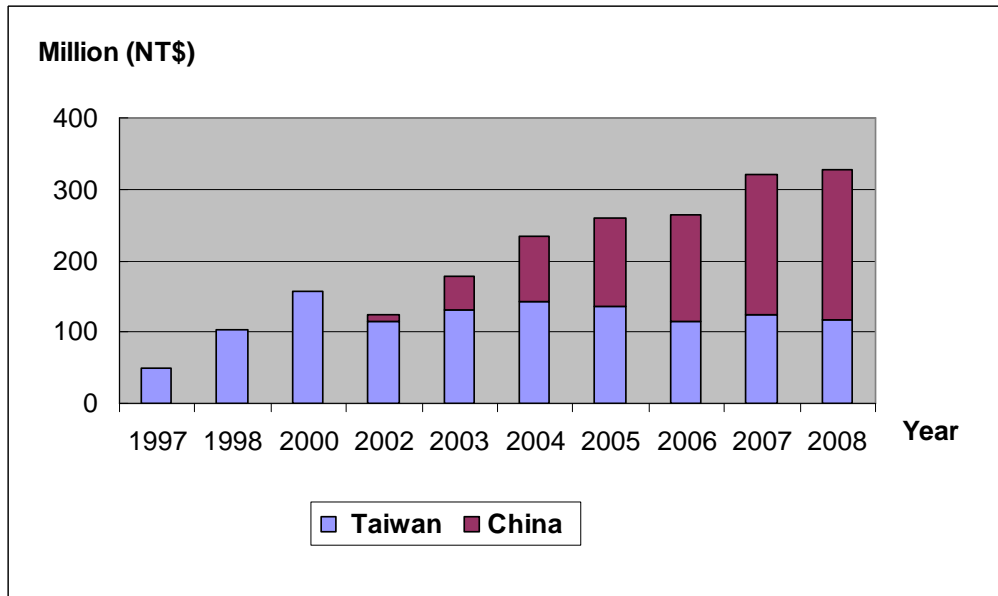
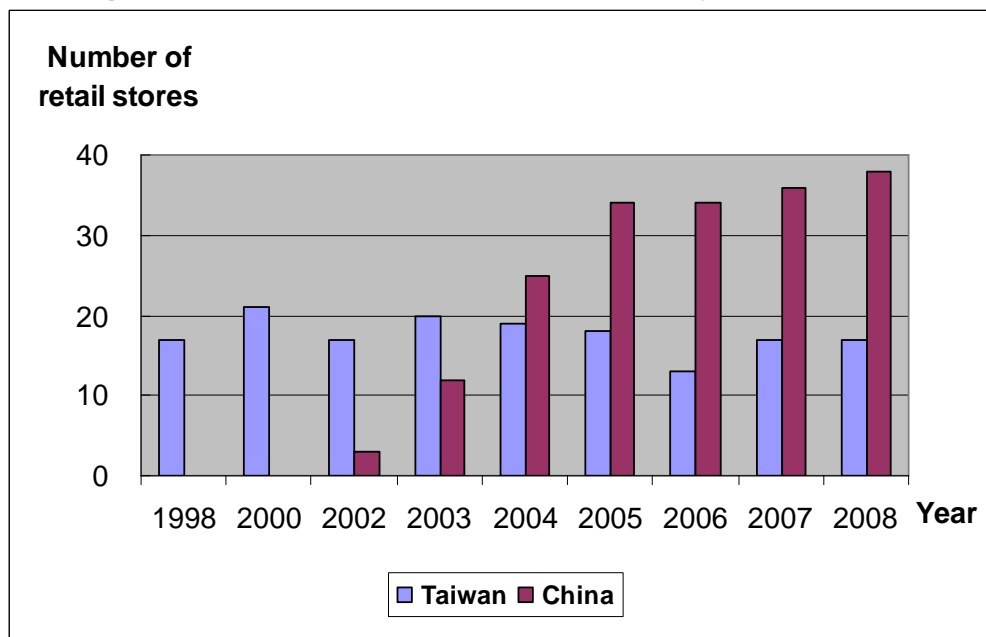


Figure 6.5: Number of retail stores of Company K (1998 – 2008)



6.3.3 Origins and development in GACC

6.3.3.1 Start and expansion

Companies J and K were founded by Mr. Wang, the president, his wife and four other partners, and established in 1980 and 1981 respectively. Most of them had attained their production knowledge/skills in an export manufacturer during the 1970s. They were the key staff of Company J and K at the initial stage, and were in charge of the main business activities from the outset.

At the initial stage, Company J exploited only the subcontracting networks for the production of their orders, instead of setting up their own factory. Since the business continued to expand, Company J established its first manufacturing site in northern Taiwan in 1985. Their core products at that time were ladies' knitted garments with intarsia motifs and appliqués produced using three and six gauge hand knitting machines with hand embroidery details. Most of their knitwear was exported to the USA market at the FOB price from US\$ 10 to US\$ 20 per piece. During the peak period of Taiwan's knitwear exports, 1986-87⁶⁵, Company J's annual turnover was around US\$ 13 - 15 million. After 1986, in order to reduce the risk of market concentration and increase the competitiveness, Company J gradually shifted their export market from the USA to the European countries and further moved to the ODM stage.

⁶⁵ In the peak period of Taiwan's knitwear industry (1986-1987), approximately 10 million dozen garments were exported per year and the annual export value was about US\$1,200 million (Taiwan Textile Monthly, 2006).

6.3.3.2 From OEM to ODM

In order to move to ODM, Company J set up the design department in 1987, which started with one knitwear designer and a small sampling team. This design department was directly led and managed by the president's wife, Mrs. Wang, at the outset. From the start, Mr. Wang provided strong support to the design department in terms of supplying on-job education opportunities and promoting a favorable environment within the organization. The key members of the design team were encouraged to attend the training activities and seminars organized by the TTF and the Taiwan Sweater Industry Association (TSIA), and these were mainly held for the purpose of enhancing the industrial transformation from OEM to ODM. In addition, a knitwear design lecturer from Fu-Jen University was invited to execute a half-a-year design training programme tailored to the company's needs. Such support not only enhanced the cultivation of in-house design competence but also promoted an overall awareness and appreciation of the importance of design within the organization for initiating ODM.

The development of in-house design competence in Company J was further facilitated by switching their export market from the USA to the European countries since the latter markets "provided more ODM opportunities" (President Wang, 23.07.2007). The consequences of upgrading to ODM and the shift to the European market at the end of 1980s enabled Company J to sustain their export business in the presence of two emerging threats - the sharp appreciation of the new Taiwan dollar between 1986 and 1988 (see Section 5.2.3) and the sweater dumping incident in 1990⁶⁶. The latter

⁶⁶ The National Knitwear and Sportswear Association of the USA filed an anti-dumping petition against the man-made fibre (MMF) sweater producers in Hong Kong, South Korean and Taiwan in 1989. This led to an anti-dumping duty imposed on the imported MMF sweaters from the above producers, which included 26 Taiwan manufacturers who were required to pay 23.1% dumping tax on their MMF exports to the USA market (Xu, 1997). Since the MMF sweaters accounted for 40% of the quantity of Taiwan exported knitwear at that time, this incident had a big impact on the Taiwan knitwear industry.

incident in particular caused a big structural change in the Taiwan knitwear industry, i.e., a number of the large OEM knitwear companies closed down their factories and some of them moved their production base to neighbouring countries. Company J, having both design strength and the cost advantage made possible by partial production in their China factory (set-up in Guangdong Province in 1990 with around 1,000 employees), hence became one of the major knitwear exporters in Taiwan during the 1990s.

From 1991 to 1994, Company J participated in the 'Mini-Europe Plan' – a governmental enhancing programme for upgrading design executed by the CETRA (see Section 5.3.1.1). A budget of NT\$ 2 million per year was allocated for this project, with half of the finance injected by the governmental matching funds and the other half coming from the company's own investment. The purpose of this project was to develop and improve the company's design competence through cooperation with European designers. A European design consultant, Ms. Cordsen, who had a London-based design studio and specialised in creative knitwear designs was hence introduced to work with Company J.

According to the vision of Mr. Wang, the emphasis of the design cooperation with the UK design studio was firstly placed on training and nurturing Company J's designers rather than having the actual designs produced by the UK designers. Company J's designers were therefore sent to work in the London studio under the supervision of Ms. Cordsen for a few months in the first two years. After these two years, the UK design studio started to

The market share of Taiwan MMF exports to the USA dropped from 31% in 1989 to 2% in 1994, and the member companies of TSIA fell by 49% between 1989 and 1993 (Taiwan Sweater Industry Association, 2000). Despite the reversal on the anti-dumping ruling in 1994 based on the decision of the United States Court of Appeal, the Taiwan knitwear industry was unable to recover to resume the same level of production as that before the dumping incident.

provide the actual designs to Company J as a supplement to Company J's own design collections targeted at the European stores and importers.

However, the design gap between Company J and the UK design studio meant that the designs from the UK studio had limited attraction for Company J's customers. This was mainly caused by the fact that Company J's major customers were in a low to middle priced mass market whereas the strength of the UK design studio was mainly designing for the higher-end of the market. The market differences, specifically in terms of price, quality and taste were not easily overcome by the two parties. Since President Wang valued the originality and creativity of the UK studio's designs, this gap was not considered to be a major barrier for their cooperation from a long term perspective. The design input from the UK studio was therefore mainly used to supply trend information and inspiring ideas to Company J's in-house designers. This design cooperation continued beyond the 'Mini-Europe Plan' project period and lasted to the OBM stage of Company J.

The above approach to the international design cooperation enabled Company J to benefit from the European design resources and not overly rely on the external design service. On the other side, the on-job training opportunities in the UK studio attracted a number of talented young designers to join Company J, including the four winners of the Young Fashion and Textiles Designers Competitions held by the TTF and Young Knitwear Designers Contest held by TSIA. In addition, the favourable working environment created for design activities ensured the stability of the chief designers. All of the above facilitated Company J to foster and keep design competence in their organization during the transition to ODM.

Besides the external design input and internal design cultivation, Company J also recruited a design manager introducing the know-how of design management in 1992 and this further integrated the functions of product

development and marketing. Subsequently, new ODM customers were actively found and increased. The business relationship between Company J and their key ODM buyers were further consolidated by the associated design services exclusively provided by Company J. This hence distinguished Company J from the other Taiwanese competitors in the 1990s. During their ODM phase in the 1990s, most of the exported styles of Company J were the designs and the modification of these designs developed by Company J's own design team. 90% of their production was exported to the European markets - 70% to the C&A stores⁶⁷ and 30% to the European importers which were mainly from the Germany and France.

6.3.3.3 Decline and finale

In the 2000s, Company J's export business was greatly affected by the external trading environment. Reasons included the changes implemented by their major customers. For example, C&A shifted their knitwear sourcing to lower cost countries such as Bangladesh, Cambodia and Madagascar, to take advantage of the zero tax rate; then the importers based in Germany and France were phased out due to the severe competition from the large and prevalent fashion brands in their home countries.

Unlike their key competitors in Taiwan, Company J did not follow the shift in C&A's sourcing policy to invest in manufacturing sites outside Taiwan and China, for example in Bangladesh or Cambodia, nor did it set up a branch office in Europe in order to quickly respond to the emerging demands of the European customers. According to the top executives of Company J (Mr. T. Wang and President Wang, 25.07.2007/23.07.2007), "at that time the company's limited resources were divided and largely used to inject into

⁶⁷ The average price of the C&A orders taken by Company J in the 1990s was US\$ 10-15 per piece and the order size ranged from 20,000 to 100,000 per style.

their expanding OBM business". This included their finance and human resources, of which the profits from OEM/ODM exports were directly invested to Brand L and a number of senior design staff were transferred to work in the OBM section. There were insufficient resources in terms of capital and expertise to explore and develop the production resources in some other areas with different working culture and trade regulations.

In order to compensate for the loss of the reduced European orders, Company J largely increased their OEM and ODM exports to the USA markets, expanding the sales team specialized in the USA market, and took small orders from the fashion brands of Taiwan and China. By 2005, Company J had shifted its major export markets from Europe to the USA which shared 60% of its turnover. 10% of the turnover was from the Taiwan/China markets. Instead of locating the production sites in the lower cost countries, Company J subcontracted some of their production to factories in Bangladesh, Cambodia and Thailand. The average price of their USA orders subcontracted to these areas was around FOB US\$ 8 -15 per item based on the order size ranging between 500 and 1,000 dozen per style. In spite of having the advantage of a lower production cost, and as a consequence of the difficulties experienced in maintaining the consistent quality and on-time deliveries, Company J did not benefit much from the off-shore production arrangements as measured in terms of overall performance.

By the second half of the 2000s, as a result of the impact of the phased-out world quota restriction, the increasing labour cost and shortage of skilled workers for their China factory, the closure of the buying offices of the large USA fashion brand companies in Taiwan (such as Liz Claiborne and Jones New York), and the world financial tsunami in 2008, Company J experienced a significant drop in their export profits and faced financial difficulties in managing both the OEM/ODM and OBM business, especially since the latter

was still in deficit and needed further investment. After evaluation, the investors and top managers of Company J and K decided to close down the export business and concentrated only on developing their OBM business. Hence, Company J announced the official end of their business activities from March 1st 2009.

6.3.4 Development of OBM

6.3.4.1 Phase I - Preparatory stage

After having facilitating the operation of the design department at the initial ODM stage, Mrs. Wang was transferred to set up a new department in Company K in 1989. The functions of this new department were to take up the small but high-priced domestic orders and explore new business opportunities in the Taiwan market. In the course of exploiting such business opportunities, Mrs. Wang had a chance to cooperate with a well-known local fashion brand – Jiarjia. Their cooperation aimed at developing a new brand for ladies' knitwear which would be sold via the retailing channels of others in Taiwan. However, this cooperation only lasted for one season due to the different perceptions of quality design and production of the two parties.

The next OBM opportunity was derived from a business acquaintance – a Hong Kong knitwear company Fenix - a former customer of Company J in the early 1980s⁶⁸. After franchised retailing of Prada in Hong Kong for few

⁶⁸ At that time, Fenix had just started their fashion retailing business in Hong Kong and therefore purchased the double-sided ladies knitwear from Company J, which were then sold through their outlets in the Sogo department stores.

years, Fenix planned to initiate its own brand and therefore looked for the partners who could sell their branded garments in other regions in order to achieve economies of scale. The cooperation between Fenix and Company K began with the development of a composite knitwear collection. Two companies firstly produced their own styles separately and then added the styles selected from the other. After the selection, the orders were placed by the two parties to each other. The composite collection was then marketed under the same brand name – Fressange – in Hong Kong and Taiwan on a small scale via retailing channels of others between 1989 and 1990. Due to the unsatisfactory sales, this cooperation terminated after a two-year trial period.

Despite the failure of the above cooperation in the brand development and the limited OEM business developed with the domestic brands, Company K was able to gain insights into the preliminary brand operation. Further understanding of the branded business was subsequently sought and developed through the personal networks of President Wang and Mrs. Wang between 1991 and 1994. This included visits to the brand companies, discussions with the established brands in Taiwan and Hong Kong, and the idea for brand creation from the UK consultant Ms. Cordsen. Although the export business was quite profitable at that time and hence there was no consensus among the companies' investors for developing their own brand business, the President remained determined to move to OBM despite objections raised by the majority of the shareholders⁶⁹. President Wang's consideration was based on the company's sustainability since the development of their OEM/ODM business was dominated and threatened by the changes of the customers' sourcing policies, which were in accordance with the sequential migration of world knitwear production to the lower cost countries.

⁶⁹ After six years of marketing Brand L, the shareholders of Company J and K finally all agreed with President Wang's vision of developing OBM and gave their full support.

Although President Wang recognised that being the agent of the imported brand would be a better starting point for the company before initiating their own brand business in terms of accumulating the essential experience and reducing the business risk, Company K did not secure any franchised retailing opportunities after approaching several European brands. This was mainly because Company K did not have any retailing background, specifically it lacked experience in getting the retailing outlets which was the key issue examined by the franchisers. President Wang therefore gave up the idea of franchised retailing for an established brand but directly initiated the development of the company's own in-house brand.

6.3.4.2 Phase II - Creation of Brand L

By mid-1994, the creation of an own in-house brand began after the recruitment of an experienced Hong Kong designer - Ms. Mak, who had gained five years' branded design experience working for a Hong Kong retail and wholesale brand – Donna. This brand targeted the young ladies market of jeans/casual wear and was marketed to China, Thailand, Singapore and Hong Kong during the early 1990s. Ms. Mak's experience in branded design mainly developed from steering this brand through the initial to the mature stages of the brand development. From the viewpoint of President Wang, since Hong Kong was ahead of Taiwan in fashion brand building and more international than Taiwan, Ms. Mak's Hong Kong background would benefit Company K in identifying the market niche for their new brand and developing the branded collections beyond the Taiwan local taste.

A two-person preparatory team consisting of Mrs. Wang and Ms. Mak was firstly formed to conduct the market study and identify the market niche for the brand creation. A budget of five million New Taiwan Dollars was then

allocated by Company K for this new venture. After a nine-month market study and the preparatory work carried out by the commissioned consultants and the internal two-person team, Company K's own Brand L was created in 1995 and launched in the Taiwan market in March 1996.

This brand targeted the middle-priced market for young ladies aged from 18 to 25 in Taiwan, who liked to wear neutral clothing with a designer touch. 70% of Brand L's collection was career wear, and the other 30% was leisure wear which was also preferred by the design professionals for their working attire. The choice of the market segment and brand positioning of Brand L was mainly made based on the considerations of the company's production advantage⁷⁰, the consumer behaviour, and the market competition.

According to Ms. Mak (10.08.2007):

At that time, the working outfits of the young ladies in Taiwan were more formal than in Hong Kong. Compared with the Hong Kong consumers, the difference between the working outfits and leisure wear could be quite big for most of the Taiwan young working ladies. Their working outfits were influenced by the Japanese office-lady look, which were formal, smart and often coordinated with skirts. [...]. Meanwhile, since the Taiwan economy was in a take-off stage and people's occupations were getting diversified, there were more opportunities and space for developing the artistic related jobs in Taiwan than in Hong Kong. This created a potential demand for the working outfits which could express individuality and style [...].

Based on the above observation, the potential market opportunities were further recognized.

[...]. The tendency of the working outfits for the Taiwan young ladies would be moving towards a more casual look as happened in Hong Kong, and meanwhile the

⁷⁰ The consideration of the production advantage of Company J was a reference to their specialty in ladies knitwear. The core products of the knitwear which incorporated intarsia motifs with appliqués were, however, not considered to be applicable to the market targeted by Brand L.

consumers who wanted to wear clothing with a designer accent at an affordable price range would be also increased (Ms. Mak, 10.08.2007).

Since at that time most of the existent local brands concentrated on providing the formal office outfits for the working ladies, there was limited competition in the emerging market identified by Company J. Two distinguished and promising brands – Soda and Colour Eighteen - were particular studied and used as the major references for brand L's positioning. The collection of the former brand had its own characteristic fashion taste and this attracted consumers who were not afraid of self-expression; the latter brand projected a young and fresh image by comparison with the other existent brands on the Taiwan market, which was identified by the younger and fashionable generation. Furthermore, the latter brand also featured a relatively large selection of knitwear which was the specialty and product strength of Company J. A brand positioned in between these two reference brands with some added new fashion statements was proposed by Ms. Mak to Company K for their new brand creation. As a result, Company K decided to develop a branded collection with a neutral and casual twist which corresponded with Ms. Mak's personal style and the targeted market.

The organization was then further expanded to comprise the essential business functions for brand operation, which included design, sales, merchandising, finance and management. Except for a few experienced personnel transferred from Company J, i.e., knitwear designer, production controller and accountant, most of the staff were new to the company. Ms. Wei, the former manager of the TTF design center in Paris, was invited to be in charge of this new venture as the brand manager.

The first challenge to Ms. Wei as a brand manager was to obtain the retailing locations in the department stores. Although the establishment and sites of the independent stores for Brand L were evaluated at the

preparatory stage, having the stores in department stores was found to be less complex to Company K and was therefore prioritized at the early stage of branding. However, lacking both a fashion retailing background and close connections with the department stores, Company K encountered difficulties in leasing satisfactory retail space. After the intervention of Ms. Wei, through her connections and efforts Company K obtained the first store location from a department store located in a popular shopping area in central Taipei.

With the assistance of the two part-time consultants⁷¹ in making the connections with other department stores, the retailing management and front line staff training, Brand L managed to open three retailing stores at three mediocre department stores in Taipei in its first year of business. Due to the fact that Brand L was packaged and promoted as a new brand co-developed with a UK Company⁷² but made-in Hong Kong⁷³, the locations of these three stores were in the area between the Hong Kong brands zone and the imported brands zone. Such store locations enabled Brand L to associate their brand image with the other imported brands from the outset. This was seen by Company K to be an important strategic step which would benefit their successive negotiations with the other department stores in store locations and leasing conditions, and furthermore the brand promotion to the targeted consumers.

⁷¹ The two part-time consultants both had 15 years' working experience in the branded fashion retailing business and were recruited to be the full-time staff of Company K in the late 1990s and the mid-2000s respectively.

⁷² This UK Company was registered by Company K at a later stage as an asset holding company for the brand ownership.

⁷³ Since difficulties were encountered when sourcing clothing manufacturers to produce small quantities of garments, Company K decided to place the orders with the Hong Kong companies through the contacts of Ms. Mak and exploited the favourable image of 'Made in Hong Kong' for their branded merchandise.

6.3.4.3 Phase III - Changes and growth in the home market

Changes in design personnel and top management team

Besides the acquisition of the retailing locations in the department stores, another major difficulty encountered by Company K when it began its branding programme was the lack of internal expertise to run this new business. With the exception of Ms. Mak, who had specialised in branded merchandise, the other full-time members in this new venture had insufficient experience in this field. According to the brand manager, Ms. Wei (26.07.2008):

Our situation was like the story [in Sufi parable] – when the blind people [in the desert city] learned about an elephant. Everyone possessed only partial knowledge about the branded business. Such knowledge was not only incomplete and immature but also confined by the individual background and job functions. [...]. We pieced together this knowledge and applied it to our operation at the cost of time and work tension, and this was however not sufficient and efficient to support our management [of this new venture].

Despite of the great enthusiasm exhibited for opening the branded business by the team members, the lack of knowledge in the field resulted in poor business performance on the whole.

Ms. Mak left the company for personal reasons in early 1996 (i.e., one and a half years after the creation of Brand L) which further impacted upon the brand performance in term of the continuity of the brand style and seizing the identified niche market. Since the tacit knowledge of the targeted consumer and brand positioning was mainly embodied in Ms. Mak's designs and this was not easily disseminated within the organization in such a short period, the insights into the brand positioning and the perception of the

brand style differed between the key staff after Ms. Mak left. The new designers, who had more sophisticated taste and limited experience in branded design, encountered difficulties in realizing the brand positioning and catering to a young and sporty customer. This resulted in friction between the designers and the brand manager.

In order to tackle the above problems, Company K underwent a reorganization of the top management team and replaced some of the key members in the design team from the beginning to the middle of 1997. A Brand Director, Ms. Chen - the former part-time consultant of Company K who had long experience in local fashion retailing after working for a large domestic brand and a franchised Hong Kong brand - was commissioned to handle the Brand L's business operation. A fashion designer who had the cross-cultural background and the branded design experience for the local market was recruited, and a chief knitwear designer with high potential for branded design was transferred from Company J to Company K in order to exploit the advantages in knitwear production of Company J. In addition to the replacements of the two key designers, the design manager of Company J was also transferred to lead the design team and enhance the design related communication within the organization.

Adjustment in brand positioning and expansion of retail stores

A change of Brand L's positioning was initiated by the new Director at the beginning of 1997. This change was mainly based on two major considerations, i.e., making the best use of the existent design resources and strengths, as well as creating the most opportunities to obtain retail spaces from the department stores.

Since the designers were not experienced in designing for the company's original target consumer group but for a higher age group - which was the largest consumption segment for ladies fashion - Ms. Chen decided to shift the brand positioning to target the age group from 25 to 30. At this time, the European fashion brands were prevalent in the Taiwan market and most of the department stores hence allocated more floor space to the European brands, in addition to giving them preferential lease conditions. The European connection of the Brand L's origin was therefore used by Company K in order to get the better store locations and favourable lease conditions from the department stores. In order to develop competitive advantages, two European brands, Benetton and Sisley which were popular in the office ladies market at that time, were particularly observed by Ms. Chen as the references for pricing. The core price of Brand L was then set at 80% of Benetton's and Sisley's price ranges.

As a result, in September 1997, Brand L by its new adjusted brand positioning and marketing package obtained a retail location from a local department store Far Eastern - the second largest chain department store in Taiwan next to the Japanese chain department store Sogo at that time. Despite the fact that the site of this first retail location in Far Eastern was in a subordinate city, Brand L was able to sequentially increase a number of retail stores in the Far Eastern department stores during the following years by achieving satisfactory sales results. These stores-in-stores were distributed in the major metropolitan cities of Taiwan and were the primary retail channels for Brand L. By the end of 2000, Brand L had 21 retail stores in Taiwan which included one flagship shop in Taipei and three independent stores in other major cities. The turnover increased more than three times within two years, i.e., from NT\$ 50 million in 1997 to NT\$ 156 million in 2000 (see Figure 6.4).

Design problems and related challenges

The above adjustment of the brand positioning not only made the most of the existing design resources, but also allowed the new design team to participate in the decision making for the new brand positioning. This enabled the designers to identify with the newly adjusted brand positioning and also facilitated the design operation and management. However, the variations in their design backgrounds caused some communication problems in the design team and further affected the overall design performance.

Since the knitwear designer and design manager had previously worked for the export markets on a B2B basis, neither their expertise in branded design (style coordination and merchandise combination) nor their understanding of the domestic consumer were sufficient at the starting stage. In addition, the fashion designer with experience of local brands had been accustomed to modifying the prevalent styles of the leading foreign brands, rather than unique creations. Such a design operation was not appreciated by the knitwear designer. The collaboration between the knitwear and the fashion designer was therefore unsatisfactory.

Brand L had featured a large selection of knitwear in order to exploit its design strengths and cost advantages, and this increased the design workload, particularly because of the difficulties involved in coordinating knitwear and woven garments in a market characterized by its subtropical climate. As a result, although the individual styles were appealing to the consumers - especially the knitwear, some styles were not well-coordinated in the collections. This created difficulties for the front line salesmen to promote sales by persuading customers to buy more of the coordinated items.

Despite the knitwear production advantages exploited by Brand L, there was a quality gap between the designers' expectation and the production performance of Company J. The different perceptions of quality requirements for Brand L's knitwear caused conflicts between the designer, production controller and production manager. The knitwear designer, design manager and President Wang therefore spent a lot of time and energy in communicating with production staff, developing the consensus and working standards to achieve better production quality for their branded knitwear. This inevitably delayed the design and production schedules. The former delay impeded the design meetings for improving the total looks by juxtaposing and coordinating the knitwear and woven garment samples; the latter delay shortened the production lead time, and this resulted in extra pressure and work load on the production staff. In order to share the design work and keep on schedule, another chief knitwear designer in the export division of Company J was then transferred to join the design team of Brand L at the beginning of 1999.

Apart from the above problems, the cross-department communication between design and marketing/sales department was irregular due to the shortage of qualified and sufficient staff. There was a lack of an in-depth market analysis and on-time consumer feedback from the sales/marketing department to facilitate the design improvement; the seasonal information of the collections for supporting the visual merchandising, brand promotion and sales education provided by the design team to the marketing/sales department were insufficient. This affected the brand performance in terms of responding to the targeted consumers' needs and presenting an integrated brand image through visual merchandising and sales promotion. The limited communication also widened the perception gap between the design team and Brand Director when she considered a second adjustment of the brand positioning in the relatively short time span of two years.

To the design manager, in spite of the fact that the second adjustment of the brand positioning was not as big as the first, the fluctuations of the brand positioning were unfavourable for developing a distinguishable brand style and cultivating brand loyalty, especially since this adjustment was in response to the department stores' brand recruiting directions rather than the actual market feedback. Nevertheless, to the Brand Director, the adjustments of the brand positioning were essential and realistic measures to obtain and maintain the favourable retail locations from the targeted department stores, especially at the early branding stage.

The difficulties caused by the perception gap and resultant dilemma were not easily solved at that time due to the variation in job responsibilities, understanding of the brand value and the perspectives base. By mid-1999, after the resignation of the design manager, Brand Director, Ms. J. Chen decided to directly manage the design team in order to strengthen the designers' market appreciation and facilitate the communication between the designers and marketing team. Since the store-in-department store was the vital retail channel for Brand L, the development of their brand positioning continued to be influenced by the department stores' leasing policies.

6.3.4.4 Phase IV part one - Entering the China fashion market

Timing, preparation and an adjusted brand positioning

From the start of the creation Brand L, President Wang's aspiration was not confined to the Taiwan market. China was targeted as the next expanding market for his own brand business. Having invested in production in southeastern China from 1990 and attended the trade activities organized by Taiwan trade organizations for studying the China investment environment,

Mr. Wang was able to develop a number of local connections and observe the changes in both the governmental related policies and the branded fashion market. This background considerably benefited Company K in formulating a business plan for branding in China and setting up a subsidiary company in Shanghai in 2001.

The timing for entering the Chinese branded market was proposed by President Wang at the end of 1999. Based on his observation, after China joined the WTO and subsequently opened up its retailing market, many fashion brands would enter into the China market. This would result in severe competition, especially in obtaining the retail locations from the limited foreign department stores, which would be ideal choices for the retailing locations for Brand L to begin with. In view of this, Mr. Wang decided that marketing Brand L in China should commence prior to China joining the WTO, despite the fact that the Brand L was still in deficit at that time. The profits generated from the export business were continuously used to finance Brand L's expansion in China without drawing on the dividends to the shareholders.

A project manager⁷⁴ was assigned in 2000 to conduct the research and undertake the preparation for entering the Chinese branded market. Two major adjustments in terms of resources deployment were firstly adopted to facilitate the coming expansion, which were:

1. The ownership of Brand L was transferred to the asset holding company registered in the UK in order to improve the country image effect of brand origin; and

⁷⁴ The project manager was the former design manager of Company J and K, who rejoined company K after resigning in 1999. She had the experience of assessing the overseas investment environment and was familiar with the companies' internal and external resources.

2. The design cooperation with the UK studio was transferred from providing the export design team with design ideas to cater for the needs of Brand L.

In order to formulate a branding strategy for the Chinese market, Company K underwent a series of market research activities as well as exchanging ideas and obtaining advice from experienced people in China through the personal connections of Mr. Wang and Ms. Chen. After several study trips to Shanghai and Beijing by the key personnel, eight successful ladies' brands in Shanghai and Beijing at that time were initially selected for further investigation, specifically Layefa, LayefaStreet, Morgan, Only, Elle, Etam, Espirit and Fa:Ge.

A local market research company in Shanghai was commissioned to conduct an in-depth market research of these eight brands by means of interviewing the senior salesmen and store managers of the above brands. The on-site home interviews with a selection of the VIP customers of these eight brands were also conducted. The Brand L collection was then presented to these VIP customers and their feedback was collected for product improvement and pricing references. The results of these interviews provided Company K with insightful information about the competitors' store operations and the perceived brand value of their core customers, and hence facilitated Company K in identifying and developing their brand positioning for the China market. Since being present as non-participating observers during the above interviews, the key personnel of Brand L, including the chief designers, had a better understanding of the new market. This further laid a solid foundation for them to reach a consensus in formulating a competitive branding strategy.

It was also identified through the above market research that Brand L's potential consumers in China were not the same as their existent core

consumers in Taiwan in terms of age group, buying power and the expectation for working outfits. The brand positioning of L was therefore adjusted to the niche market in China, which targeted the young career women aged between 20 and 30 with an income starting at RMB \$ 2,500 per month. These ladies were at an early stage in their careers and preferred stylish, young working outfits yet they wished to express their self-confidence with certain degree of sophistication. The targeted price ranges of Brand L's collection in China was then set around RMB \$ 550 - 750 for S/S merchandise and RMB \$ 650 – 850 for A/W items.

Obtaining favourable retail locations from the beginning

Having an in-depth market research to support the above brand positioning as well as the brand image associated with a UK design studio, Brand L was able to stand out above the other competitors and obtained a retail location in the Isetan department store in Shanghai. In addition to that their store management and leasing conditions in terms of settling the monthly accounts were ahead of the other department stores in Shanghai at that time. Isetan was also the first foreign department store in Shanghai and famous for providing fashion and quality merchandise.

Having a retail store in Shanghai Isetan for a new brand as L was just like having the endorsement for the brand quality and its market potential. This brought great benefits for brand publicity especially in the areas outside Shanghai. The fashion retailers and consumers in these areas considered Shanghai was the most fashionable and leading city in China. To them, the fact that the brand was recognized and hence supplied by the best foreign department store in Shanghai signified certain credibility (Sung, 09.08.2008).

In order to exploit this branding opportunity, two key staff responsible for management and marketing relocated from Taipei to Shanghai. In addition,

a human resource manager, professionally trained by Hong Kong Theme before joining Company K in 2001, was temporarily transferred to Shanghai to develop a personnel training and appraisal system applicable to Brand L's retail operation in China. The visual image, store design, and merchandise display of Brand L were also improved by incorporating ideas from Ms. Cordsen for the China market. Except for the changes adopted in size assortments and labeling, the same collection marketed in Taiwan was also presented to the Shanghai consumers - made in China and Hong Kong⁷⁵. No additional styles were specially designed or produced for the China market at this early stage.

By the beginning of March 2002 – two and half months after China joined the WTO, Brand L opened its first retail store in Huating Isetan department store and then a second store in the Westgate Mall Isetan department store by September. At the end of the same year, Brand L opened a flagship shop in Middle Huaihai road – which was the principal fashion street in Shanghai in former times.

6.3.4.5 Phase IV part two - Adjustments in Taiwan and expansion in China

Improving retail sites in the Taiwan market

While initiating the branding in China, Company K also sought to further improve their retail sites in Taiwan. Due to the limited resources available for increasing the independent shops, this improvement primarily targeted the retail locations in the Japanese department stores, especially the chain

⁷⁵ The knitwear was produced in China, and the woven garments and accessories were made in Hong Kong.

department stores - Shin Kong Mitsukoshi and Pacific Sogo. Not only were these department stores more popular with higher average sales per unit area than the other department stores in Taiwan, but also many of their young customers were the potential consumers for Brand L. Having the retail locations in these department stores could greatly improve Brand L's sales performance in Taiwan.

However, despite the effort expended to explore the various possibilities, Brand L experienced difficulties in obtaining the targeted space in these popular Japanese department stores, since that the brand origin and sales performance of Brand L did not correspond with their target brands. A Japanese marketing expert having had fashion branded retailing experience both in Taiwan and Hong Kong was recruited by Company K in 2003 to fill in the vacancy of the marketing manager who was transferred to China. This recruitment was intended to facilitate negotiations for the acquisition of the retail locations from the Japanese chain department stores.

Despite the fact that the top managers of Company K acknowledged the market knowledge and business connections of the new marketing manager, his employment was terminated within two years. According to President Wang, their opinions differed on "a choice between the short-term interests and the long-term advantages for running a brand business" (23.07.2007). To the Japanese marketing manager, in order to cut the deficit and create the profits, Brand L should increase the portion of the merchandise which could quickly respond to the consumers' needs by repeating the production of the popular styles and adopting the best selling style in the market. Such merchandise could be promoted by gearing with the marketing activities of the department stores and offering a competitive price. This would create a better profit margin and a faster turnover for Brand L. But to President Wang, such a marketing operation – placing great emphases on developing the marketed-oriented style and competing by means of price and in-time

supplies - would shift Brand L's established identity and reduce the brand competitiveness in the long term.

Instead, President Wang preferred to introduce a second brand with collections which could target a lower price range than Brand L by employing less costly material and finishing. This second brand targeted at the larger volume market could generate fast profits to balance off the deficit of Brand L without risking Brand L's established image and market. However, since the deficit of Brand L was continuously increasing, mainly due to the investment in the China expansion, there was no additional budget for Company K to introduce such a second brand.

After the Japanese marketing manager left, the improvement of the retail sites of Brand L continued with mild fluctuations in brand positioning and Company K gradually succeeded in obtaining several retailing locations from Pacific Sogo department stores, which shared about 25% of the total retail outlets by the end of 2007.

Changing design leadership and a fluctuation of brand style

A bigger fluctuation of the brand positioning in terms of the targeted age group and brand style was caused by the changes of design leadership between 2003 and 2004. At the end of 2002, Company K recruited a Design Director with a USA fashion design background⁷⁶ to take over the design management responsibility from the Brand Director Ms. Chen. Despite the fact that the appointment was occasioned by a self-recommendation of the new Design Director, to Company K such a

⁷⁶ The Design Director was an American Chinese who graduated from an established fashion school in the USA and worked for Ann Taylor as a Design Director for many years in New York.

personnel arrangement would firstly allow Ms. Chen to have more time to supervise the coming expansion in the China, and secondly reinforce the management team by introducing a staff member with international experience. The latter in particular was considered one of the prerequisites for preparing Company K for future expansion to international markets.

The new Design Director considerably improved Brand L's collections in terms of fashion design and garment fitting, but also contributed to a change in the brand positioning and the instability of the design team. The brand positioning changed from the age group of 25-30 to 25-35⁷⁷ and the brand style became more sophisticated and minimalist – a reflection of the Design Director's personnel style and design strength.

Since the existent design team could not match the expectations of the Design Director, he attended to the fashion designs as a chief designer. This caused tension amongst team members and consequentially destabilized the design team. The Design Director was also confined by the limited human resources and fabric budget, and this hindered him in his efforts to develop an effective design operation which could sustain the coming business expansion. These problems were further compounded by escalating material costs and they caused conflict at the top management level. The contract with the Design Director was terminated in August 2004. This then resulted in another change in the brand style.

After the Design Director had left, the Brand Director Ms. Chen returned to her previous role and reformed the design team with a few returnees, including the senior knitwear designer. In order to offset the lack of a strong design leadership in terms of setting the tone for the collection, the design cooperation with the UK studio was further strengthened and the design

⁷⁷ The widening of the targeted age group at this stage also triggered a rise in the selling price due to their higher purchase power.

influence of Ms. Cordsen was hence increasingly exerted on the design team and Brand L's collections.

Growth in China and challenges posed by expansion

In 2003, after having gained a foothold in Shanghai, Brand L began to expand the market by increasing their retail stores outside Shanghai⁷⁸. Three types of retail outlets – i.e., store-in-store, store-in-department-store and independent shop - through two business formats – i.e., franchise and direct operation - were adopted. Their expansion targeted cities in which the consumers had higher purchasing power and were fashion conscious, and began from the neighbouring cities around Shanghai, such as Hangzhou, Suzhou and Nanjing, followed by the major cities in Central and Southwest China, such as, Wuhan, Changsha, Chongqing and Chengdu, and further to the cities in Northern China (including the Northwest and Northeast areas), such as Urumqi, Shenyang, Tianjin and Beijing.

Apart from exploiting the advantages of gaining recognition from the famous department stores and having exposure in the fashion city Shanghai, Brand L's expansion also benefited from the links with the department stores in Taiwan. Since these Taiwan department stores also actively expanded their retail territories to China and hence opened the retailing opportunities to their associated Taiwan companies, Brand L was able to have half of its China retailing stores sited in the department stores managed by Taiwanese or invested by the Taiwan department stores.

By the end of 2008, Brand L had 38 retail stores distributed in 23 cities in China and together created a sales value of NT\$ 210 million representing

⁷⁸ The Isetan department stores expressed their dissatisfaction with the proposal to expand the number of retail outlets stocking the brand, hence the expansion of Brand L's retail outlets in Shanghai was delayed until a later stage.

64% of the total revenue of Company K (see Table 6.4). Half of these retail stores were located in the cities near the east coastal areas. Only 30% of Brand L's retail stores were franchised and the rest of the stores were directly run by Company K's subsidiary in Shanghai.

Table 6.4: Growth of Brand L in China market (2002 – 2008)

Year	Number of retail stores				Number of distribution cities	Revenue	
	Direct operation		Franchised stores	Total		Sales value (NT\$ million)	Share in Company K (%)
	Stores-in-stores	Independent shops					
2002	2	1	0	3	1	10	8%
2003	4	2	6	12	9	48	27%
2004	14	2	9	25	20	90	39%
2005	20	2	12	34	25	126	48%
2006	17	3	14	34	22	150	57%
2007	22	3	11	36	21	195	61%
2008	25	2	11	38	23	210	64%

During the market expansion stage, three major challenges were posed to Company K, which were:

- Control of quality of the purchased material;
- Development of a franchise system and the related adjustments in the brand operation; and
- Allocation of the insufficient human resources.

Most SME companies in Taiwan supplying branded goods were unable to purchase the minimum quantities of materials mandatory to do business with the large fabric companies. Equally, as a result of their size they could not afford the high cost of the imported fashion fabrics. As an SME, Company K

was in this category and so most of their fabric and accessories material were purchased from the local converters. These converters supplied fashionable fabrics in small quantities using conventional trading methods, and the quality responsibilities of the individuals in the supply chain were not as clearly-defined as in the export system. Since Company K's production operation followed the export system, their material buying procedures were more detailed than those of the other domestic branded companies by means of a clearly-defined job responsibilities division⁷⁹ and the request for quality assurance. A number of the local converters therefore found it too complicated to work with Company K.

However, the request for quality assurance was further strengthened by Company K when initiating retailing in China since the implementation of the Labelling Regulation on the imported garments in China was much stricter than in Taiwan. Company K's garment materials were characterized by large varieties with small quantities, so requesting the material suppliers to provide quality test certification for the materials which they purchased resulted in additional expense. As a consequence, some requests were rejected by the local converters; alternatively, some transferred the additional cost to Company K and increased the lead time for their orders.

The franchise system of Brand L was developed only for the market expansion in China in 2003 and then gradually adjusted by stages. In the early stage (2003 - 2008), Brand L's franchise was granted by city and at the later stage (after 2008) the franchise was granted by province with the condition that at least five shops were opened per year. In addition to developing the shop operation standard and providing the support services to the franchisees, an internal challenge for Company K in Taiwan was to

⁷⁹ In most of the Taiwan branded SMEs, the chief designer was responsible for selecting the fabric suppliers, negotiating the unit price and placing the initial orders. In Company K, the fashion designers had clearly-defined the job responsibilities and they were only involved in sourcing and selecting the material. The following decisions on price, delivery date and quality standard were handled by the production control department.

adjust the design and sampling schedule in time to hold the order-placing meetings with franchisees from 2005. The adjustment coincided with the changing of the design leadership and the reforming of the design team. As a result it increased the difficulties in managing the collection development for the designers and Brand Director. In order to adjust to the new schedule, external design staff, such as the free-lance designers and pattern makers, were taken on during this transition period.

Despite the success, Brand L's market expansion in China stretched the limited human resources of Company K. Not only were a number of key staff transferred to the subsidiary in China but also the top managers divided their time and energy to attend to the new market. Although attempts were made to source and recruit the necessary professionals to fill the vacancies of the transferred staff and reinforce the top management team, the results were unsatisfactory due to the scarcity or incompatibility of the expertise. This hence affected Company K's management and business performance in both markets, caused instability at various levels, increased the management cost, and most importantly delayed the establishment of a more integrated and effective operation system to cope with the growing expansion.

6.3.4.6 Current consumer profile, performance and challenges

In spite of the difference of the consumer profile in terms of age group and monthly income between Taiwan and China, Brand L marketed the same collections at the same price range to these two markets (see Table 6.5) except for adding some winter styles for the northern China markets. Around 250 - 300 designs with order sizes of around 250 - 450 units per style were launched per season. In 2008, 190,000 units were produced, of

which the percentage of knitwear was 25% in spring and summer, and 34% in autumn and winter. About 60% of these products were delivered to the retail stores in China. The stock rate in the last five years was between 20% and 30%.

Table 6.5: Brand L's consumer profile and core price range by 2008

		Taiwan market	China market
Consumer profile	Age group (Year-old)	26 - 35	21 - 30
	Monthly income	NT \$ 30,000	RMB \$ 2,500
Core price range	S/S	NT \$ 2,580 – 3,980	RMB \$ 625 – 1,095
	A/W	NT \$ 2,780 – 4,980	RMB \$ 695 – 1,795

In contrast to the growth in the China market, where the average increasing sales value per year was 33%, the decline in Brand L's sales value in Taiwan was minus 2.4% on average in the period 2003 - 2008. During this period, the number of retailing stores in Taiwan was between 17 and 20, and 70% of these stores were the stores-in-department stores. The marketing directions in Taiwan were to improve the sales per unit area in the retail stores in the major cities and increase the number of franchised stores in the second-tier cities by adopting the franchise system developed in China. Furthermore, in addition to the improvement of store design and installation in the main stores, Brand L also experimented with procuring other products, such as stationery, gifts, CDs and green products for skin care to reflect the life style advocated by Brand L which was simple, modern with creative fun.

In spite of the steady growth of China market and an average increase rate of 13.5% in terms of total revenue in five years, Brand L was still in deficit. This deficit, an accumulated loss of NT\$ 300 million by the end of 2008, was beyond Company K's financial resources. In consideration of the following

reality – a need for continued financial investment in the China market expansion, and the significant drop of the export profits which had been diverted to invest in Brand L - President Wang started to seek financial aid from the government and capital injections from new investors to sustain his brand business from 2007. By 2008 after applying and undergoing a series of assessments, Brand L and the other five Taiwan companies which had created their own brands and developed the potential for branding in the international markets received a loan of NT\$ 20 million (with a the possibility of another NT\$ 40 million in loans in the following two years) from the government in accordance with the plan of 'Branding Taiwan'. In addition, Company K continued to search for new investors to finance Brand L.

In addition to the insufficient human and financial resources, other weaknesses of Brand L were the lack of an integrated and agile supply chain and the inadequate maintenance of the brand image. Unlike the other Taiwan branded companies which had set up their own garment factories when developing their markets in China, Company K did not establish any manufacturing sites for garment production either in Taiwan or China, except for knitwear⁸⁰. Instead, Brand L's woven garments were produced by three China export factories. Company K could not respond quickly to demand by repeating the production of the best selling styles for a given season. This was partially due to the availability of the production capacity, but also involved the integration of material supply and sales information from the operation in Taiwan. Despite the fact that the demand for such integration was recognized by Company K, there was insufficient expertise to initiate this integration. Lacking the competence to ensure flexible and fast production was considered by Company K to be of its major weaknesses when compared with companies which had adjusted to the fast fashion phenomenon.

⁸⁰ Due to the close of the export business, Company J's knitwear factory in China was also closed by the beginning of 2009.

The inadequate maintenance of the brand image mainly arose from the fact that the visual merchandising methods were inadequate and the standard shop operation was not strictly followed by the retail stores, particularly in China. Company K could not find and retain qualified and experienced visual merchandisers and had insufficient staff to follow-up the supervision of the store operations. Based on the recent observations made in China by the chief designer and Ms. Cordsen, such a weakness in presenting the brand image plus the increasing market threat of the newly emerging Chinese designer brands could jeopardize Brand L's future development in the China market.

Another challenge for Company K was to re-examine the brand philosophy of L. This brand philosophy was introduced at the outset by a rationale of market niche and design traits, and embedded in the brand name⁸¹ which stood for individuality and self expression through fashion. In spite of the fact that this brand philosophy was explicitly expressed by words, due to the changes of the market environments and the chief designers as well as the lack of positive management, the essence of the brand philosophy was not sufficiently internalized within the organization, especially outside the design team. Considering the need for the fast expansion in China market, updating and internalizing the brand philosophy - to create a solid foundation to strengthen the brand communication internally and externally – became one of the major tasks for Company K, according to Brand Director Ms Chen.

⁸¹ The name of Brand L was in English.

6.3.5 Insights into the transition

6.3.5.1 Business aspirations and operational dilemmas

From the inception stage, President Wang had aspired to market the new brand internationally. This ambition became a long term goal for Company K and this target governed their major decisions on the strategic operation and resources allocation along their OBM path. In most of Company K's decisions dealing with the conflicts between the short term and long term benefits in the following areas - brand image investment, product strategy and personnel recruitment - the choices were prioritised for the long term interests over the short term advantages as much as possible. This was at the cost of time and other resources invested but was considered essential for the cultivation of a brand which could compete in the international market in the future.

However, despite the fact that most of the key staff of Company K identified with this priority, the related strategic operation and resources allocation adopted along the OBM path were not always seen as being realistic in terms of cost-effectiveness and efficiency, especially when considering the company's limited resources. Since the insights into how to build a brand with the international competitiveness were limited and mainly gained through learning-by-doing along their OBM path, Company K's orientation towards the long term goal was confined by the knowledge at the time. As indicated by Mr. T. Wang - vice general manager of the export division and a share holder in Company K (25.07.2007),

Despite the fact that we had recruited some experienced top managers, the required knowledge and competencies [for creating a competitive brand] were beyond our expectation and existent understanding. [...]. Our persistence [of

prioritising the long term advantages] without having the sufficient know-how resulted in a high financial expense and unsatisfactory management performance.

This concentration on long-term brand cultivation at the cost of short-term business performance was regarded by President Wang as one of the big challenges faced in implementing OBM. As described by President Wang, “we were confronted by the challenge posed between the reality and the ideal in running Brand L using limited resources” (23.07.2007).

This challenge was also evident in the matter of brand positioning. In order to reduce the shifts in brand positioning arising from the changes of the chief designers, President Wang decided to focus on an identified brand positioning rather than have a dominant designer developed the brand image according to his or her preference and personal style. However, his directive could not be entirely followed in the development of Brand L. In reality, the adjustment of Brand L’s brand positioning was not only dependent upon the opportunities presented in the niche market or the targeted retail locations, it was also subject to the strength and personal style of the chief designers to different extents at various stages.

Another discrepancy for Brand L’s strategic operation was the understatement of the efforts from the internal design team. Despite the fact that marketing a brand created by a Taiwan company in the international market was the business aspiration of President Wang, Company K did not present Brand L’s identity as a local Taiwan brand in the Taiwan and China retail markets. They adopted the expedient measure of packaging Brand L as a UK brand in order to exploit the advantages of the retail locations in the department stores and benefit from their brand promotion. This approach was not supported by Ms. Cordsen from the outset⁸². Instead, she proposed

⁸² Ms. Cordsen’s ultimate interest was to nurture and promote talented local designers through a Taiwan company which appreciated design and was open and determined to develop its own brand.

that Brand L could present the brand by as a joint and creative initiative of both the Taiwan and London design teams, which would have been totally new to the Taiwan market at that time. However, the Brand Director, Ms. Chen, did not consider the idea to be feasible in the Taiwan market.

According to Ms. Cordsen's observation, the top managers lacked sufficient confidence in their own creative team and the in-house designers did not have sufficient recognition for working behind the image. This created some tensions within the design team and caused some problems including the loss of good people. Ms. Cordsen recalled her experience (08.08.2007):

I felt that throughout the years I have worked on this project, there was insufficient belief in the talent and creative ability of Taiwanese designers. In my experience if this is not sufficiently acknowledged [so] designers seldom develop their full potential.

In spite of the fact that in the recent years the design maturity and personnel stability of the design team were largely improved and the design strength was considered to be one of their core competencies, Company K still did not reveal that the design origin of Brand L was mainly from Taiwan.

6.3.5.2 Difficulties encountered and reduced by learning-by-doing

To the top managers, the major difficulties encountered by Company K in implementing OBM varied by stages, markets and individuals. In addition to the acquisition of ideal retail locations particularly at the early branding stage in Taiwan, the major difficulties perceived by President Wang were the human and financial resources. To the former brand manager Ms. Wei and present Brand Director Ms. Chen, besides the human and financial resources, internal communication was the major difficulty encountered. These three difficulties were interrelated which added to the complexity.

Due to the limited resources in terms of finance and expertise, Brand L was confined by having the stores-in-department-stores as its major retail format. However, the difficulty of having the targeted retail locations in the Taiwan department stores had the result that the brand positioning could not be well geared to the targeted local consumer, and this hence considerably affected Brand L's performance in the Taiwan market. Such discrepancy was not repeated in the China market due to the prior experience and accumulated resources obtained from branding in the home market Taiwan.

The difficulties in human resources were encountered through the entire OBM path and mainly derived from the insufficient insights into the essential competencies for the required staff, the scarcity of the deficient expertise and a limited budget allocated. The lack of sufficient and qualified staff resulted in an unsatisfactory business performance and caused work tension. This tension not only increased the management cost but also led to high employee turnover which consequentially created difficulties in retaining the knowledge developed from their own practice within the organization.

The limited expertise available for Company K during the transition to OBM was particularly evident in the brand leader and design leader. The former would ideally have had a comprehensive understanding of the whole branding operation not only limited in the marketing and retailing areas; and the latter would need to have sufficient market knowledge beyond the product know-how. Due to the lack of expertise, there was a perception gap for developing the Brand L's collections between the designers and marketing staff but it was gradually narrowed along the OBM path. However, according to the observations made by Ms. Mak and Ms. Cordsen in the middle of 2007, there was a need to further reduce the gap in terms of improving the market understanding of the designers and enhancing the design understanding of the top managers.

According to the Brand Director Miss Chen (01.08.2007),

In the past three years, the design team was more open than before and took the initiative to get the market feedback. Our existent problems were more on the marketing side. The marketing people had difficulties to express the market needs they perceived to the designers.

It was also reflected by the chief designer Miss Lin and design consultant Ms. Cordsen, the Brand Director and marketing people should make the effort to inspire the designers with the market insights rather than imposing their ideas and asking the designers (especially the fashion designers) to adopt the existing styles available in the market.

The problem of having unqualified and unstable staff also appeared in the middle management level, with the result that the top managers were often obliged to cover the responsibilities of the middle managers. This hence lowered the top managers' effectiveness, especially in the case of the Brand Director, and inevitably impeded the branding progress a great deal, according to President Wang.

The difficulties encountered in the internal communications by Company K were mainly in the areas of product development and finance management as a result of the perception gaps, which were created by the differences between the key personnel. Their differences arose not only because of the areas of expertise by individual - as found in the above example of the designers and marketing people - but also as a consequence of their previous working experiences in different business systems. According to the descriptions of Ms. Wei and Chen – the former and present brand leaders, the key personnel with experience in export business were strongly product-oriented and their judgment of design and quality was mainly from the producer's standpoint rather than from a marketing perspective in terms of the value perceived by the consumers. In the aspect of finance

management, in addition to explaining the different calculation bases between the B2B export system and the B2C domestic retailing system, the Brand Director was also challenged by the questions of the necessarily high investments for building the brand image raised by the financial manager transferred from the export division.

The communication cost for bridging these perception gaps in terms of time and effort within the organization was considerably high along the OBM path, according to the two successive brand leaders.

It was not easy to overcome these differences and reach the same understanding. Instead, there were a lot of compromises and learning by mistakes in the path. (Ms. Chen, 01.08.2007)

According to the former manager of the human resources, Ms. Sung, the staff transferred from the export division had inherited their behaviour traits from their previous working environment, i.e., their decision-making and subsequent actions were not fast and decisive enough as required in a retailing operation. Since the management team of Brand L was organized by a mix of people from both the export production and domestic retailing business, there was an adjustment time for some key personnel transferred from the export division to adapt their managerial mentalities in accordance with the retailing pace through their own practice. As a consequence, the internal communication was constantly needed in order to reach a consensus and this however, “weakened the Company K’s ability in managing their retail operation” (Sung, 09.08.2008).

6.3.5.3 Reciprocal effects between the OEM/ODM and OBM

According to President Wang, despite the fact that the scope of the OBM business on the B2C basis was much broader than indicated in the ODM

model, without the experience of ODM for their export business, Company K could not have implemented their OBM. In addition to the fact that the company had developed design competence in knitwear, President Wang also gained the insights into the design activities and the experience in coordinating various professionals beyond the production areas as a result of having implemented ODM. He also learned that his new OBM business could not be led by the existing management team from their OEM/ODM business so he hired new personnel with branding experience, having gained insights into some of the fundamental differences between the two business models. This awareness was seen as the most important perception by President Wang in implementing his OBM.

With regards to the support from the export business to the branded business, the resources transferred from Company J to Company K were continued along the entire OBM path by means of business linkage, knowledge, people and capital. The supporting areas were mainly in the knitwear design and production, shipping and customs, the material and market trends, and finance. Of these forms of support, the knitwear expertise in terms of design and quality as well as the production resources were the advantages inherited from the export business and were considered to be major factors contributing to the competitiveness of Brand L.

However, according to the Brand Director, Ms. Chen, the production advantages of Brand L were exploited in the areas of cost, quality control and a relatively shorter lead time but not in the production flexibility. Brand L's popular knitwear styles could not be repeated within any given season, since their own production capacity was occupied by the export orders.

As for the impact of the OBM business on the OEM/ODM business, according to the Mr. T. Wang, the vice general manager of the export

division, there were no threats to their export customers; on the contrary, Company J benefited from the following advantages:

- By sharing the branded retailing experience with Company K, Company J had a better understanding of, and insights into the requests of their export customers, and this improved Company J's service to their OEM/ODM customers;
- In viewing the branded business of L, Company J's export customers gained more confidence in Company J's knitwear design and production quality;
- Company J could share and adopt the knitwear designs from Brand L's collections for promoting their business; and
- Company J's knitwear designers could access the design resources of Brand L in terms of sharing the coordination knowledge with the fashion designers and particularly improving the knitwear styles by obtaining assistance from the pattern makers.

Despite the fact that company J experienced the above advantages, the over-stretched resources from the export division to the OBM business affected the prospects of the OEM/ODM business since it was left without a competitive strategy to adapt to the changes of the world knitwear production. This eventually led to the close of the export division and the loss of Brand L's knitwear production resource.

6.3.6 Analysis and interpretation

6.3.6.1 Significance of the case companies in GACC

In this case study, the case companies had been involved in the GACC for nearly three decades. Their business began with their engagement in the GACC as OEM knitwear producers at the growth stage of the Taiwan knitwear export industry in the early 1980s, which was also the period when the GACC were formed (refer to Section 2.3.1). After 1986 when Taiwan was on the point of undergoing a socio-economic transformation and promoting a shift of exports from OEM to ODM (refer to Sections 5.2.3 and 5.3.1.1), there was a juxtaposition of the OEM and ODM models and a further step to implement the OBM – firstly in the domestic market in 1995, secondly in the China market in 2002. While devoting the resources to the oncoming expansion of their OBM business in the China market, the case companies ended their OEM/ODM export business in 2009 - the era of the world quota elimination.

This case demonstrated that a Taiwan SME successfully transferred their role in the GACC from a manufacturer supplying the goods to the brands in the advanced countries to a brand retailer which controlled the design and marketing nodes – the key drivers of the commodity chain - in the home market and their first overseas market - China. It was also evidenced from this case that the upgrading opportunities from OEM to ODM were provided in the GACC but not necessarily the opportunities arising from the change from ODM to OBM. However, the competencies cultivated in the ODM stage did further facilitate the subsequent development of their OBM. During the course of their business evolution, three business models - OEM, ODM and OBM - co-existed, and the customers of their OEM/ODM business

were not adverse to the changes due to the elimination of any possible market conflicts by location.

It was also significant that the success of upgrading to the ODM stage was attained by the case companies' business vision and corresponding strategies. As a consequence of these, the development of ODM was not only supported by a market switch and the off-shore production in China, but also enhanced by the long-term investment in design related human resources and the exploitation of government aid for developing links with the design resources in advanced countries. This resulted in the development of the design competence incorporating production cost advantages, which hence became the major strength of the case companies for their ODM competing in the GACC. Such competitive strength not only enabled the case companies to overcome the external challenges which emerged at the end of 1980s, but also sustained their knitwear export business into the 1990s and the first half of the 2000s.

The close of their OEM/ODM export business, however, revealed the reality encountered by a Taiwan SME affected by both the successive migration of world knitwear production and the phase-out of quota restrictions. In this environment, the OBM business was prioritised by the case companies by concentrating their limited resources, since the OBM business model as the last upgrading stage in the GACC was perceived as being sustainable.

6.3.6.2 OBM opportunities and vision

The driving force of moving to OBM in this case study was derived from the business vision and aspiration of the company leader, which was based on the company's sustainability and aimed at marketing its own brand

internationally. His OBM vision was also demonstrated in the preparation prior to the initiation, which included:

- The resources deployed and organisation learning promoted for cultivating design competency at the ODM stage, which consequently became one of their major advantages in establishing OBM; and
- The positive approach to gaining insights into the brand operation through the various opportunities sought from both the personal and business networks beyond the local industries.

The real OBM opportunities for the case companies were not offered in the GACC from which their OEM/ODM originated, but created by identifying a niche in their home market. The identification of this niche market was made by preempting the preference changes of Taiwan young career women for their working outfits. This was facilitated by the contrast between Taiwan and Hong Kong in terms of the existent market competition and consumer preferences as perceived by an experienced designer having worked in a leading brand environment – Hong Kong. Nevertheless, one of their business acquaintances from their previous GACC network did contribute an opportunity for a cooperative OBM, if only for knitwear, and for a short period. This, however, also enhanced the case companies' understanding of the front-end knowledge of the brand operation.

6.3.6.3 Branding environments in the socio-economic context

The extension from OEM/ODM to OBM in this case study began in Taiwan in the mid-1990s, by which the Taiwan domestic market only stepped into the open and diversified stage (i.e., 1991 – present) for five years. According to the findings of this research presented in Chapter Five, the beginning of this stage was also important for both the TTC industries and

national economy – from then on the industries and economy commenced overseas production investments and the promotion of industrial upgrading. At this stage, Taiwan entered the category of high-income countries and began the implementation of the consumer protection law and the promulgation of the Labelling Criteria for textiles and apparel. In the meantime, the Taiwan fashion market became more diversified, and increasingly subject to the internationalization of the fashion brands from the advanced countries at both the high-end and middle-end market levels.

In spite of benefiting from the branding opportunities derived from the above socio-economic changes, the case company also encountered the external branding challenges posed by the same environments at the early stage of their branding. The main and immediate external challenge was the acquisition of satisfactory retailing locations in the department stores, especially from the first-tier department stores. This was not only because the case company lacked any fashion retailing history, but also due to the fact that the department stores had consistently reduced the space available for rent to the local brands and offered preferential lease conditions to the imported brands. The latter reasons plus the fact that the European fashion brands enjoyed great popularity in the Taiwan market at that time caused the case company to adopt a strategic operation which associated their brand with a UK company.

In the 2000s, the case company exploited the branding opportunities derived from the more open policies adopted in China and entered the China branded fashion retailing market. At the same time, they also encountered the changes in the Taiwan branding environments. These changes included improvements in consumer education, legal aspects and governmental support for branding, in addition to slower economic growth compared to the fast growth of the previous two decades. During this period, the case

company mainly encountered the challenges arising from the external environments in the following ways:

- Increasing the sales in value terms in the Taiwan market despite the less prosperous economy;
- Improving the existent retailing locations in Taiwan by obtaining space in the first-tier chain department stores which became more powerful in the 2000s; and
- Acquiring the scarce expertise and professionals for brand operation in order to facilitate the on-coming market expansion in China.

6.3.6.4 Challenges inherent in the differences of the business models

In this case study, the case companies underwent the transformation to ODM stage - which lasted for more than eight years - before progressing to a complete OBM stage. The main differences between these two business models for the case companies were:

- The changes of business operation and the market scope from the B2B overseas markets of the advanced countries to the B2C home market;
- The extension of the vital value creation activities from product to brand; and
- The expansion of the product ranges from only the knitwear to the woven garments and fashion accessories.

The above subsequently presented two challenges for the case companies when initiating their OBM:

1. Establishing retailing channels and obtaining retail locations in the home market;
2. Acquiring the essential know-how for running OBM on a B2C basis. This was the knowledge and skills required to reach an understanding of consumer demand, garment production, branded fashion design, retailing operations, brand operation and management, and consumer marketing.

These two inherent challenges were also the immediate challenges encountered by the case companies when starting their OBM since they did not have the opportunity to be the franchisee retailers of the imported brands. The practice of the franchised retailing would have provided them with the necessary prior knowledge and experience before initiating their own branded business.

6.3.6.5 Strategic operation and sequential shifts

Based on the findings, the case company adopted various strategic operations to tackle the encountered challenges along their OBM path. These strategic operations could be characterized by a series of sequential shifts from the resource-oriented cooperation in the preparatory stage, to the experienced designer-led in the brand creation and launch stage, to the experienced marketing executive-led in the stage of changes and growth, and further the knowledge and resources-led stage of branding in China. The pattern of these sequential shifts illustrated how a Taiwan SME with its export background exploited the branding opportunities outside the GACC by incorporating their design strength and resources developed in the ODM stage with the available external resources. It also demonstrated how the missing knowledge for implementing OBM was gradually acquired and developed in the course of their branding practice in the domestic market,

and this developed know-how then became the competitive advantage for their branding in the China market.

In order to obtain the missing expertise for running an OBM on a B2C basis, the case company recruited experts at various stages. The individual experts then transferred their knowledge to the organization, followed by a subsequent process of knowledge sharing and fusion through the learning-by-doing practice in the home market. However, it was also apparent that the transformation and the integration of this transferred knowledge were considerably affected by the gaps between the key people - including the newly introduced experts. Their gaps in terms of having different perceptions of the brand operation resulted from the different business systems they had worked in and only partial knowledge of an entire brand business they individually had possessed. Such perception gaps also increased the complexity of internal communications and subsequently caused the personnel instability. This hence adversely affected the diffusion and retention of the introduced knowledge and hindered the consequential development of the organisational knowledge and competencies.

From the incremental penetration exhibited in the case company, it was identified that:

- The discernment in the marketing expertise was gained behind the appreciation of the design knowledge by the key staff transferred from the export division and the top executive; and
- In spite of having insights into the preliminary brand operation before initiating their own OBM and introducing a mix of the key personnel from various business systems, the case company still took a long time to deal with the problem – i.e., placing an undue emphasis on the branded designs and products from the product and production oriented perspective - at a considerable cost.

The latter was due to the fact that considerable resources were transferred from their export business. In particular, personnel as key people, who attended to several important functions in the organization, became the relatively stable force during the development of OBM. This together with the lack of integrated and comprehensive advance knowledge for operating their own brand business at the top management level resulted in a high learning cost to overcome this problem in the case company.

6.3.6.6 Challenges and complexities

Tracing and examining the challenges encountered by the case company along their OBM path, it was identified that the inherent challenges from changing the business model together with the external branding challenges from the socio-economic environments further evolved with the strategic operations conducted. This developed into the following specific challenging areas which were interrelated with each other:

- Adjustments in brand positioning;
- Improvement of retailing locations;
- Development of internal expertise;
- Internal communication;
- Brand philosophy internalization;
- Branding overseas; and
- Business sustainability in terms of long-term brand cultivation versus the short-term business performance.

The encountered challenges during the OBM course were derived from the above areas and they varied by phase. Their evolution and complexities are further analysed and discussed in the following text.

Acquiring know-how and developing internal expertise

Of all the external branding and inherent challenges, acquiring know-how impacted on all the seven specific challenging areas, especially on the development of the internal expertise which was further interrelated with the other six areas. Despite being such a crucial task, the acquisition of branding know-how by the case company, however, was dependent upon the access to and availability of the external resources, their finance, and the existent perception gaps.

The findings revealed in this case support the discussion in Chapter Five (Section 5.5.4.5), which demonstrates that the TTC export companies needed to rely heavily on obtaining the essential know-how from the other business systems outside the GACC when beginning their OBM. In this studied case, the method of acquiring knowledge was to hire experts who had gained their knowledge from the various business systems, i.e., the branded design knowledge from the local brands and foreign brands, the marketing and retailing expertise from the local brands and franchised retailing brands in Taiwan.

With regards to the front-end knowledge, the case company obtained this knowledge by introducing a non-local designer having the leading experience from the overseas branded market at the brand creation stage (i.e., phase II). This permitted the establishment of coherent brand philosophy, a differentiated brand-position and the formulation of a competitive brand strategy – which was revealed in Section 5.5.4.5 as the weakest part of the branding knowledge developed in the Taiwan fashion branded industry. However, the obtained front-end knowledge could not be retained by the case company after the departure of the experienced designer, and had to be re-acquired by recruiting the marketing/retailing expert from the local fashion trade. This reflected that the difficulties in

transferring and retaining the tacit knowledge of the branding know-how, especially when the company encountered the perception and knowledge gaps at the early branding stages. Such loss of the tacit knowledge was incurred several times in the OBM path of the case company when changing the design leaders and chief designers. Their tacit knowledge was embedded in their practice, it was seldom explicit, and therefore could not easily be transferred from the individual knowledge into the organisational knowledge.

This case study also confirmed the findings of Socio-economic environments of relevance identified in Section 5.4.2.2. These were that the case company was also challenged by the difficulties encountered when trying to hire an expert with a comprehensive understanding of the entire brand operation and the management knowledge required to integrate the design and marketing practice, since such an expert was unobtainable. Both areas of knowledge were gradually developed and accumulated through the case company's own business practice. When seeking the required know-how for branding overseas, the case company experienced difficulties particularly in the areas of supply chain management and brand image management.

With regards to the acquisition and the development of brand operation know-how by phase in Company K's OBM path, except for the knowledge of quality production and knitwear design developed in the early stages, the rest of the know-how was gradually acquired along the OBM path. The integration of know-how from various fields mainly occurred after the recruitment of a marketing expert as the brand leader in phase III.

It was also noticed that there were reciprocal effects between the home market and overseas market, especially the interflows of the marketing and retailing knowledge. Not only was the know-how accumulated in the home market applied to the expansion of the overseas market, but also the

expertise obtained and developed in the overseas market – the franchised systems - were further transferred back to enhance the retail operation in the home market. The opportunities for developing such franchise systems could be hardly provided by the home market due to the limited market size.

Improvement of retail locations and adjustments in brand positioning

Of all the specific challenging areas, the improvement of retail locations was the only one area derived from all the four inherent and external branding challenges, and further interrelated to all the other areas except for branding overseas. When the case company introduced its brand in the China market, favorable retail locations could be obtained from the start due to a number of accumulated advantages. However the case company took more than ten years to improve their retail locations – the stores in the department stores - in the home market. The improvements were made from the mediocre department stores to the local chain department stores, and further the first-tier Japanese chain department stores. These improvements were as a result of disguising the country and design origin of their own created brand as well as adjusting their brand positioning.

Disguising the brand-origin helped the case company to avoid two of the disadvantages encountered by most of the local brands as analysed in Section 5.5.4.3 – i.e., the increasingly unfavourable leasing conditions imposed by the department stores and the inferior brand-origin image perceived by the consumers in comparison with the international brands. Since the branded collections launched by the case company were characterized by their cosmopolitan appeal rather than their indigenous features, associating the brand origin and designs with a Western country image as a strategic marketing direction did not conflict with the brand style. This strategic decision was the result of an assessment of the market

realities. To capitalize on the CIE, the case company shifted the brand ownership to an asset holding company and then placed the marketing emphasis on the CIE of brand origin and design rather than CIE of manufacture. As a result, the brand gained a stronger foothold than the other local brands to compete in both the Taiwan and China markets in retailing environments which were unfavorable to the local brands. However, this also brought about the instability of the design personnel and necessitated a compromise of their business aspirations.

Adjusting the brand positioning in order to respond to the brand recruiting directions of the targeted department stores was an inevitable step for improving the retail locations, as the company lacked the necessary resources to develop their own independent stores in which to present the brand to the consumers. This however not only minimized the possibilities for the case company to develop a unique brand positioning beyond the market identified and tapped by the targeted department stores, but also hindered their cultivation of a distinguishable brand style presented at the optimal retail locations during the early branding stages. Both of these consequences indirectly reduced their brand competitiveness and increased the total branding cost.

Not only was the brand positioning adjusted to match the more exclusive locations, but also corresponding adjustments of the retail locations were made when changes in the brand positioning were encountered. Furthermore, the adjustments in brand positioning had interrelationships with the other two factors – the changes of chief designers and design leadership as well as the continuity of brand style. The continuity of brand style was not only affected by the brand positioning adjustments, but also entailed by the changes of chief designers and design leadership. In other words, the changes of the chief designers and designer leadership had both direct and indirect influence on the brand positioning. The importance of the chief

designers and design leadership in the case company was particularly evident from the following facts:

- Designers were extensively involved in the decision-making process related to the identification and development of the brand positioning;
- Designers with both leading and international experience were used either for identifying and developing the brand positioning at the initial stage, or allowed to adjust the brand positioning in the transitional stage;
- The above brand positioning development was highly influenced by the personal styles and strengths of the designers; and furthermore,
- The tacit knowledge and the personal style of the individual designers were difficult to transfer.

The changes of the chief designers and design leadership in this case occurred in phases III and IV. These changes were caused by various reasons, mainly the availability of the qualified expertise and the communication problems resulting from the perception and knowledge gaps of the key members. As a consequence, the case company lost the developing markets and this not only increased the difficulties in fostering a distinguishable brand style but also raised the entire branding cost.

Branding overseas and business sustainability

Branding internationally was the long term goal of the case company: it motivated their move from the ODM to the OBM stage and governed their major development directions. In their branding progress, the China market was the first and only overseas branded market by the end of this study. According to the investigation of this research (refer to Section 5.2.4.2), the timing of their entry into the China branded market was at the inception of

the second wave of entering by the Taiwan fashion companies. Unlike the first-wave companies who switched their business to China at the end of the 1990s due to losing the competitive edge against the international brands in the home market, most of the second-wave companies entering the China branded market at the beginning of 2000s were mainly aiming for further expansion by applying their successful experience gained in the home market. This identified characteristic, however, was not the case for the studied company. At the time of their expansion into the China market, the case company had not yet achieved success in the home market.

In order to seize the opportunities of obtaining the favourable retail locations before their main competitors, the case company launched into the China branded market while their branded business in Taiwan was still in deficit and their brand image did not yet match the image of appropriate retailing sites in the starting market. The timing chosen and efforts made on this early entry enabled the case company to get a strong foothold in terms of retail location and brand image for the following expansion in China. This also led to the fact that the revenue from China market became the largest share of their total turnover after five years, during the period of which their home market was challenged by a slow growth rate. This early overseas expansion over stretched their existent resources and hence caused various management problems. Of these problems, a shortage of the sufficient expertise and capital for the subsequent expansion particularly reflected the limitations of a SME in achieving the brand expansion beyond their home market.

From the brand development perspective, the large-scale China market provided the case company with a new start to present their created brand in line with the adequate retail conditions. As such, the branding conditions could not be created in the home market in which the case company initiated their own brand business as a novice in a crowded market environment.

Having the adequate branding conditions in China enabled the case company to judge the brand potential more objectively and make the essential improvements more effectively. Furthermore, the fact that having the first overseas market which shared the same language and culture characteristics with their native market also reduced the cost and risk for the case company in its transnational operation. This operation could then be further improved step by step and a more comprehensive system applied to the next potential overseas market.

The case company's branding practice in the China market also revealed that they benefited from the former engagement in the GACC, which provided them with the capacity to cope with the transnational challenges in establishing the quality production and dealing with the trade matters. Such capacity might need to be developed by most of the local brands which did not have the GACC background. The advantage of possessing such capacity facilitated the case company's brand operation when expanding into the overseas markets.

The long-term goal – branding in the international market – was persistently pursued by the case company, with the result that they gave the priority to the long term brand cultivation rather than the short-term business performance. This, however, resulted in a low return of their brand investment at the early branding stages. Their large deficit - sixty times the size of their starting budget – accumulated by a twelve-year branding in two countries, however, exceeded the investors' expectations. Despite the fact that the case company gained the government's recognition as one of the potential Taiwan brands for branding in the overseas markets and also received some governmental financial aid, the sustainability of the case company's own brand business was under a great financial threat.

Besides the financial threat, another internal challenge encountered by the case company during a later stage was the insufficient internalization of their brand philosophy. The internalization of the brand philosophy followed by the externalization through the brand promotion would have a significant effect on their subsequent expansion. Since the branding progress by the case company was about to move into the brand communication stage, in which the emphasis of the brand promotion was placed on delivering the brand message, including life style advocated and value attached, beyond the branded products themselves. In this case, the inherent brand philosophy did not derive from any powerful individual – neither from the designer nor from the organization leader - but rather a collective rationale result. Up-dating the brand philosophy coherent with the cooperative culture, by which their design and marketing teams were inspired and with which their targeted consumers could identify themselves, would be a big challenge for the case company to sustain their brand business into the next branding stage.

6.3.6.7 Governing factors and their impact upon decisions and actions

A further analysis of the major decisions made and actions taken upon the establishment of OBM in this case identified five major governing factors, i.e., the vision and aspiration of leaders, tangible/intangible and internal/external resources, designer leaders, retail channel and locations, and the competencies and knowledge. The consequent decisions and actions of these governing factors not only influenced their adopted strategic operation but also further impacted on the following five dimensions of their OBM practice: market entry strategies, brand strategy, business sustainability; core competencies cultivation and branding overseas.

Of the five governing factors, the vision/aspiration of leaders and the tangible/intangible and internal/external resources, both of which were mainly developed from the case company previous business background involving in the GACC, had extensive impact on almost all the five dimensions, particularly the brand strategy, core competencies cultivation and branding overseas. The influences from the vision/aspiration of leaders had the beneficial effects of fostering the brand competitiveness and development. The impact from the tangible/intangible and internal/external resources had both positive effects as the supportive ingredient and negative effects as the shortage and limitation during the establishment and expansion of OBM.

With regards to the other two governing factors - competencies and knowledge as well as the retail channel and locations - they were both inherent weaknesses in the early stages and turned into the company advantages and competitive strength in the later stages, having a prominent influence on the dimensions of branding overseas and brand strategy respectively. As for the governing factor - designer leaders – it had the least influence on the five branding dimensions compared with the other four governing factors. Of the five affected dimensions, the most impact from the factor of designer leaders was the brand strategy. In the business sustainability dimension, the most effect was from the vision and aspiration of leaders, followed by the resources and competencies/knowledge.

6.4 Case three – Company M

6.4.1 Introduction of the case implementation

Data from the case three - company M - were mainly collected between Aug 2008 and January 2009 in the course of the on-site studies. The triangulation methods described in Section 3.4.4.3 and data collection protocol designed in Section 3.4.4.4 were used.

The in-depth interviews were conducted with eight key personnel, who were/had been involved in or closely observed the Company M's development from ODM to OBM (see Appendix B). Their work ranged from strategic planning, external consultancy, sales, marketing, design, to top management. The direct observations included visiting the product development department and studying three retailing outlets in Taipei. The physical artifact examinations were made to the actual products of 2008 S/S and A/W collections. The literature and documentation review which was conducted for this case study included articles in the newspaper and management magazines, the company's annual reports from 2002 to 2008, reports from trade and governmental publications, case studies in books and post-graduate theses⁸³, and research papers. These reviewed materials were used as the supplements and also for corroborating the findings from the observational results and the interviewees' accounts.

⁸³ By the end of 2008, approximately 20 master theses and one doctorate thesis featured the business practice of Company M as a studied case. Most of these studies were from the perspectives of supply chain management and logistics, industry upgrading and financial performance.

6.4.2 Company profile

Company M is a Taiwan-based company mainly engaged in transnational clothing manufacturing. In 2008, their operation was characterized by 26 factories which they owned, and 9 subcontractors. They operated out of Vietnam, Cambodia, The Philippines, Indonesia and China (see Figure 6.6), employing a total of 25,700 people. They also had branch offices in New York and Paris. Their major customers were the large USA retailers in the medium-to-low market, such as Kohl's, Target, Gap (Old Navy) and J.C. Penney which together shared more than 97% of their total turnover (see Figure 6.7). The average quantity of their exports was 2,000 dozens per order and the average price was around US\$ 50 per dozen.

Figure 6.6: Share of production capacity for Company M by countries in 2008

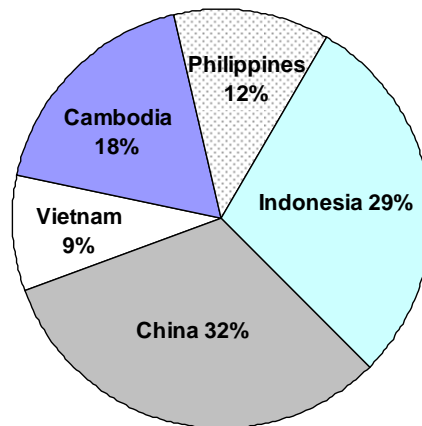
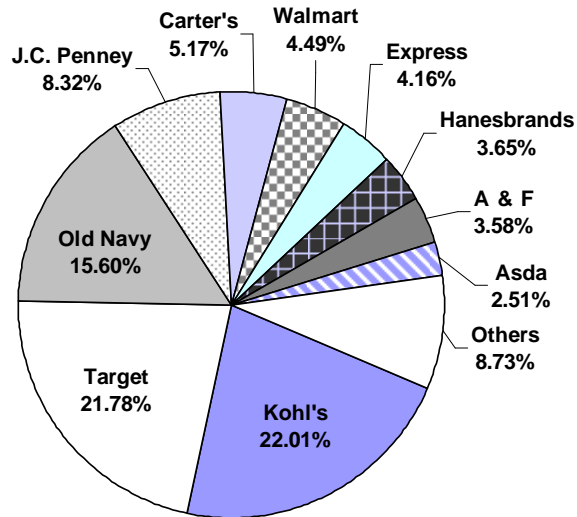
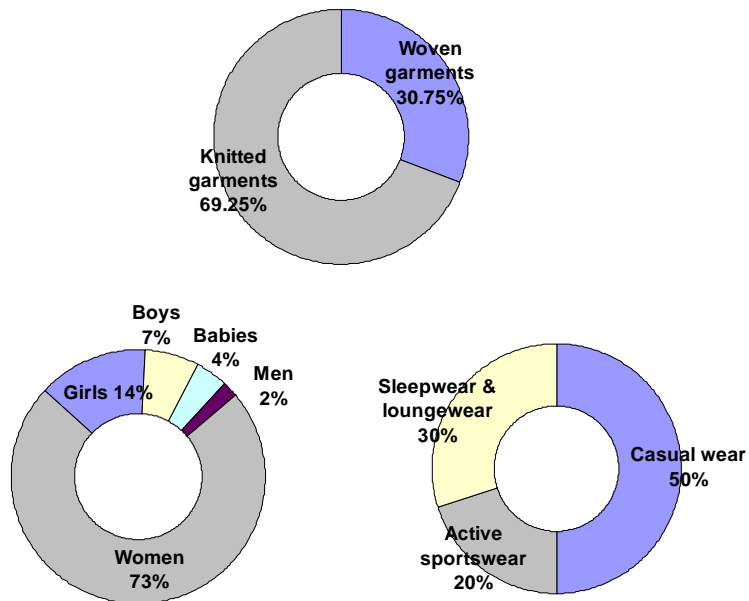


Figure 6.7: Sales share of Company M's main customers by value in 2008



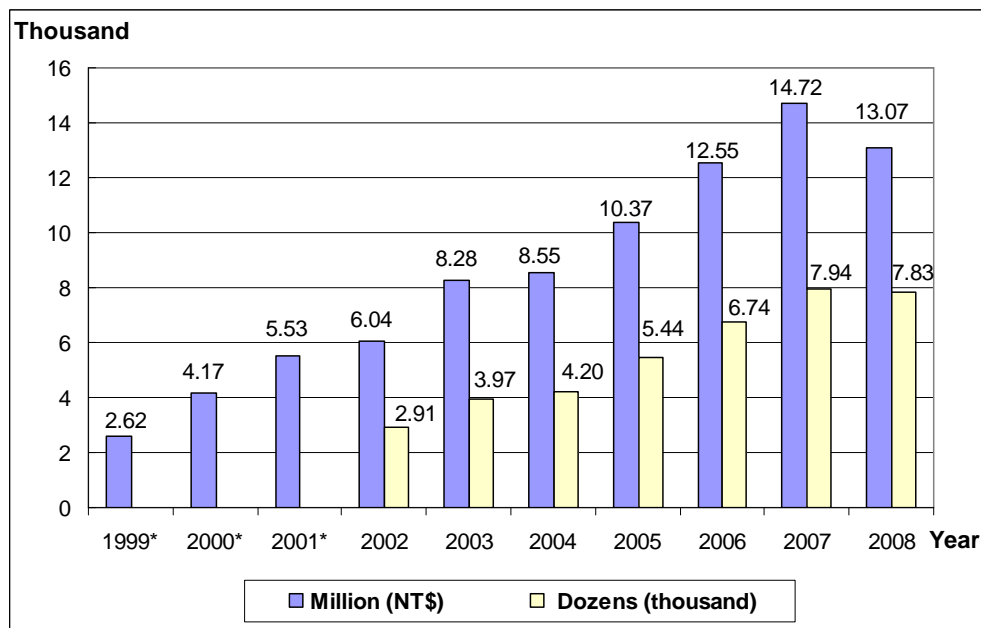
The core products of Company M were casual wear, active sportswear, and sleepwear and loungewear, which included woven and knitted garments, mainly for women's fashion (see Figure 6.8).

Figure 6.8: Product profile of Company M's export value in 2008



Company M was listed in 2003, and their own branded business aiming at the domestic markets started in 2006 and finished in 2009. In 2008, Company M's total production was 7.83 million dozens which generated total revenue of NT\$ 13,072.6 million - approximately US\$ 404.8 million (see Figure 6.9 and Table 6.6). Their share of own branded business in the total revenue was less than one percent (see Table 6.7).

Figure 6.9: Revenue and annual production of Company M (1999 – 2008)



Note: * Lacking the actual figures of annual production.

Table 6.6: Income statement of Company M (1998 – 2008)

Unit: NT\$ thousand

	1999	2000	2001	2002	2003
Net revenue	2,616,138	4,169,214	5,533,240	6,044,603	8,282,694
Gross profit	244,879	429,680	766,458	800,571	1,362,512
Operating income	25,930	100,717	366,520	331,344	749,916
Net income	19,125	37,477	307,949	399,873	535,447
	2004	2005	2006	2007	2008
Net revenue	8,552,184	10,366,148	12,546,895	14,716,495	13,072,623
Gross profit	1,380,956	1,616,281	2,200,195	2,798,023	1,435,796
Operating income	775,165	881,723	1,234,644	1,718,991	536,923
Net income	581,469	589,989	820,909	1,103,664	289,845

Source: Combined from 2002 and 2008 annual reports of Company M

Table 6.7: Company M's income from the branded and export business (2006 – 2008)

Unit: NT\$ thousand

	Income from branded business		Income from export business		Total revenue
	Value	Share of total revenue	Value	Share of total revenue	
2006	1,634	0.01%	12,545,261	99.99%	12,546,895
2007	11,622	0.08%	14,704,873	99.92%	14,716,495
2008	29,336	0.22%	13,043,287	99.78%	13,072,623

Source: Modified from 2007 and 2008 annual reports of Company M

6.4.3 Origins and development in GACC

6.4.3.1 Start and expansion

Company M was founded in 1990 by Mr. Chou - the president - and his partners. They obtained their expertise in clothing manufacturing, sales and management from their former working experience in other clothing export companies in the 1970s and 1980s. At Company M's outset, the Taiwan clothing industry was confronted by the difficulties of increasing production costs and labour shortage. Most of the clothing companies hence closed their business operations and/or switched to off-shore production. In view of the unfavourable environment, Company M, having limited finances (NT\$ 36 million) and twenty employees initiated their clothing export business by forging strategic alliances with local and overseas factories. By means of this business approach, Company M received export orders from Western buyers and subcontracted the production part together with technical support to their partners - firstly in Taiwan and the Philippines in 1990, followed by China in 1991. Three years after Company M's inception, they managed to break even, and then began to make a profit.

During the foundation period from 1990 to 1996 (defined by Company M), their business mainly processed orders which were characterized by small quantities and high style variation. The profile changed after Company M successfully gained a large, urgent order⁸⁴ from Walmart in 1996. Having experienced the advantages of production efficiency arising from the large quantity, Company M hence decided to change their order-taking policy and concentrated on processing large-scale orders from the big USA retailers. In order to adapt to this change, Company M changed their global

⁸⁴ This Walmart order required Company M to produce 660,000 garments within a four-month period. This required twice their existing production capacity at that time.

production strategy in 1998 to correspond with the pattern of subcontracting world clothing production. In keeping with this strategy, Company M increased its production capacity in the countries where labour costs were low and there were the advantages of free quota or zero tax-rate for goods exported to the USA. Their production investments were subsequently made as follows:

- Establish own factories⁸⁵ to achieve better control of the production schedule and quality, and
- Expand the number of strategic manufacturing alliances in order to maintain a degree of flexibility in production.

During the expansion period from 1997 to 1999, Company M established their production networks in Indonesia and El Salvador. Benefiting from their production advantages, Company M's revenue continuously increased from NT\$1.5 billion in 1997 to NT\$ 2.3 billion in 1998, and further to NT\$ 2.6 billion in 1999. In a fast growth period from 2000 to 2003, Company M extended their production sites to Vietnam and Cambodia. The company organisation expanded to 345 staff in the Taipei head office and the average growth rate of their turnover was 34.59% per year. By 2004, Company M had the most extensive production networks in their company history, which comprised 30 of their own factories in addition to five subcontractors in nine countries⁸⁶.

The fast business growth and the expanding production networks resulted in a more complex business operation and human resource problems in terms of professional competencies for Company M. Four corresponding

⁸⁵ In order to reduce the cost of fixed assets, most of the Company M's own factories were set up on rented land or operated in rented plants.

⁸⁶ In 2004, Company M extended its production networks to Bangladesh and Sri Lanka by strategic alliance manufacturing.

measures which had a lasting effect on their company were introduced between 2000 and 2001. These were:

- A human resources department and a new reward system;
- An organizational learning programme supported by the Ministry of Education;
- Product data management (PDM) and enterprise resource planning (ERP) systems; and
- A supply chain management (SCM) system co-developed with the Corporate Synergy Development Center⁸⁷.

These measures facilitated Company M's transition from a SME company into a larger listed company (Wang, Weng, & Cheng, 2007). Especially the adoption of the latter two measures enabled Company M to overcome the difficulties caused by the geographically decentralized operation and the diversified production lines, and furthermore optimize their decisions and resources by the real-time and integrated information provided, at a later stage⁸⁸. This consequentially contributed to the development of their two core competencies – the operation speed and production flexibility.

After initiating the ERP system, the company adopted a global logistics information management system⁸⁹ in 2003, which assisted them in the

⁸⁷ The Corporate Synergy Development Center was a semi-official organization formed by the Industrial Development Bureau in 1984 for the purpose of promoting industrial cooperation and progress in industrial upgrading and increasing the international competitiveness of domestic enterprises.

⁸⁸ Despite the fact that Company M was the first in the Taiwan clothing industry to adopt the ERP system, the introduction of the ERP system did not succeed in the first two years and it was more than six years before its benefits could be measured.

⁸⁹ The global logistics information management system of Company M comprised of six modules – the customer design interaction platform, the global supply chain management, the product planning management, the product decision support, the order progress control, and the production planning and control.

process of integration with their upstream suppliers in four countries⁹⁰ and downstream customers in the USA after quota abolition. As a consequence, their production lead time - from the receipt of customers' orders to shipping out the finished products – changed from 90 days to 60 days and further to 15 days for the rush orders. Their production operation could react quickly to the replenishments and order adjustments brought about by the customers' market changes and this hence reduced the inventory cost of their customers and increased Company M's competitiveness.

6.4.3.2 From OEM to ODM

In view of the impending impact which was to arise as a result of quota abolition in 2005 and a 20% sharp decrease in apparel prices after the September 911 attacks, Company M initiated a series of strategic meetings with the assistance of the external consultants from 2002 onwards. These strategic meetings were to develop a new strategy to sustain their business in the next five years.

Several suggestions focusing on the enhancement of the customer service and the increase of their value in the global supply chain were hence offered and further carried out. These included:

- Reinforce the links with their upstream and downstream partners in the supply chain;
- Diversify the production lines and offer the buyers one-stop shopping solutions; and
- Develop in-house design competence and create their own brand.

⁹⁰ By 2008, Company M purchased its materials from Indonesia, Turkey, Korea, Taiwan and China with the corresponding share values of 1.2%, 1.5%, 2.8%, 22.4% and 70.9% respectively.

Despite the fact that the development of in-house design competence and the company's own brand was seen to be important, the key personnel involved were unable to agree on how to proceed in this direction at the time. Ideas about developing ODM and OBM were vague and no concrete plans were formed in these strategic meetings, according to the former strategic and organisational consultant, Dr. Wang (09.01.2009). In order to explore the possibilities, a trial was carried out to provide the material and design service to their OEM customers from the end of 2002. A global fabric sourcing team consisting of four persons was firstly organized, which included experienced staff selected from the existent sales teams and new staff with design backgrounds. The tasks of this team were set to source up-to-date fabric information - mainly in the Asian region - and fashion designs made of these materials were produced at a later stage. These sourced fabrics - which had similar qualities to the ones specified by the customers but at lower prices – together with the suggested styles were then offered to the USA buyers as alternatives to the previously selected materials.

At that time, the South Korean garment manufacturers – the main competitors of Company M - and the USA importers were ahead of Company M in providing design services to the USA buyers. Nevertheless, Company M's introduction of the alternative materials with the suggested styles met the customers' needs for some items produced at more competitive prices. The progressive acceptance of the fabric substitution by their customers enabled Company M to get control of the material end⁹¹, increasing their profit margin and providing an incentive for subsequent material development cooperation between Company M and their upstream suppliers.

⁹¹ By the beginning of 2007, the source of 60% materials for production was controlled by Company M (Wang, 2007).

In addition to beginning the trial in material sourcing and related design service, Company M also introduced a fashion consultant to assist their design operation. Through the guidance of the design consultant, Company M improved their trend knowledge, internal design communication, and particularly the top managers' understanding of design activities. The global fabric sourcing team was hence expanded by recruiting several fashion designers with overseas educational backgrounds, and re-organized into a Design and Product Development Department in 2003.

Since their sales strategy was to concentrate on and develop long-term partnerships with the large USA retailers, Company M's focus was consequently on how to customize their design service to the needs of these individual key customers. This direction was further supported by the emerging ODM opportunities derived from a number of the large USA retailers who initiated their own private labels but did not have or had not yet achieved the competencies for product development and design, such as Kohl's, Walmart and Target. A customer-oriented design operation was therefore executed in Company M, by which their fashion designers were teamed up with the salesmen by customers and/or by product categories. The material and design collections were then prepared in accordance with the requirements of the individual customers⁹².

By 2005, Company M's design team had made substantial progress by introducing a complete collection to J.C. Penney. In the same year, three fifths of their customers required their design service to an extent. After 2005 – the year when quota restrictions ceased - Company M's design

⁹² This design service was mainly operated in the following forms: (a) providing only the collected material according to the customer's requests and designing the sample garments to promote the sourced fabrics, and the customers in this category included Carter's, Hanesbrands and A & F; (b) working on the design briefs and directions given by the customers through the coordination of their agents, and the customers in this category included Kohl's through their agent - Li & Fung; and (c) directly participating in the customers' design developments from the inception stage and the customers in this category included J.C. Penney.

service was one of their competitive advantages in addition to the operation speed, production flexibility and diversified product choices. More company resources were allocated to the development of the ODM business after 2006. By 2008, the Design and Product Development Department had 30 staff members engaging in fabric sourcing and development, market information collection and style design, and 60% of the company's turnover was generated by the ODM orders.

6.4.3.3 Business performance after quota abolition

Besides the above measures which increased their added-value in the world supply chain, Company M also changed their production deployment from the concern of the quota and tax to the consideration of production cost and area integration after quota abolition. Their production sites hence concentrated only on the Asia region - Southeast Asia, South Asia and China. An average of 4,000 sample garments per week was produced by three sampling centres – one in Taiwan and two in China. More than 2,500 different styles classified into 15 garment categories per year were produced in their diversified production lines.

In 2007, their revenue reached the highest point in their company records, i.e., approximately US\$ 452 million generated by a volume of 7.94 million dozens. Their export value to the USA market shared 0.55% of the USA clothing market and the 0.13% of the global clothing market, based on the 2009 annual report of Company M. With regards to their financial performance after going public, the average gross margin, the average net profit margin and the average net income were 16.95%, 6.6% and NT\$ 726.3 million respectively between 2003 and 2007. Due to their significant performance, Company M was ranked as the 71st of the 100 Asia's fast-growing companies in 2006 elected by the Business Week magazine. In the

same year, they were also recognised as the most admired company of the TTC industries by the Common Wealth magazine – a reputed local publication, and hence became a benchmark in the TTC industries.

Based on the experience of the senior staff of Company M and their external consultants interviewed in the course of this research, the fast growth of Company M was not only attributed to their business strategies, but also fostered by their operation philosophy and management style originating from the executives who had founded this company. Sales-oriented thinking and the pursuit of the business growth were of high priority. Their management therefore emphasized the control of the work flow and the operation costs – i.e., their priorities were efficiency and speed rather than quality. In addition, despite being a non-family company, Company M developed a sharing and family-like working environment within the organization as part of their corporate culture. These organizational characteristics and the corporate value supported the fast growth of their business.

In 2008, Company M encountered the first negative growth, i.e., a drop of 11.17% of revenue and 73.74% of net income – the lowest net income since 2001. These drops mainly resulted from the market recession caused by the world financial tsunami and an increase in labour costs of 20% in China. Several measures were hence adopted in the beginning of 2009, which included the allocation of more production capacity in Indonesia and Vietnam, the closure of four factories in the Philippines, Cambodia and China, the reduction of 1,500 people and 10-15% management staff in Shanghai and the Taiwan office which included the staff of the Design and Product Development Department, and the termination of their own brands business.

6.4.4 Development of OBM

6.4.4.1 Phase I - Preparatory stage

Despite having formulated and implemented the related strategies to sustain their clothing manufacturing business before 2005, Company M was uncertain whether their export business could continue to grow after the abolition of quota. Among all the suggestions offered in the strategic meetings, establishing an OBM business was considered as an option which could be a new driving growth force once their original business model went into a decline stage in the new trade environment. Since there were no concrete ideas about how to develop an OBM business and what market segments should be targeted, the choices of Company M's OBM approach were open at that time. Two directions were favoured, i.e., seeking opportunities to invest or merge the established brands, and the creation of own brands. The latter was particularly promoted by the Taiwan government as one of the key directions for industrial upgrading.

Several brands developed in Taiwan or China which had or would have the potential for marketing in the large China market were hence studied and assessed. However, the trials in investing or acquiring the potential brands were unsuccessful. According to Dr. Wang (09.01.2009), two high-potential cases were abandoned in the final negotiation stage. This included the case exposed in the trade news - a fashion brand with a 15-year history and 170 outlets in the China ladies' market. While conducting the above trials, Company M also engaged in a project supported by the governmental funds which aimed at the development of niche products – specifically functional apparel. Company M's interest in this project was the design and production

of active sportswear. This interest was rationalized by the market potential of active sportswear and the competitive advantages of the local companies in terms of exploiting the strength of the Taiwan textiles - functional fabrics.

The project outcome - the pilot collection of the active sportswear developed by Company M - was exhibited in the Taipei Innovative Textile Application Show and also shown to Company M's customers. The feedback received from both the exhibition and their customers were positive, and this hence motivated Company M to develop a brand in the active sportswear market in Taiwan. This approach to initiating OBM was mainly based on two strategic considerations:

1. To cultivate the comprehensive competence in product development which could then be transferred to their OEM/ODM business for exports; and
2. To collect and develop the essential competencies and knowledge before initiating the branding in a large transnational market - China.

The initial idea for developing the branded active sportswear was further explored by their fashion consultant who was assisting their design operation in ODM at that time. Through her personal network, Ms. Ma, who had experience in product development and brand creation of active sportswear, was recommended to President Chou in mid-2005.

Ms. Ma had an overseas educational background in costume design and had 12 years working experience in the local fashion industry. Her experience in the branded active sportswear was mainly gathered from working in the two foreign companies - W.L. Gore & Associates (Taiwan Branch) and Adidas. In the former company, Ms. Ma as a local sales representative of Gore-Tex® and the other functional fabrics produced by the Gore Company had the opportunity to work closely with their

downstream customers in product development. During this time she was also in charge of the development of the company's second apparel brand⁹³ - Gore Scooter - targeting at the Taiwan motorcyclist under the guidance of the foreign branding expertise. In the latter company, Ms Ma was the fabric buyer responsible for purchasing the fabrics from Taiwan for all the Adidas brands⁹⁴, and this buying position allowed her to closely observe Adidas' brand extension directions.

After a six-month period of regular meetings with Company M – mainly to advise the management on branding and exchange business ideas with President Chou, Ms. Ma was invited to join Company M and initiate their own branded business as a Creative Director.

6.4.4.2 Phase II part one - Creation of Brand N

Ms. Ma's first task was to identify a brand position with market potential. Based on her long-term observation of both local and international brands as well as the consumer profile surveyed by the commissioned market research company, the original idea proposed by Company M – developing a brand for active sportswear - was altered. The new branding idea was to develop a sportswear brand which could incorporate fashion in function. The developed collections based on this new idea would not only emphasize the use of comfortable and functional materials⁹⁵, but also the versatile end-use. In other words, in spite of the fact that the collection was based on the

⁹³ The first apparel brand of the W.L. Gore & Associates was the Gore Bike Wear™ launched in Europe in 1999. Their second apparel brand - Gore Scooter – was launched in Taiwan in 2002.

⁹⁴ During that time (2004-2006), 70% of fabrics used by Adidas were purchased from Taiwan.

⁹⁵ Two major materials – Meryl and Modal - were largely adopted in Brand N's collections.

design for specific sports activities such as yoga, running, fitness and tennis, the items could be also used for the other occasions. This new idea for branding was proposed to Company M and met with their approval.

Since involvement in the development of own branded business was seen as a distraction from the company's focus on the core business of export manufacturing, and it was thought that this might affect the company's financial performance, few of the Company M's investors and the investment advisors supported the OBM decision. In order to limit the adverse impact on their core business, Company M set an investment limit on their new branded business of NT\$ 160 million. In addition, as a result of the lesson learned from the Taiwan computer industry which demonstrated that their extension to OBM business was against the interests of their OEM/ODM customers, Company M actively informed their major customers about their OBM decision. Since Company M's own branded business was small in scale and aimed at a different market, their OEM/ODM customers were not concerned about the development of own brand business.

Company M subsequently set up a subsidiary company for the purpose of conducting the branded business in March 2006⁹⁶. Despite being a legally independent organization, this subsidiary was actually managed as a new division of Company M rather than a separate company in terms of sharing the same office, management systems, and the corporate culture and activities. One of the seven Vice Presidents, Mr. Hung, who was also a major shareholder and had started Company M with President Chou, was assigned to be the Managing Director of this new business. His previous responsibilities in Company M were the set up and management of the overseas production sites. With regards to the other key members for this new venture, Company M did not succeed in recruiting Ms. Ma's ex-

⁹⁶ This subsidiary merged with the parent company in 2007 August.

associates who had the required experience as Company M had originally planned. Due to the scarcity of the required expertise, Ms. Ma therefore recruited four key staff members with the necessary backgrounds. These were the fashion designer, production controller, sales manager formerly working in toy retailing, and marketing manager previously working with cosmetics and luxury goods. Both of the sales and marketing managers had gained their experience from working in the foreign branch companies.

After nine months' preparation, at the beginning of December 2006, Company M launched a fashion sportswear brand, N, in the local market. This brand targeted metropolitan working ladies and advocated the lifestyles of health and sustainability (Lohas) – an increasing phenomenon in Taiwan – as its brand philosophy. Its brand image projected the healthy modern women who enjoyed freedom of body and mind and created their own individual styles. The price of Brand N's collection was in the range of NT\$ 1,000 – 3,000 per piece – slightly higher than the imported brands - Nike and Adidas. According to Ms. Ma (07.01.2009), there were no other local brands and only a few foreign brands positioning themselves in the same market segment as Brand N at that time.

In addition to the creation of Brand N, at the same time, Company M also sought a franchise opportunity from a Swedish sportswear brand – Casall. The purpose of becoming a franchisee of Casall for Company M was not only to complement the Brand N's collection, but also exploit the opportunity to learn from a leading brand. The imported items selected from the Casall's collections were marketed through the Brand N's retailing stores at a price 30-40% higher than Brand N's own collections.

6.4.4.3 Phase II part two - Launching Brand N and internal problems

With regards to Brand N's retailing outlets, Company M prioritised the type of the store-in-department-store at the early branding stage. In order to demonstrate the brand strength and benefit their negotiations with the targeted department stores, Company M firstly opened a flagship shop – an independent store - sited in the most popular trading area in Taipei. A publicity campaign was subsequently launched to increase the brand's public exposure and promote the brand recognition. The 'Lohas Festa 2006' was organized to promote Brand N through a public relations company at the end of 2006.

Local celebrities in fashion and design fields were invited, and the activity involved 19 brands from the other industries such as yoga, fitness, personal care, crafts, hotels and publications, which were related to or supported the concepts of Lohas. Several outdoor activities in terms of open market, yoga demonstration, music and dance performances, and fashion shows of Brand N's collection, were conducted. Since this was the first activity in Taiwan which combined fashion with Lohas, it attracted the attention of the mass media and was recorded in a book introducing the movement of Lohas in Taiwan.

The fresh brand concept and successful publicity stimulated sales and achieved a satisfactory result during the launch period. This hence facilitated Brand N's subsequent acquisitions of the retailing locations from two department stores - Far Eastern (Kaohsiung branch) and one Shin Kong Mitsukoshi (Taipei station branch). However, the good sales recorded during the opening period did not last since the merchandise was not strong. "There was a gap between the brand concept and the actual products", according to the observations made by the internal and external professionals (Ms. Chen - the Product Development Director of Company M,

10.01.2009; Ms. Pan - the Fashion Consultant, 07.01.2009; and Ms. Wei - the President of a local brand, 26.07.2008).

In spite of the fact that Ms. Ma was aware of the gap, limited improvements were achieved in closing this gap. This was because she could not recruit qualified designers to specialize in the creation of the Brand N product range nor allocate sufficient time to liaise with the design team to improve the product development. As Ms. Ma explained:

70% of my time was occupied in making the numerical analysis requested by the Managing Director, especially the return on investment which was required to be updated according to the reality. The rest of my time was used mainly in the marketing aspect. [---]. Although I was reminded and realized that the product was the root of the brand, I could not give sufficient attention at that time (07.01.2009).

Ms. Ma's predicament was caused by the fact that she was confronting the challenge posed by the Managing Director, who pursued a management approach employed by the parent company. This management approach prioritized the use of the numerical analysis and the careful financial control to monitor and check the business progress as well as to evaluate the business plan and work performance. Such an approach was successful in managing Company M's production business, but was not considered appropriate by Ms. Ma for managing the branded business, especially in the inception stage. This hence caused disagreement between Ms. Ma and the Managing Director within the organization.

Discrepancies occurred in the areas of personnel investment, stock management, decisions about retail locations, and both the appreciation and appraisal of the marketing activities. To the managing director, in order to avoid a high running cost and the problem in cash flow, maintaining a small operation team and promptly clearing the stock was essential in the early stage. To Ms. Ma, for a new brand like N, it was unwise to have their

merchandise being sold in the outlet stores. Furthermore, there were other tasks with higher priority than clearing the stocks at this inception stage, especially since there were insufficient professional staff. In order to quickly achieve economies of scale to reduce the unit cost of production⁹⁷, the Managing Director advocated that the increase of the retailing stores at the early stage should include the mediocre department stores and the inferior floor locations. But, to Ms. Ma, the image of a new brand was highly associated with its initial retail locations; it would be more difficult to shift the brand locations from the mediocre to the first-tier sites at a later branding stage.

With regards to the brand marketing, Ms. Ma felt that the most difficult part was to communicate with both the Managing Director of the subsidiary and the top-management team of the parent company. From the perspective of the top managers, they did not think that it was wise to invest a large amount of money in marketing activities early on when the products were not strong in the market. But to Ms. Ma, it was vital to start with the right marketing activities to promote the brand.

I had great difficulty getting them understand the marketing part – the right strategy and tactics. They had a shallow understanding about B2C marketing. For example, their understanding of a brand advertisement did not extend beyond the visual appearance. Since how the money was spent in the marketing activities would need their approval, I had to make great effort to convenience them. [...]. As a consequence, the compromised marketing strategy was quite different with what I had in mind. (Ms. Ma, 07.01.2009).

There was also a difference in the appraisal of the marketing activities between the Managing Director and Ms. Ma. Wu (2007) recorded this when assessing the outcome of the 'Lohas Festa 2006' activity. The Managing

⁹⁷ Company M established a special production team in Taiwan for manufacturing the Brand N's products. Due to the small quantity and high labour cost in Taiwan, the production cost of Brand N's styles was high.

Director evaluated the success by the immediate sales growth; but Ms. Ma emphasized the intangible accomplishments - the benefits obtained from the brand association by which the consumer connected Brand N with the established brands from the other industries, and the increased bargaining power that resulted from the brand exposure in negotiating with the departments stores when acquiring the retailing sites.

Based on the observation of Ms. Chang (08.01.2009), the former senior designer of Company M, who was assigned to support Brand N's design team on a short-term basis, besides the above discrepancies there were also the cultural adjustments for Ms Ma. Ms. Ma admitted that she had to spend a lot of time to understand the company after joining Company M.

I did not have a sufficient understanding of the corporate culture or the company's management approach before deciding to join Company M. This might have led to a misunderstanding of the expectations from both sides (Ms. Ma, 07.01.2009).

According to Mr. Tsai, the Manager of the Strategic Planning Office who attended all the major meetings regarding the development of their branded business, with hindsight the Company M's top managers concluded that:

We did not really understand how the branding operation in the large foreign companies was supported by a group of people having various kinds of expertise. After viewing the difficulties [of our branded business], we then realized that the people who had formerly worked in these foreign branded companies only had a certain part of branding knowledge. In the case of Ms. Ma, we thought she had the overall knowledge for branding. In fact, her strength was in the creation of brand concepts from a marketing perspective, so without the support of other professionals, her creative brand concepts could not work (18.08 2008).

He further concluded that (18.08.2008):

When our investment in the human resources was limited at the early stage of branding, every individual staff was expected to cover several responsibilities which included those beyond their expertise. Such work loading became difficult to manage and this hence affected their work performance. [...]. Our expectation for Ms. Ma to be able to be in charge of the comprehensive functions in the initial stages was based on a wrong judgment.

In the above context, the unsatisfactory sales results of Brand N further exacerbated the tension between the Creative Director and the Managing Director. In addition to the management discrepancies, Ms. Ma was then further challenged by the Managing Director in terms of questioning the pricing policy, brand positioning and the expertise of her team members. Due to the increasing conflicts, after Company M assigned the successors of the former sales and marketing managers, the Creative Director – Ms. Ma – also left in 2007 May. This was after the new venture had been running for fourteen months and six months after the launch of Brand N.

6.4.4.4 Phase II part three - Adjustments of Brand N and changes in leadership

After the departure of the Creative Director, in order to improve the brand performance, the Managing Director, Mr. Hung, introduced a number of new staff members, who had gained their experience working for the local brands and the franchised agencies. Based on their suggestions, adjustments were made to the collections, which included increasing the percentage of both the fashion casual wear and the merchandise in the bottom price range. These adjustments however did not generate a satisfactory sales result. The revenue of Brand N in 2007 was NT\$ 11.6 million which resulted in a deficit of NT\$ 47.5 million for one year.

According to Mr. Lien (14.01.2009), the Sales Manager who had twenty years' working experience in the local brands and joined Brand N at the beginning of 2008, the difficulties he encountered in promoting Brand N were the acquisitions of the appropriate retail locations and the lack of the competitiveness in price and merchandise. Despite the fact that Brand N positioned itself in the fashion sportswear market and its collections covered both active sportswear and fashion styles, most of the department stores categorized Brand N as an active sportswear brand. The zone for the active sportswear brands was conventionally allocated in the upper floor of the department stores which had fewer visitors compared to the ladies' fashion zone on the 2nd and 3rd floors. In addition, the floor space leased to the sportswear brands was much less than the space allocated to the ladies fashion and menswear brands. Such limited space was preferentially leased to the international sportswear brands, such as Puma, Fila, Adidas and Nike, especially in the first-tier department stores. Brand N having the lower brand awareness and less comprehensive product ranges could hardly compete with these strong brands. This therefore hindered the expansion progress of Brand N's retailing stores.

In the price and merchandise level, although consumers were informed that Brand N's materials were comparable to the above international brands, they would not expect to pay the same price for Brand N's merchandise. Despite understanding that setting a lower price range could give the consumer more buying incentive, however, Brand N could not afford to further reduce the price. Since they could not achieve the economy scale for production by a small growth of the retailing outlets, the unit cost of the production could not be decreased. This hence formed a vicious circle for Brand N. Another unfavourable fact about the merchandise which affected the sales performance was the range of garment sizes offered. This also arose due to the need to control production costs and no immediate improvement could be made. Brand N provided only three sizes which were

not targeted to consumers aged between 30 and 40. This hence limited the size of their potential consumer group. In addition to the above limitations derived from the cost factor, Brand N also encountered increasing competition. There were more competitors in the market providing active sportswear in the same sport categories as Brand N covered, which included the international sportswear brands and a number of small local brands. The latter marketed their branded collection through the networks of fitness centres or yoga classes.

Since the expansion of the stores-in-department-stores was not as smooth as anticipated, Mr. Lien was requested to start consigning goods via the fashion shops and boutiques in the second tier cities. Although this measure was taken in order to increase the total sales volume, the consignment selling methods was considered to have a potentially adverse effect on the brand image in the long term. Therefore, their consignment operation was only conducted on a limited scale.

One year after the new brand adjustments had been made by the Managing Director, in addition to the independent store, Brand N had five stores-in-department-stores and eight selling points in the consigned shops. In spite of hiring a brand spokesperson who was the popular host of a local travel programme to promote the brand awareness, the overall sales performance of Brand N was, however, still low. Furthermore, “the brand image was blurred” (Tsai, 18.08.2008). In the light of these unsatisfactory results, Company M decided to make a further change in the leadership.

Mr. Wang, one of the Vice Presidents and also the Spokesman of Company M, was assigned to take over the responsibility of Mr. Hung in July 2008. In addition to the role of spokesman, Mr. Wang’s previous responsibilities in Company M included being in charge of the IT division as well as the logistics and operation division. Before joining Company M, Mr. Wang was

the head of the product development department of a large Taiwan computer company, in which he also attended to the OBM development from an ODM model. He was also the key top manager in Company M who promoted the idea of developing the OBM.

Mr. Wang's first attempt in running Brand N was to increase the salability of its merchandise by introducing experienced designers, but this measure failed due to the scarcity of the available expertise in Taiwan. In addition, an attempt was also made to reduce the running cost. The size of the flagship store was hence reduced and the number of consignment stores was increased to eleven.

To improve Brand N's business performance, Mr. Wang also actively sought opportunities to acquire the established brands in the active sportswear field. According to Company M's original branding plan, Brand N would achieve a break-even point and further expand to the China market three years after the launch. In fact, the learning curve for establishing the own branded business was longer than expected. To reduce the learning time and resume the original branding schedule, more investment was required. However, as a result of the decline in their export business in 2008, Company M did not increase the investment in Brand N. It was then decided that acquiring an established brand with proven competencies could be a shortcut for Company M to enter the China brand market.

A small Taiwanese company, which started with the production of yoga accessories in 2000 and had developed a recognised brand for yoga apparel and accessories, was hence selected and studied. The branded products of this small company were targeted at a higher end market than Brand N, and had already been marketed to fourteen countries. This merger was also considered as a supplement to Brand N in terms of market level and company resources. Nevertheless, this investment did not work out.

After having been involved in the brand operation for three months and gaining the insights into the Brand N's difficulties, Mr. Wang recognized that the bottle-neck of Brand N could not be overcome by Company M's existent capacity. Mr. Wang hence discussed the matter with President Chou and then proposed to hold back the brand expansion in 2008 September and trim down the branded business. By the end of 2008, the deficit of Brand N for the year was NT\$ 42 million. As a total, the accumulated deficit of Brand N from the start to the end of 2008 was NT\$120 million.

6.4.4.5 Phase III - Creation and development of the 2nd Brand - O

At the end of 2007 – one year after marketing Brand N - Company M launched its second brand, that being O by e-tailer. The creation of Brand O was initiated by the design leader of the export division – Ms. Chen, Director of Product Development Department - and facilitated by President Chou. Since most of the export designers had only limited industry experience before joining Company M, their designs could not initially meet the production and market requirements. The decision to have the second brand designed by the export design team was rationalized by providing them a practice opportunity.

This opportunity could cultivate the export designers' competencies in terms of having a better understanding of the linkages between the products, its brand philosophy and the consumer. When providing the design service to our branded customers, our export designers would then have the better knowledge to meet the customers' requirements (Mr. Tsai, 18.08.2008).

Since sleepwear and loungewear was one of the Company M's major product categories, and there were no brands for such products, in Taiwan, unlike the case of Japan and the USA, Ms. Chen and the other two export

designers hence had the idea of creating a branded sleepwear and loungewear collection for the local young women. They then made reference to a collection in the USA - Victoria's Secret Pink line, followed by study trips to Japan, assigning a consumer study to a market research company, and commissioning a pioneer design project to the students of the Shih Chien University. After subsequent evaluation and preparation, Ms. Chen and her colleagues developed Brand O. This brand projected a young, sweet, and romantic image and was targeted at the female college students and career women aged from 18 to 25.

In order to meet the prerequisite set by President Chou - lowering the branding cost as much possible - Brand O was initiated using the stock fabric remnants left over by the export production division and put on a six-month trial sale through five commercial websites. In this trial period, only 5 -10 pieces per style were produced. Members of a new singing group were appointed as the brand spokespersons, who later became a popular girl group and this increased the brand awareness of O. Due to the encouraging result of the market-test, Company M then decided to increase its investment in Brand O and opened the physical stores in addition to the distribution channel of e-tailer.

The subsequent development of Brand O was mainly led by the designers. A salesman with local retailing experience and a production staff member were recruited and they were assigned to the design team at the initial stage. In order to ensure the that the store atmosphere matched the brand image and conveyed the brand message to the consumer, Ms. Chen and her design colleagues were made responsible for the store interior and display props design. 40-80 new styles at the price range of NT\$ 780 – 2,000 per set were introduced to the stores per month. Single size and 50-100 pieces per style were produced. By September 2008, Brand O had five retailing stores in the metropolitan cities of Northern Taiwan and these were mainly

concentrated in Eslite Mall – reputed to have the various characteristic brands which represented the corresponding modern lifestyles.

In addition to the increase in inventory costs generated by operating the physical retailing stores, the cost advantage of exploiting the stock fabrics left over from the export production was no longer able to match the increase in the scale of labeled goods production due to the insufficient quantity and inadequate quality of the stocks. Brand O's market position was therefore challenged as a consequence of the increase in running costs. Despite the fact that such a challenge was anticipated by President Chou and brought to the attention of the designers at an early stage, the designers could not come up with an adequate solution which could maintain the profit level without sacrificing the merchandise quality and altering its price.

In spite of having distinct brand features and no other competitors in the branded market, Brand O's first year turnover – NT\$ 12.5 million – was however unsatisfactory. Since the operation costs were lower, Brand O's deficit in the first year was not as big as that of Brand N, i.e., NT\$12.5 million by the end of 2008. Both the sales manager and designer leader - Mr. Lien (14.01.2009) and Ms. Chen (10.01.2009) - agreed that the preferences of the local consumers adversely affected the sales of Brand O. Since only a minority of Taiwan consumers were particular about sleepwear and loungewear, Brand O collections were more readily accepted in the metropolitan areas. This limited the consumption and affected the sales performance of Brand O. Additionally, according to Mr. Lien (14.01.2009), from the sales point of view the price range of Brand O was too high and this deterred the potential consumers from buying. However, lowering the price range without sacrificing the merchandise quality was not an option until economies of scale had been achieved. These difficulties affected Brand O sales performance and two retail stores were closed by the end of 2008.

6.4.4.6 Phase IV - Retreat and closure

In October 2008, there was a change in the organization of Company M. In order to integrate the branded resources, Brand O and Brand N were merged into one division and managed by Mr. Wang who had earlier taken management responsibility for Brand N. In view of the fact that Brand O continued to experience disappointing sales results and hence the deficit was growing continuously, Mr. Wang came up with the retreat ideas.

His first idea was to split the management of the Brand O business into two parts and join forces with a partner having the necessary resources and expertise in retailing and marketing. Company M would concentrate only on the branded design and production sectors by exploiting the competitive advantages supported by Company M's core business. Such cooperation would include introducing the brands into the China market. His second idea was to start the ODM for the branded companies in Taiwan and Japan by using the developed capacity in branded design. Both of the ideas were implemented, however neither was fruitful.

In February 2009, Company M closed down the retailing operation of Brand N, followed by that of Brand O in the following month. According to Mr. Wang (10.01. 2009), the total loss incurred from the investment in branded business was around NT\$ 150 million over a period of three years.

6.4.5 Insights into the transition

6.4.5.1 Mindset and corporate culture

In spite of the fact that the vision of initiating the OBM for sustaining and strengthening their business was from Company M's top managers, the accomplishment of this vision was limited by the mindset of these same managers. Most of the interviewees pointed out that Company M's top managers' mindset arising from their experience in their core business model was unsuitable to foster their brand business.

According to Mr. Wang (10.01.2009), the main reasons he proposed a termination of their present branded operation and reached a consensus with the other members of the management board were not only because that the allocated finances had been used up and no more financial injections were considered in view of the large drop in profits of their export business in 2008; but more importantly because the attitude of the senior managers could not easily be changed.

Their experience had led them to understand the concrete side of branding and facilitated them to handle the tangible matters, but had simultaneously hindered them from perceiving and managing the intangible side of branding. This mental inclination was not only reflected in the behaviour which was reported in Section 6.4.4.3, but also in the attitude towards the brand investment. This perception emphasized the profits gained from the branded products on a short-term basis rather than from the brand image established by a long-term investment, as pointed out by Ms. Ma (07.01.2009). The top managers' purely financial approach to branding was also reflected from the statement made by Ms Chang (08.01.2009):

In all the brand meetings with the top managers we designers attended, the concern was always the unit cost control and the targeted sales figures. The top managers, especially President Chou, did not discuss or share their views about branding beyond the financial perspective with us. It seemed to me that the value and significance of the brand creation and development in Company M was only for making money but nothing else.

As one of the key top managers, Mr. Wang saw the difficulty of changing their mindset since it had developed in the previous business environment and had proven to be beneficial to their core business. The mindset of the company's decision makers together with the corporate culture exemplified by this mindset made it difficult to nurture a healthy internal environment within which to create the brand business, as judged by Mr. Wang after he had handled their branded business in the last stage.

As I understand, the mindset of our top managers would be very difficult to change. [...]. I would disapproved any future investments for branding unless this branded development was managed independently by the other companies which had a different mindset from ours (Mr. Wang, 10.01.2009).

The fashion consultant, Ms. Pan, attributed this mindset to the production-oriented thinking. She anticipated some difficulties might arise as a consequence and hence reminded the management team in advance. She invited several local brand owners and managers to give talks in Company M before the branding programme began. However, with hindsight Ms. Pan was surprised to see that the effect of knowledge transfer was very limited and the difficulties were beyond her expectation. As explained by Mr. Wang:

There were the perception gaps. We did not really understand their concern and advice at that time (10.01.2009).

Ms. Pan's hindsight was that:

Despite having the idea of developing OBM for about two years, Company M was not yet ready to initiate the OBM in terms of having an appropriate mindset at the top management level (07.01.2009).

6.4.5.2 Product strategy and implementation gaps

Besides the internal branding environment, the competitiveness of the Brand N products was also regarded by Mr. Wang as the major part of the bottleneck which could not be overcome by Company M's existent ability. This was because, unlike the Brand O the product strategy of Brand N was not geared to Company M's production strength. Despite being interested in entering the active sportswear market and developing a pilot collection before starting Brand N, however, Company M's garment technology in active sportswear was not sufficient to support Brand N's product development and production. Furthermore, the attempt to obtain the expertise to transfer the necessary related knowledge through the personal contacts of Ms. Ma also failed.

As a consequence, despite the fact that Brand N's products were versatile in the sense of incorporating fashion and function, the functional performance of the Brand N's merchandise as a requisite was not as strong as it should have been. This further widened the gap between the brand concept and the actual products which arose as a result of the absence of the qualified designers and the attention of the Creative Director. Despite the fact that Company M could make reference to the franchised collection of Casall and apply to join the R&D projects of the TTRI for high performance active sportswear, the gap could not be bridged in a short period.

As for Brand O, despite the fact that its branded products exploited the production strength of Company M in terms of product category, the quantities which were limited by the small number of target consumers could

not benefit from Company M's existing manufacturing capacity. Their production lines were set up for the production of large orders. The production of the small quantity of Brand O's collections in their production lines would be too costly. In other words, the production resources of Company M made only a limited contribution to their two brands.

6.4.5.3 Reciprocal effects between the export and branded business

Since the OBM history of the Company M was only three years, the influence from the branded business on the export business was limited. Increasing the design competence in ODM was one of the major purposes of initiating the OBM by Company M; however, the benefits from the branded design to the export design were not particularly significant in Brand N. There was no interaction between the Brand N and the export business models except for the fact that few export designers were assigned to support the Brand N's design team for a short period in the initial stage. In the case of Brand O, since the brand was created and led by the export design team, the export designers benefited by being directly involved in the branded operation. These benefits were mainly the increased understanding of the consumer market and the linkage between the brand concepts and branded products. According to the head of the export design team Ms. Chen (10.01.2009), the export sales team also benefited by closely observing the operation of Brand O. They hence had a better understanding of the viewpoints of their export customers and gained insights into their order requirements. However, these benefits ended when Brand O's operation was unexpectedly terminated within one year.

There was more influence from the export business on the branded operation. This included the influence reported earlier – i.e., the top managers' mindset, corporate culture and production resources - and the

acquisition of the retailing channels. From the perspective of acquiring the distribution channels, the two brands benefited from Company M's background as a public and reputed company in terms of providing the financial credibility, however this background did not help them to acquire prime retail locations from the department stores, especially the first tier department stores. According to the Sales Manager Mr. Lien (14.01.2009), in most of the cases, the department stores were willing to offer temporary retailing locations for a trial period; but since the sales of their brands were unsatisfactory during the trial period, Company M could not extend these agreements on a long-term basis.

6.4.6 Analysis and interpretation

6.4.6.1 Significance of the case companies in GACC

In this case study, the case company was set up in the period when Taiwan lost its cost advantages in clothing production. It was also the same period when Taiwan began the promotion of the industrial upgrading. The governmental agencies, such as CETRA and TTF, started their promotion of transferring the export industry from OEM to ODM and the local textile industry initiated the development of the high value added and innovative products (see Figure 5.8 and Section 5.3). The changes of the local economic and industrial environments were not in favour of the case company which positioned itself in the export market by an OEM model. As was the case with most Taiwan clothing manufacturers, the case company adopted a strategy of outward production investment in the low-cost countries and maintained its headquarters in Taiwan to manage the other major business functions. Their growth - from a SME to a large listed company in the environment of reducing domestic production - was unique in the Taiwan clothing export industry. Furthermore, it demonstrated how a Taiwan clothing company exploited the predecessors' advantages to seize the emerging opportunities from the GACC by overcoming the limitations of the decentralized production sites and increasing its added-value in the supply chain.

Their export achievements could be attributed to their business strategies mainly supported by the leaders' values and vision. These strategies started from the market concentration on the large USA retailers - the key drivers of the GACC - in the low-priced mass market, followed by the development of the core competencies catering to the changing needs of these retailers. Their needs were not only the posed challenges but also the emerging

opportunities to their suppliers in the GACC, which were the reduced costs, a reliable supply chain which was fast and flexible, and product design for their own private labels. The case company responded to these needs by increasing their organizational learning capacity, agilely adjusting their production sites according to the changes of production cost and quota regulations, effectively utilizing the updated e-applications in production and communication, and developing the functions in material sourcing and product design – the ODM competencies. This resulted in the success of their export business consisting of a sole OEM model in the first twelve years (1990-2002), and a subsequent juxtaposition of the OEM and ODM modes from 2003 to the present.

6.4.6.2 OBM opportunities and vision

Unlike the progression from OEM to ODM, the development of OBM in the case company was unsuccessful. Their ideas for developing the ODM and OBM were simultaneously promoted when the case company was in danger of losing competitiveness in the GACC after the cessation of quotas in 2005. However, the OBM initiative was regarded more as a development of a second driving force which could generate a new business growth for the case company. In contrast to the ODM, their OBM opportunities were not supported by the opportunities emerging from their customers in the GACC but created and recognised by the case company from the domestic consumer markets – the niches from the diversified consumer lifestyles. The creation and recognition were facilitated by participation in the governmental project, recruiting branding professionals, and exploiting the local textile advantages and their own export resources.

Despite targeting the different markets with different products from their OEM/ODM business models, the development of the OBM was rationalized

and also regarded by the case company as being potentially beneficial to their OEM/ODM business. However, due to the short duration of the case company's OBM operation, the above point was difficult to verify. Since the ODM stage was achieved only three years prior to OBM, how the competencies or vision cultivated in the ODM stage would facilitate or affect the OBM development was also difficult to detect in this case.

Although their OBM did not last, the case company's vision in starting their OBM from the domestic market corresponded with the analysis of the market incentive in Section 5.5.4.5. In this analysis, it was indicated that after 2000 the large Taiwan export-originated companies were inclined to consider the small home market as a test market to achieve the essential competency for branding in the China market.

6.4.6.3 Branding environments in the socio-economic context

The extension to the OBM in this case was in the second half of 2000s, by which time the Taiwan local fashion market had already been both open and diversified for more than 15 years. Based on the findings of this research (Chapter five), by this time Taiwan had already experienced slower economic growth and adapted to the five-day working week. The latter brought about changes in the citizens' leisure activities and led to the increasing popularity of branded sportswear. In addition to the promotion of the indigenous design awareness from the beginning of the 2000s, a number of governmental plans for assisting the domestic companies in brand development were also introduced and successively expanded around the mid-2000s. The requisite environments for branding were therefore continuously improved in terms of consumer education, legal aspects and human resources. In spite of these positive aspects, the branding competition in the local branded market was also getting more

severe. In contrast to the more open China retailing market which attracted increasing investment from the Taiwan local brands, the Taiwan local branded markets were crowded by the foreign brands and the branded retailing channels were increasingly dominated by the powerful chain and department stores.

In the above socio-economic context, the case company's two own brands experienced different external branding challenges. The fashion sportswear brand (N) encountered the following challenges:

- Recruitment of qualified designers;
- Market competition from the strong international brands and the emerging local brands; and
- Obtaining the appropriate retailing locations.

The difficulties of obtaining the appropriate retailing locations not only resulted from the department stores' tendency to favour the imported brands, but were also caused by the dilemma which arose as a result of the brand positioning. The external challenge to the brand of sleepwear and loungewear (O) was mainly the dressing habits of the Taiwan consumers and this limited its market expansion.

6.4.6.4 Challenges inherent in the differences of the business models

The case company's expansion from a juxtaposition of the OEM and ODM models to an OBM model involved the following major differences:

- Business operation changed from B2B to B2C;
- Targeted market changed from the USA to the domestic market; and

- The value creation activities expanded from only the production and partial design in the clothing supply chain to the entire brand chain.

In the case of the fashion sportswear brand (N), there were also the differences in the product specialization and the requested quality level. Both the design/production know-how and quality content of the branded collection were beyond the case company existent operation capability for their core business – the exports for the USA low-priced market.

All these differences subsequently posed two immediate challenges for the case company when starting their OBM:

- Acquiring the necessary knowledge for conducting the brand creation and development. This included knowledge of the local consumers, product development and production, retailing operations, brand operation and management, and consumer marketing; and
- Establishing retailing channels and obtaining the appropriate retail locations.

Furthermore, it was identified that the mindset of the top managers and the corporate culture influenced by their entrepreneurial experience in the export business was another inherent challenge to implement the OBM.

6.4.6.5 Strategic operation and its shift

In this case study, the OBM development of the case company ended during the early branding stage – two and a quarter years after marketing their first brand and one and a quarter years after launching their second brand. The characteristics of their strategic operations for developing OBM featured a

multiple-approach along the OBM path, which included the ways of possessing the own brands, a collateral operation of franchised retailing, the launch of the second own brand, and the operation of multiple retailing channels. In addition, there was a shift from the experienced, executive-led at the starting stage to the sales, performance-led management style at a later stage. When bottlenecks were encountered, the case company confined itself to the functions of design and manufacture and resembled an ODM model.

Their operational features exhibited that, despite the financial advantages of the listed company, the knowledge gaps and misconceptions at the outset of the upgrading process affected their brand building progress. The financial strength of the case company was a matter of high priority for the financial performance of their business operation. This had consequences for the investment in the introduction of their first brand into the market, the high mobility of the top executives and the short history of their branded business.

The perception and knowledge gaps which hindered the OBM development in this case stemmed from two dimensions – product and management. The product gaps were mainly in the design and production knowledge and resulted from the disparities between the adopted brand strategy of their starting brand and the company's competencies. These disparities could not be further narrowed due to the lack of expertise. The management gaps were created by the differences in the business models and value creation activities but further widened by the collective mindset of their senior executives sharing the same export production experience.

Despite the fact that the case company initiated their branded business by introducing a group of new staff with the related background, it was found that the case company's branding knowledge and competencies were not transferred efficiently. This was not only due to the short duration of the

case company's OBM history, but also because the top executives lacked an adequate understanding of branding. Since there was effectively an unequal balance of power within the organization – i.e., the newly recruited managers (including one executive) who were knowledgeable about branding, and the senior executives responsible for resource allocation and making decisions, the new managers exerted insufficient influence over the nascent brand operation. As a result, the corporate environment was unfavourable for the launch of the new brands and key staff members, who had been recruited at the inception stage, departed.

There was no substantial development in organizational learning and limited benefit arose from 'learning-by-doing' since the OBM stage was of such short duration. Few improvements in the top executives' attitudes towards managing branding were detected during the OBM stage. The perception gaps derived from the collective mindset of the top executives which hindered the cultivation of a new brand were not identified until the very end of the OBM stage. These developments revealed an impasse learning situation in the case company, in which the primary causes of these one-way loops were the scarcity of the required experts and the collective mindset of the top executives.

The former cause – scarcity of experts - related to the limited pool of potential people outside of the company. Despite the fact that functional textiles had been promoted by the Taiwan government since the early 2000s and became the key strength of the local textile industries, the application of those fabrics to high performance active sportswear was supported by the related governmental agencies from the middle of the 2000s on a small scale (see Section 5.3.1.3). Limited knowledge and available expertise for the development of active sportswear garments was available in the local industries at the time when the case company undertook the upgrading to its OBM. The difficulties which this limitation would create were only partially

understood by the case company when their branding direction was determined.

The latter cause – the collective mindset of the top executives – stemmed from their long experience in export production in the GACC and its influence on the development of their own business was both profound and negative in this case. As discussed in Section 5.5.4.5, the knowledge and experience gained by the TTC export companies were limited by the mid-end business activities of the branded clothing value chain – i.e., product-centered areas. This limitation tended to confine their understanding of and insights into the entire value creation activities for fashion branding. It further prevented their full comprehension of the prerequisites for supporting such activities. The findings from this case confirmed the above inference and further disclosed that the intangible value creation in the branded marketing was the major blind spot which had resulted from this collective mindset.

6.4.6.6 Challenges and complexities

Although the case revealed the many challenges encountered by the company when embarking on the OBM path at the primary branding stage, their subsequent implementation from 2005 to 2009 was when the identified phenomena of relevance were most evident. In this case, the challenges posed in the stage of brand creation/launch continued into the subsequent phase and remained unsolved. The difficulties encountered led to the ultimate closure of the case company's OBM business.

These formidable challenges were found in seven specific areas which were:

- Brand positioning;

- Product development;
- Internal experts;
- Choices of retailing channels and locations;
- Economies of scale for production;
- Sales performance; and
- Management approach.

The above areas originated from the interaction of the inherent challenges faced by changing the business models, the external branding challenges posed by the various socio-economic environments, and the strategic operation adopted by the case company to cope with the above-mentioned challenges. The analysis further indicated that, of all the external branding and inherent challenges, acquiring know-how/expertise had the most interrelations with the specific challenging areas and the mindset/corporate culture had an exclusive relationship with one specific challenging area - management approach. The seven specific challenging areas as the consequence of the above interplay further interrelated with each other, and this hence increased the complexity and difficulties entailed in tackling the challenges posed for the case company.

Complexity of improving the short-term business performance

Of the seven specific challenging areas, the four areas – product development, choice of retailing channels/locations, economies of scale for production, and sales performance – directly determined the short-term business performance; and the three areas – internal experts, product development, and choice of retailing channels/locations - were the key fields which required a long-term investment from the case company. The overlapped two areas – product development and choice of retailing

channels/locations – sustained both of the long-term and short-term interests and hence created predicaments when these two interests conflicted, especially the choice of retailing channels/locations which interwove with the most areas. These two dilemmatic areas were further subject to the fundamental problems, difficulties and gaps arising from the other three areas – internal experts, brand positioning, and management approach. These fundamental problems, difficulties and gaps were not only the product/management gaps and the inefficiency of the knowledge transferred into the organization discussed earlier, but also the incomplete knowledge introduced and the marketability associated with the developed brand positioning.

Ultimately the complex and interlocked relations resulted in difficult conditions in which the short-term business performance prioritised could not be easily improved by the case company.

Incomplete knowledge acquisition

In the case of the first brand (N), the acquisition of the necessary knowledge for brand creation and development was by stage. It shows that the new knowledge was not adequately provided in a comprehensive way. The front-end and back-end branding knowledge – i.e., the brand creation, and branded marketing/retailing - was acquired in the inception stage from the recruited professionals, who had gained their branding expertise when working in branch companies of the overseas brands. The middle-part brand operation know-how – i.e., design and quality production - was however not successfully obtained or intensively developed during the OBM duration. Despite the fact that the case company successfully acquired the necessary front-end knowledge – which was identified as the weakness of the fashion branding knowledge in the local industry in Section 5.5.4.5 – and

hence made an impressive market entry, the absence of the product knowledge resulted in a major weakness of the branded collections – a distinct product gap which neither ensured the requisite quality nor matched with the promoted brand concept. Such a weakness was regarded by the case company as a bottleneck which could not be easily overcome, and this became one of the key reasons for ending the brand operation.

In addition to the unobtainable product knowledge of active sportswear, the case company could not recruit a top manager with comprehensive understanding of the whole branding operation. As revealed in Section 5.4.2.2, such an expert was rare and often unavailable in the domestic workforce. Since the top executives of the case company lacked sufficient understanding about how the various expertise and competencies functioned and integrated in an overall fashion brand operation, they misunderstood the competencies of the recruited executive and managers. This however led to an inadequate allocation and deployment of human resources from the inception stage and hence affected their branding progress considerably.

Marketability associated with the developed brand positioning

Despite the fact that the brand positioning developed by both brand N and O offered the advantages of market entry since they were the first local brands of these niche markets, several inherent difficulties were associated with their positioning.

In the case of Brand N, the difficulties were derived from the 'cross-over' collection which was built on the emerging needs of the career ladies. However, the brand appeal served to increase the complexity of the product development and did not exploit the resource advantages of the case

company as a large clothing manufacturer in the GACC. The 'cross-over' branded collections further led to a predicament in the retailing locations confined by the existing classification of the retailing zone in the department stores. Such a predicament could be improved if the case company had developed its own independent stores as the primary retailing format instead of choosing the store-in-department-store option, at least at the early stage of branding. Nevertheless, this alternative would not only have increased the company's investment in branded business, but would also have failed to improve the sales performance to any significant degree, since the problems encountered in the product development could not be solved due to the departure of the key personnel responsible for both and brand positioning development.

In the case of Brand O, the marketability problems derived from the developed brand positioning mainly arose as a consequence of the dressing habits of the local consumers. In addition, despite the fact that the company did not experience problems in the product design for Brand O and took advantage of the case company's existent production strength, there was the potential threat posed by the low entry barriers in the design and production how-how. The above problems associated with the brand positioning affected the marketability of two brands and were not promptly detected. This hence added to the fundamental difficulties which influenced the short-term business performance and incentives for long-term brand investment in this case.

6.4.6.7 Governing factors and their impact upon decisions and actions

Through a further analysis made in the major decisions and actions taken during the implementation of OBM in this case, five governing factors were

identified, i.e., the vision and aspirations of leaders, resources, competencies and knowledge, retail channels and locations, and management approach. The consequent decisions and actions of these governing factors further impacted on six dimensions of the case company's OBM, i.e., market entry strategies, brand strategy, sales performance, brand image, brand competencies, and business sustainability.

Of these five governing factors, the resources had the most extensive impact over the six dimensions in which the three dimensions - brand competencies, market entry strategies and brand strategy – were particularly prominent. The employed resources were mainly the substantial finance and the human resource namely the executive managers and the designers for the second brand. These resources were developed from their export production business in the GACC and had both favourable and unfavourable influences on their OBM development. The governing factor - competencies and knowledge - were the weakness pending the case company's OBM implementation and this adversely affected the two dimensions - the brand strategy and brand competencies. The governing factor - retail channels and location - had a widespread impact except in the case of the dimension of the brand competencies.

The other two governing factors - vision/aspiration of leaders and management approach - had a marked impact on the dimension of business sustainability. The former also had a considerable impact upon the dimension of the brand competencies. Both of these governing factors were highly related to an inherent challenge identified from the case company - the mindset and the corporate culture, which were unfavourable to the provision of an internal environment in which to nurture the new brand development.

Chapter 7 Phase II Part Two - Cross-case Analysis and Synthesis

7.1 Introduction

This chapter presents the second stage analysis of the phase-two investigation – the cross-case analysis – and the subsequent development of an across-case synthesis. Aiming at building abstraction across the studied cases, the cross-case analysis was carried out in an inductive and comparative way as indicated in Section 3.4.4.5. The analyzed results were structured as follows:

- Business background of relevance (Section 7.2);
- OBM initiative and associated challenges (Section 7.3);
- Strategic operation for overcoming the OBM challenges (Section 7.4);
and
- Primary influences from the macro environments (Section 7.5).

The results of the cross-case analysis were further integrated with the findings drawn from the literature (Chapter Two) and the phase one investigation (Chapter Five). These integrated findings were then used to construct an across-case explanatory framework as shown in Section 7.6.

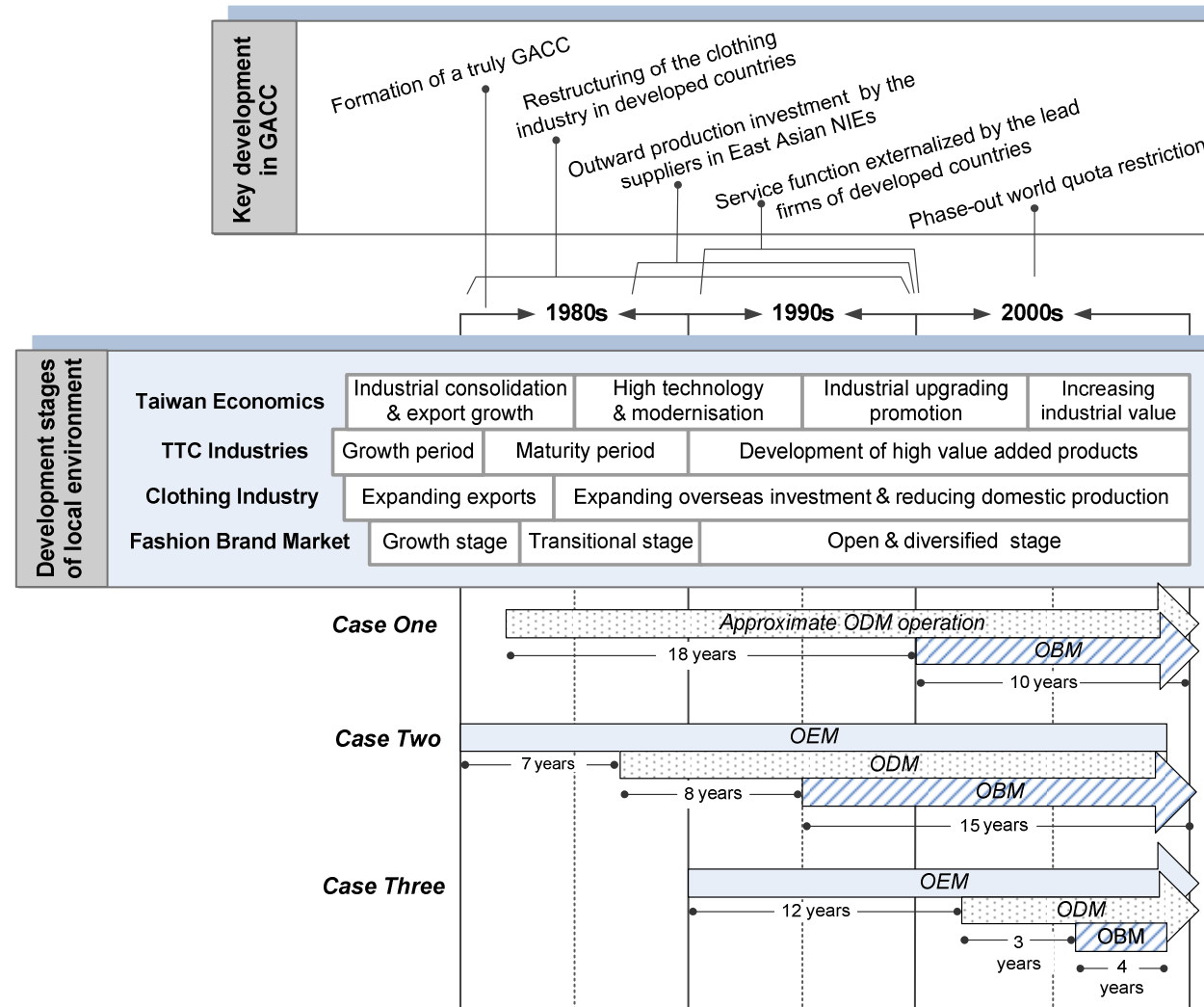
7.2 Business background of relevance

The major emphasis of this part of the research was to compare the studied phenomenon in its embedded background between the studied cases. However, there were the two basic differences in the background of the cases – i.e., the investigated events in the studied cases occurred over a wide range of time and the individual cases had developed their own distinct features in their internal environments. In order to facilitate comparison on the same basis, the similarities and differences in the business backgrounds of relevance between the studied cases were first distinguished and they are presented in the following sub-sections. In these sections, the relevant backgrounds were compared according to the business-engaging periods in the macro-environments; the value chains, markets and customers involved prior to the OBM stage; as well as the inherent features in the company's internal environment.

7.2.1 Business-engaging periods in the macro environments

As shown in Figure 7.1, the inception and the duration of time in which the case companies implemented their OEM, ODM and OBM models are juxtaposed and connected to the macro-environments of relevance. In this diagram, the representations of these macro-environments are compendiously marked by both the key development of the GACC (condensed from Chapter Two) and the development stages of local environments (quoted from Chapter Two and Five).

Figure 7.1: Evolution of business models of the cases in the macro-environments



It may be seen that two SMEs (Case One and Case Two) were similarly engaged in participating in the GACCs for a period of nearly three decades. Their involvement started at the beginning of the 1980s when a truly GACC had just formed (see Section 2.4.1) and at the time when the TTC industries were in their growth and expanding exports periods. Their difference was in the business models which they initiated, of which, the Case-one Company started with an approximate ODM operation model (without own production) whereas the Case-two Company began with an OEM model. With their design capability, the Case-one Company has maintained the same business model in the GACC ever since; Case-two Company, seven years after implementing the OEM model, subsequently extended to the operation of the ODM model during the late-1980s when Taiwan began losing his production advantages.

Case Three, being the only large enterprise studied in this research, had a comparatively shorter history of participation in the GACC - i.e., nearly two decades. Their involvement in the GACC began in the 1990s when the lead firms of developed countries started to externalize the service function of global sourcing and production to their core suppliers (see Section 2.4.2) and this was also the time when the local industries expanded their overseas investment and reduced their domestic production. Against this background, the Case-three Company took a different business approach from the other two case companies who were in the meantime placing emphasis on fostering design capability. The Case-three Company channelled their investment into developing the related competencies for managing the dispersed global production, with the result that they remained at the sole OEM stage for the longest period (12 years) of all three cases before adopting their ODM model.

The three case companies all commenced their OBM business engagement at the open and diversified stage of the Taiwan fashion brand market

between the mid-1990s and the late-2000s. The length of time of the engagement varied case by case and the OBM business which each developed was at a different branding stage by the time when this research was conducted. The Case-two Company was the earliest entrant and their involvement the longest – i.e., 15 years. They were also the sole company to extend their branding programme beyond the local market by direct retailing. Both the Case-one and Case-three companies started their OBM in the 2000s and had ten and four years of implementation respectively. The interval between the start of ODM model and the initiation of OBM model was rather short for Case-company Three - i.e., three years - compared with the 18 years in Case One and 8 years in Case Two.

In all the three cases the business-engagement periods using the different business models appeared to overlap. This indicated that the income from their export business remained a stable and essential resource for the transformed companies during the OBM implementation since their extended OBM business was still in deficit and required continuous financial support. This observed overlapping phenomenon was particularly significant in the longest case - Case Two, in which the phenomenon lasted for 15 years and ceased when the company could no longer compete on the basis of their OEM/ODM models. This overlapping phenomenon not only supported the literature findings in which the upgrading to the OBM stage was referred to a strategic extension of their OEM/ODM models (see Section 2.5), but also led to a further identification of the reciprocal effects between the different business models (see Section 6.2.5.3, 6.3.5.3 and 6.4.5.3). These reciprocal effects revealed from all of the three case studies showed a positive result which both confirmed that developing the OBM from the home or regional markets did not threaten their relationships with the linked lead companies of developed countries (see Section 2.4.3 and 2.5), and also indicated how the existing resources derived from working in the GACCs could be of considerable advantage to their OBM business.

Nevertheless, there was also a disadvantage identified in Case Two, which was that the limited human resources of a SME shared by the different but co-existing business models considerably affected the performance of their export business. This hence forced the case company to abandon their diminished export business.

7.2.2 Value chains, markets and customers involved prior to OBM

Being important components of the contextual environments which directly related to the initiation and implementation of their OBM upgrading, the value chains, markets and customers of the individual case companies prior to the OBM stage were summarized and are compared in Table 7.1.

Table 7.1: Comparison of the value chain, markets and customers prior to the OBM stage

		Case1	Case 2	Case 3
Roles & position in the value chains		<ul style="list-style-type: none"> Intermediate product supplier with full design competencies 	<ul style="list-style-type: none"> Transnational knitwear manufacturer with partial design competencies 	<ul style="list-style-type: none"> Large transnational garment manufacturer with partial design competencies
Markets	Price ranges	<ul style="list-style-type: none"> Mid-to-upper 	<ul style="list-style-type: none"> Mid-to-low 	<ul style="list-style-type: none"> Mid-to-low
	Main markets	<ul style="list-style-type: none"> Highly concentrated in the USA 	<ul style="list-style-type: none"> West Europe & the USA 	<ul style="list-style-type: none"> Highly concentrated in the USA
	Local market	<ul style="list-style-type: none"> Continued with a small portion 	<ul style="list-style-type: none"> Limited involvement 	<ul style="list-style-type: none"> No involvement
Customers	Types	<ul style="list-style-type: none"> Branded fashion companies Large trading companies 	<ul style="list-style-type: none"> Fashion importers Fashion retailers Branded companies 	<ul style="list-style-type: none"> Highly concentrated in a small number of large retailers
	Lead firms had linked with	<ul style="list-style-type: none"> Liz Claiborne Espirit Express Itokin 	<ul style="list-style-type: none"> C&A Macys Saks TJX 	<ul style="list-style-type: none"> Kohl's Target; Old Navy J.C. Penney

As indicated, Case One shared different features with the others in terms of the role and position in the value chains, price ranges and the involvement in the local market. Unlike the other two companies producing finished garments for the branded companies and retailers of developed countries, Case-one Company was in the middle segments of the supply chain and supplied the material directly or indirectly to the branded fashion companies of developed countries. By exploiting their core competency in full-design, Case-one Company was able to market their fabrics to the buyers in the middle-to-upper markets. Furthermore, despite having a large gap in the sales volume, Case-one Company had simultaneously operated in both the GACC and the national value chain since their inception. On the contrary, Case-two Company had very limited involvement and Case-three Company had no any involvement in the national value chains prior to their OBM stage.

The Case-two Company made two switches between the USA and West Europe markets in the early 1990s and the mid-2000s. The former shift was an autonomous action taken by the case company when adopting the ODM model; the latter switch was mainly a consequence of not being able to adapt to the changing sourcing policy of their linked European lead firm. Cases One and Two both demonstrated a high concentration in the USA market - i.e., the share of the USA market in their total revenue was about 80% and 97% respectively. The major difference was that Case-one Company had a more diversified customer base while Case-three Company concentrated on a small number of large retailers placing large-volume orders. Further supported by the business strategies adopted and actions undergone in the OEM/ODM stages (see Section 6.4.3.1 and 6.4.3.2), a comparative tighter buyer-supplier relationship was identified in Case Three.

7.2.3 Inherent features in the internal environments

In all the three cases, the OBM business was owned and managed by their subsidiary companies from the early stage. The internal environments of these subsidiary companies which fostered the development of their OBM business - especially in the early OBM phases - were largely influenced by their parent companies. This was due to the fact that the tangible and intangible resources were shared and obtained by the subsidiaries from their parent companies.

Despite being legally independent, all the subsidiaries practically shared the office space, the corporate activities and culture with their parent companies. Furthermore, not only did the presidents cross the two business sections and participate directly in formulating the business strategies and making the major decisions for OBM execution, but also a number of top managers and designers from the export business sections were transferred to the subsidiaries and performed part of the key functions in the new ventures. The collective experience and executives' vision gained from the export business as well as the management styles adopted and corporate culture cultivated in the parent companies were hence explicitly and implicitly delivered to the subsidiaries. This thus composed a major part of the subsidiaries' internal environments which further affected their OBM initiation, implementation and performance.

In spite of sharing the same phenomenon discussed above, the resultant features in the subsidiaries' internal environments influenced by their parent companies varied case by case. In Case One, the prominent feature was a design-emphasis culture and managerial style. In Case Two, the prominent features were the business vision in gaining the long-term advantages and the capability in exploiting the external resources. These inherent features identified in Cases One and Two were also the same elements which

constructed a favourable design environment in their parent companies at the successful ODM stage, and these design environments were continuously shared by their subsidiaries. Being the longest business-engaging period immersed in the OEM stage and the shortest interval between the initiation of an ODM and an OBM models, Case-three Company was influenced by the sales-oriented management culture which laid special emphasis on operation cost and speed. In all the cases, these exhibited features inherited from their parent companies were the result of the influence of the entrepreneurs concerned.

7.3 OBM initiative and associated challenges

7.3.1 Opportunities and vision

Given the differences in terms of the roles, positions, markets, linked leader firms (listed in Table 7.1) and the periods in which the case companies had been involved in the GACCs, none of the three case companies were given opportunities to move to OBM by the GACCs in which they had been involved. Instead, their OBM opportunities arose from the local consumer markets which became increasingly sophisticated, diversified and competitive during the past two decades (see Section 5.5.4).

Despite the fact that moving to the OBM was, in all the three cases, pursued for reasons of sustainability, the motivation in the Case Three was distinct from that of the other two SMEs. In the two SMEs, the driving force originated from their respective entrepreneur's vision and business

aspirations at a growth or stable stage of their export business; whereas in Case Three, the most recent of the cases, their OBM initiative stemmed from the uncertainty about their export business after the abolition of quota. Irrespective of when they began their OBM, all three cases considered the domestic market to be the best place in which to cultivate their essential competencies before expanding to overseas countries. By making further reference to the analysis drawn from Chapter Five (Findings of the Socio-economic Environment of Relevance, see Section 5.5.4.5), it appeared that the vision of Case-two Company at the outset was different from that of the majority of the TTC export companies operating at the same time which were not inclined to introduce OBM in the small-scale domestic market. Despite sharing the same motivation for starting from the home market, the ultimate goals were somehow different between the three cases. In Case Two, a long-term goal for branding internationally was more clearly set from the inception than in Case One; whereas in Case Three, branding in China was the target for their OBM.

In the cases of two SMEs, the initial OBM opportunities arose from the business contacts in the regional and/or local value chains in which they had engaged. With hindsight, these initial opportunities (which did not involve direct retailing) served as a learning phase before any substantial investment was made in their new ventures. The subsequent OBM opportunities developed into their on-going branded business were created through the acquisition of human resources and refined by continuous adjustments. Unlike the two SMEs, having more substantial finances, Case-three Company developed their OBM business using a multiple-approach from the beginning. However, their OBM opportunity was eventually identified by the outcomes of a project supported by the government programme which aimed at exploiting the Taiwan textile industry's strengths, and consequently created by the recruited expert – also an asset to their human resources. Without having the prior business linkages in the local

value chains and lacking the introductory practices for branding, Case-three Company directly started with a comparatively big financial investment at their first OBM opportunity. Their allocated investment was eight times that of the amount budgeted by the two SMEs after having learned from their initial experiences.

With regards to the initiative strategy, none of the three case companies adopted a 'shortcut' often used by the local branded companies (referred to Chapter 6.2.5.1), by which financial success might be achieved within a short period of time but the development of their competitiveness for branding overseas would be hindered in the longer term. Instead, they prioritized the long-term advantages for their businesses in terms of organization design, operation system and resources deployed. This prioritized choice denoted the involvement of a higher and longer investment. Such an investment may be regarded as a matter of course for a listed company such as Case Three, especially given that they had only limited prior knowledge about how the brand business was initiated by the local companies with demonstrated track record. But to the two SMEs - Cases One and Two - which had limited resources, similar to most of the local branded companies, and had arrived an understanding of the local brands operations - adopting an initiative strategy which involved a higher and longer investment was therefore a significant choice. This choice was based on the entrepreneurs' vision - cultivating their brand competitiveness from an internationalization point view - which was however improved or made possible by their long involvement in the GACCs.

7.3.2 Inherent challenges and external branding challenges

The challenges encountered by the case companies in the OBM implementation, categorized as the inherent challenges posed from the changes of business models and the external branding challenges entailed in the local branding environments, are listed and compared in Table 7.2.

Table 7.2: Juxtaposition of the external branding challenges and inherent challenges

				Case 1	Case 2	Case 3
External branding challenges	Inherent challenges	Common areas	Limited resources		v	
			Mindset & corporate culture			v
			<i>Acquiring the know-how & expertise</i>	v	v	v
			<i>Obtaining retailing channel & locations</i>	v	v	v
			Distinguishing the brand from the competitors	v		
			Market prosperity & competition		v	
			Consumer lifestyles & dressing habits		v	v

It may be seen that the two challenges encountered by all the case companies were obtaining retailing channel/location and acquiring the know-how/expertise; furthermore, these common challenges were not only held by both categories but also shown as the immediate and continuous tasks. These shared similarities indicated that these two challenges, engaging in gaining the resources from the external environments, were posed irrespective of the differences in business background between the cases. This was because these resources were lacking but were essential for the export-oriented companies when implementing an OBM on a B2C basis, and were also difficult for the case companies to obtain from the local branding environments. The difficulty not only arose as a result of the insufficiency of the case companies' own conditions, but also because of the two phenomena observed in the local branding environment.

The first phenomenon was due to a high concentration of the fashion retailing channels in the department stores and the increasing domination of the large chain department stores. When the local consumer market became more internationalized and consequently filled with imported brands, the lease conditions of the stores with locations suitable for the local brands were increasingly unfavorable. This created difficulties for the case companies to obtain the appropriate retailing channel/location, and further led to a predicament for their brand positioning as identified in all the three cases (see Section 6.2.6.6, 6.3.6.6 and 6.4.6.6). The second phenomenon was the scarcity, poor dissemination, and inaccessibility of the required branding knowledge and expertise in the local business environment. This was due to the fact that the brand creation and development knowledge in the Taiwan fashion industries were contributed through diverse business agencies but still dispersed in various business systems (see Section 5.4.2 and 5.5.4.5). This branding knowledge and expertise was difficult for the case companies to acquire as they were involved primarily in the production of goods for export markets. In spite of the fact that the development and

diffusion of the branding knowledge were incrementally improved by the successive supportive government measures (see Section 5.3), these measures were mainly introduced in the 2000s and their impact on the studied case companies had not yet been felt. In other words, the implementation of OBM by the case companies was not related to these recent governmental measures in terms of the knowledge/expertise acquisition.

One distinct difference in the external branding challenges encountered was that Case Two and Three were both challenged on the subject of consumer lifestyles and dressing habits whereas Case One was challenged by the need to distinguish their brand from those of the competitors. This difference arose as a result of the branding strategies adopted by the case companies, which all targeted their brands at the same middle-priced womenswear markets, primarily for women aged from 25 to 40 – the largest share and most competitive segment in the Taiwan domestic womenswear market (see Section 5.2.4.2)⁹⁸. However, Case Two and Case Three initiated their branded collections by preempting the changes of the consumers' needs; they therefore were confronted by the challenge of identifying these changes and satisfying the needs of these targeted consumers. Case One developed their branded business by emphasizing individuality. Their challenge was thus their branded style for which the design features were modified for the mass market but still sufficiently distinguished from the other brands.

Case Two was the only SME with decades of branding experience including that gained in the domestic and overseas markets, and was distinctive by virtue of its limited resources and market prosperity/competition. Case Three's distinct challenge was the mindset and corporate culture, inherited

⁹⁸ This denoted coverage of the targeted age group in this section did not include the second brand O of the Case Three.

from their parent company and an obstacle to the cultivation of their own brand business, especially in the early stage.

7.4 Strategic operation for overcoming the OBM challenges

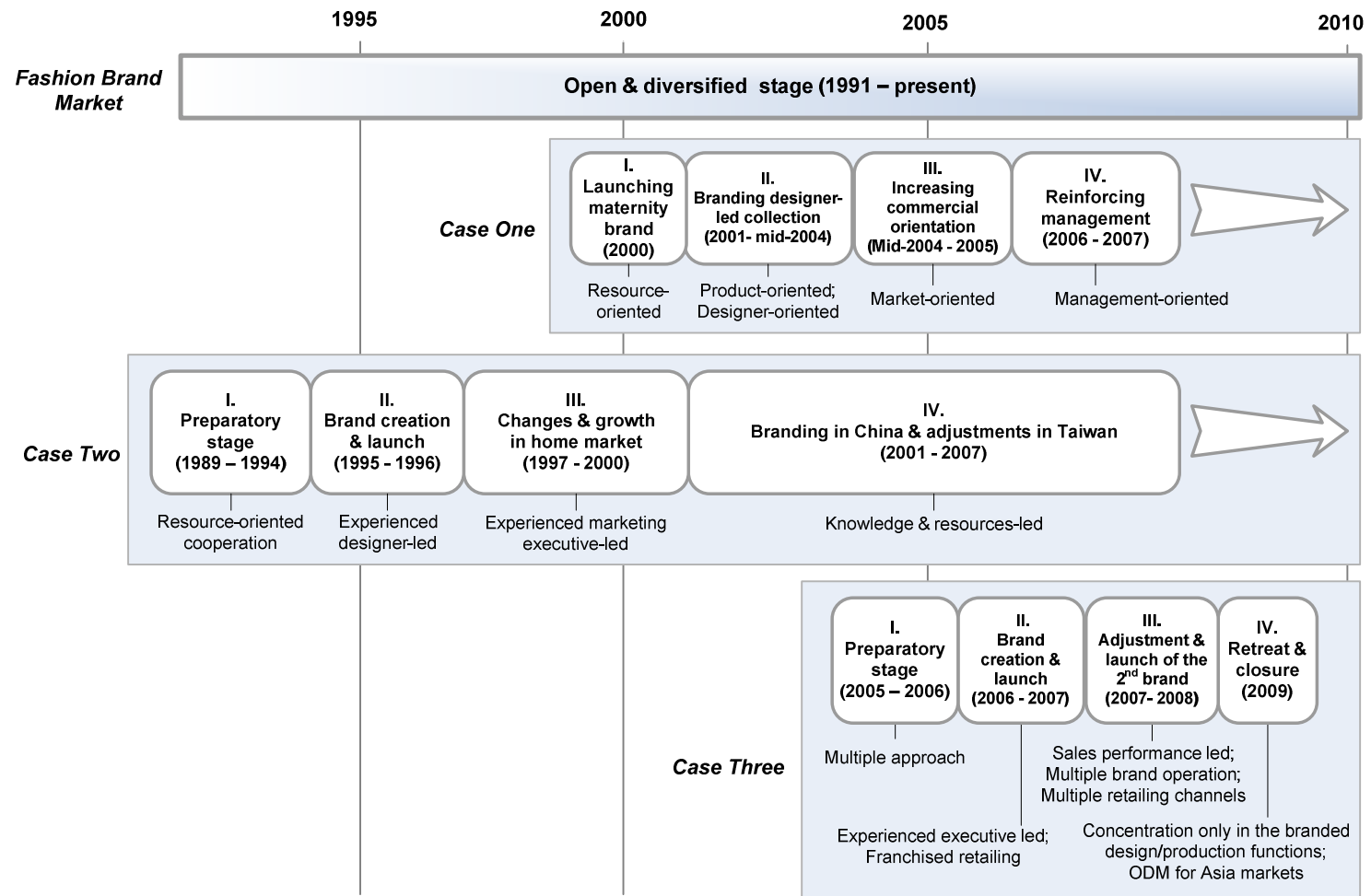
In spite of the differences in terms of the inception and the length of time for OBM as well as the branding phase entered, the three case companies all demonstrated a series of sequential shifts in their strategic operation during the OBM implementation. These shifts might be seen as an essential move for the case companies since both of the phenomena – the posted challenges themselves and the accumulated resources for coping with these challenges - were in the evolving state. In most of the identified situations, the case companies had only limited insights into the encountered challenges and were also confined by their existent resources and competencies to tackle these challenges. This had the effect that the challenges were not solved by the adopted strategic operation in time with consequences for the brand performance. More complex situations therefore arose and these were referred to as the specific challenging areas reported in the within-case analyses (see Section 6.2.6.6, 6.3.6.6 and 6.4.6.6).

The following subsections presents an across-case examination with reference to the following: the characteristics and the shifting patterns of the strategic operation, the specific challenging areas formed, as well as the factors governing the decisions and actions constituting the strategic operation and their affected dimension in the OBM development.

7.4.1 Characteristics and shift patterns of the strategic operation

Figure 7.2 juxtaposes the characteristics of the strategic operations adopted by the three case companies in their OBM path.

Figure 7.2: Juxtaposition of the OBM phases and their operational characteristics



It can be seen that, excluding the last phase, Case One and Two – the two SMEs - shared the similarities in their operational characteristics and the shift pattern. These similarities were the resource-oriented operation in the introductory stage, and a designer-led operation in the creation/launch stage of their on-going brand, followed by a marketing-led operation in the next stage – a remedy to their previous operation. It appeared that despite the fact that these two cases had a six-year difference in the inception time for branding – i.e., 1995 and 2001 respectively - the identification of the target consumer and the ideas for brand creation were designer-driven in both cases. In other words, the case companies relied more on the designers' knowledge and experience than marketing research or marketing people when making the shift, irrespective of the progressive changes in the external branding environment.

Such a phenomenon might be explained by two of the facts disclosed in this research. Firstly, the case companies had limited knowledge of the importance of marketing in their early OBM stage, as a consequence of their previous role and value-added functions operating in the GACC which concentrated only in the mid-chain activities of the branded clothing value chain for decades (see Section 5.5.4.5, 6.2.6.5 and 6.3.6.5). The second fact was in relation to why Case One initiated their OBM in a relatively mature branding environment but also performed similarly to Case Two in respect to the initiation choice by a designer-driven operation. This answer might have been because of several internal and external factors which have not been fully covered in this study; nevertheless the dimension of the socio-economic changes indicated that one of key external factors could have been the following fact. That was the requisite knowledge for brand creation and operation was still inadequate in the local industries despite the extensive development of the local branded market. This deficiency was partly caused by the late initiation of the governmental supporting

programmes for promoting the brand creation and their low coverage in the industrial members (see Section 5.3.1.3, 5.4.1.4 and 5.5.4.4).

In spite of being the common characteristic, the phenomenon of designer-oriented operation in the early branding stage was however more prominent in Case One than in Case Two in terms of the length of time and the degree of involvement. This was mainly because at the initial stage Case One relied more on the local designers' reputations and distinctive signatures to develop the market position and acquire the retailing outlets in the better locations. In addition, the top executives placed more emphasis on aesthetic quality and became aware of the design associated gaps relatively late (see Section 6.2.6.6.), introducing requisite marketing knowledge into the organization at a later stage. Compared to the use of the local design resources for branding by Case One, Case Two demonstrated an inclination to exploit their overseas design resources in terms of making use of the designer's leading experience gained in an advanced overseas market and the European design resources developed in the ODM stage. The above manifested operation features in Case One and Two also corresponded with the individual characteristics of their supportive environments within the organization which were mainly inherited from the parent company, i.e., a culture emphasizing design and managerial style for Case One, and the ability to exploit external resources in Case Two.

Both cases adopted marketing-led strategic operations after their designer-led phase for brand creation and launch – a critical period in terms of organization learning and knowledge integration. In Case One, after the market-oriented phase, there was an apparent compromise between the long-term and short-term interests in the last phase of sustaining their brand business, yet this posed a question of the balance and a dilemma for the consistency of their brand image. In Case Two, after a four-year marketing

executive-led phase, they expanded the market to China and entered a knowledge- and resource-led phase which was distinct in all the three cases.

Despite only having had a short experience of the OBM business, Case Three was distinctive in the characteristics of the strategic operation at the brand creation and launch stage. In contrast to the designer-led operation adopted by the two SMEs, Case Three's operation was led by an experienced executive who had experience of both product development and brand marketing. Case Three was also the only one which had franchised retailing and its own retailing store at the inception – both of these operations benefiting from their financial strength. However, Case-three Company was not able to exploit these starting advantages due to the major difficulties which resulted from the knowledge and perception gaps, hence contributing to negative results. The former gaps were created by losing the experienced executive (i.e., brand creator) and further widened by the scarcity of expertise in the local industries. The latter gaps were created by the collective mindset of the top executives arising from their export business background, and were difficult to narrow due to the organizational culture which emphasized the production cost and financial performance.

7.4.2 Specific challenging areas formed during the implementation

As pointed out previously, the strategic operations adopted by the three case companies during their OBM implementation were not necessarily the most effective or pertinent for the branding challenges, due to their limited experience and resources. As a consequence, further identification of the specific challenges arising from the incorporation of the inherent challenges, the external branding challenges, the strategic operations themselves and the consequences of implementing them was required.

It was found in all the three cases, most of the challenges encountered during the process of OBM execution were derived from these specific challenging areas and continuously evolved along the OBM path by branding phases of the individual cases. These specific challenging areas from the three cases are presented and compared In Table 7.3. As shown, some of the inter-overlapped areas are further consolidated and the similarities and differences between the cases are shown.

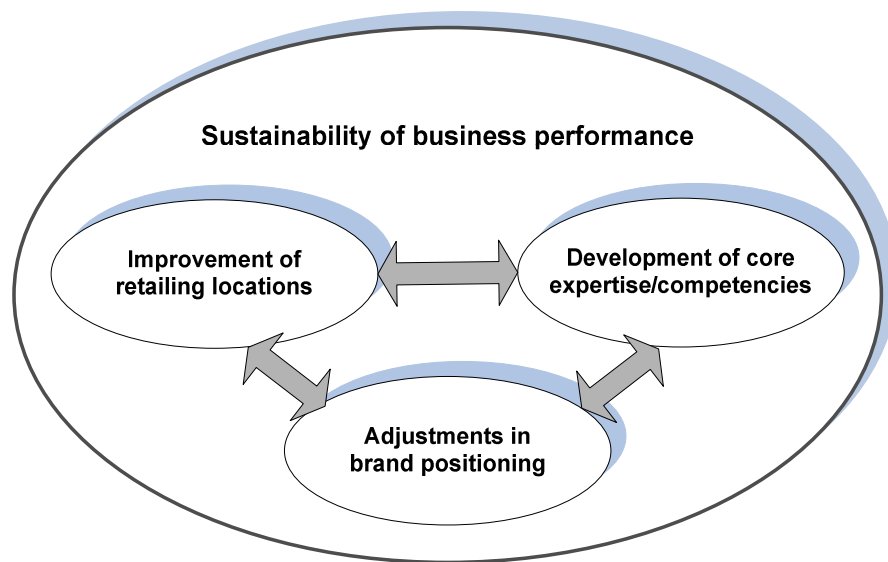
There were four common areas: the improvement of retailing locations, the development of core expertise and competencies, the adjustment in brand positioning, and the sustainability of business performance. The distinct challenging areas appear in Case Two and Three. In Case Two, except for the area of the internal communication, the other two distinct areas – brand philosophy internalization and branding overseas - are mostly associated with their market expansion stage which were not applicable to the other two cases. With regards to the distinct areas of Case Three – economies of scale for production, business performance and management approach - the challenges derived from these three areas were also encountered by the other two cases but were not as prominent and problematic as identified in Case Three. In Case Three, these problematic challenges could not be solved in time by their existent capacities and this hence led to the termination of their OBM business.

Table 7.3: Juxtaposition of the specific challenging areas

			Case 1	Case 2	Case 3
Specific challenging areas	Development of core expertise/competencies	<i>Adjustments in brand positioning</i>	V	v	v
		Product development			v
		Development of design competence	V		
		Development of internal expertise		v	v
		Enhancement of marketing input	V		
		Integration of brand operation	V		
		<i>Improvement of retailing locations</i>	V	v	v
		<i>Sustainability of business performance</i>	V	v	v
		Internal communication		v	
		Brand philosophy internalization		v	
		Branding overseas		v	
		Economies of scale for production			v
		Sales performance			v
		Management approach			v

In all the three cases, the three common areas – the improvement of retailing locations, the development of core expertise/competencies, and the adjustment in brand positioning - were interrelated, and were a part of the fourth common area - the sustainability of business performance (see Figure 7.3). This thus increased the complexity of tackling the challenges derived from these specific challenging areas in all the three cases.

Figure 7.3: Interrelationships between the specific challenging areas



7.4.3 Strategic operation for improving the retailing locations

Since in all the three cases the store-in-department-store was chosen as their primary retailing channel, the brand development of the case companies were confined by the department stores, in terms of the existing classification of the retailing zone, the changing brand recruited policies and the increasingly unfavorable lease conditions applied to the local brands, as revealed from this study. The focus for improving the retailing locations by

all the three case companies was hence mainly on obtaining access to the targeted department stores and securing prime sites within these stores. Their strategic operations for achieving this improvement are compared in Table 7.4.

It may be seen that measures for improving the brand performance, especially the sales results, were adopted by all of the three case companies as the most direct and effective ways. In these responsive measures, Case One was the only company to develop an expedient - a value-for-money diffusion line. Although this expedient enabled them to improve the short-term sales performance and get close to a break-even point, it also generated a threat to their long-term advantages. In addition to adopting the related measures for enhancing the brand performance, two SMEs also strongly relied on personal business relationships to improve their retail locations. By way of contrast, the large listed company, Case Three, used their financial advantage by demonstrating their brand strength through opening their own independent flag-ship store and successfully publicising their brand. However, the benefits did not last beyond the initial stage due to the predicament of their brand positioning and the low competitiveness of their branded products.

Another important step in relation to the acquisition of a better retailing location was capitalizing on the CIE of a more advanced country by Case Two. This strategic operation was part of their brand strategy – which benefited from the external resources developed in their ODM stage - and proved to be effective given the market reality. By adopting this measure which changed the country and design origin of their created brand, Case-two Company had a stronger foothold in both of their markets than the other Taiwanese brands in the comparatively unsuitable environments provided by the department stores.

Table 7.4: Strategic operations for improving the retailing locations and their consequences

	Case 1	Case 2	Case 3*
Allocated areas of the store-within-department store	<ul style="list-style-type: none"> Local brands zone 	<ul style="list-style-type: none"> Between the HK brand & imported brand zones 	<ul style="list-style-type: none"> Local active sportswear zone
Adopted measures	<ul style="list-style-type: none"> Exploiting designers' reputations Access to business networks of others Improving sales performance, including the use of an expedient 	<ul style="list-style-type: none"> Capitalizing on CIE Access to business networks of others Adjusting brand position Improving sales performance 	<ul style="list-style-type: none"> Demonstrating brand strength by opening a flagship store & using publicity Improving brand performance
Barriers/difficulties encountered	<ul style="list-style-type: none"> Insufficient knowledge of the marketing activities of the department stores 	<ul style="list-style-type: none"> Brand recruiting directions of the targeted department stores 	<ul style="list-style-type: none"> Existing classification of the retailing zone in department stores
Resultant consequences	<ul style="list-style-type: none"> Predicament & vicious circle in adjusting the brand position Increase of sales amount Conflicts between the long-term & short-term advantages 	<ul style="list-style-type: none"> Predicament in brand position Turnover of design personnel A progressive approach to the targeted department stores Benefiting from the retail location acquisition in China 	<ul style="list-style-type: none"> Predicament in brand position A vicious circle arising from economies of scale

Note: * represents that the comparison did not include their second brand (Brand O) due to its short duration.

The encountered barriers and difficulties relating to the adopted strategic operations for improving the retailing locations varied case by case. As shown in Table 7.4, Case One lacked the internal expertise to link in with the marketing activities led by the department stores, and the other two cases were confined by the department stores' existing floor arrangements. For case One and Two, these difficulties were gradually overcome after they obtained the necessary human resources and adjusted their brand positioning. Case Three was, however, unable to get better retail space in the department stores, since they could not overcome the fundamental problems associated with their brand positioning (see Section 6.4.6.6) and consequentially the sales results were unsatisfactory.

7.4.4 Strategic operations for adjusting the brand positioning

Except for Case Three, which experienced a dilemma when adjusting the brand to improve its positioning (refer to Section 6.4.4.4), it was found that the brand positioning in the other two cases changed several times when adopting OBM. Table 7.5 compares the companies' strategic operations adopted for these adjustments, in terms of the adjusting causes, the adopted measures, the encountered barriers and the resultant consequences. The major and common cause for the brand positioning adjustments of all the three case companies were directly or indirectly for securing or improving their retailing locations in the department stores. However, the causes for making these adjustments were more complicated in Case Two than in the other two cases. This was not only because Case Two had a longer branding history and was involved in a larger market scope; but also due to Case Two's persistence in obtaining the retailing locations beyond those allocated by the department stores for the local brands. Their brand

positioning adjustments were thus influenced by the targeted department stores.

Table 7.5: Strategic operation adopted for adjusting the brand positioning

	Case 1	Case 2	Case 3 (Brand N only)
Adjusting causes	<ul style="list-style-type: none"> ▪ Improve sales performance to achieve economies of scale 	<ul style="list-style-type: none"> ▪ Incorporating the designers' personal styles & strengths ▪ Making the best use of the existent design resources ▪ Responding to the brand recruiting directions of the targeted department stores ▪ Adjusting to the niche market in China 	<ul style="list-style-type: none"> ▪ Improving the brand sales performance
Adopted measures	<ul style="list-style-type: none"> ▪ Employing multiple designers ▪ Shifting the responsibilities to upper management level 	<ul style="list-style-type: none"> ▪ Exploiting the designers' leading experience gained in the overseas market ▪ Involving designers in the decision-making process ▪ Changing the design leaders 	<ul style="list-style-type: none"> ▪ Changing the merchandise composition
Encountered barriers	<ul style="list-style-type: none"> ▪ Personnel turnover ▪ Perception gaps in appreciating the role of marketing ▪ Insufficient understanding of consumer target group 	<ul style="list-style-type: none"> ▪ Losing key design personnel and their tacit knowledge ▪ Perception & knowledge gaps of the key members 	<ul style="list-style-type: none"> ▪ Existing classification of the retailing zones in the major department stores ▪ Lack of internal expertise ▪ Low competitiveness
Resultant consequences	<ul style="list-style-type: none"> ▪ Improvement of sales results ▪ Changes of major customers ▪ Blurred brand image 	<ul style="list-style-type: none"> ▪ Facilitating the improvement of the retailing locations ▪ Changes in design leadership ▪ Changes of brand style ▪ Losing the developing market ▪ Raised the entire branding cost 	<ul style="list-style-type: none"> ▪ Vicious circle in sales performance ▪ Blurred brand image

In all the three cases, both of the choices of the adjusting measures and the barriers encountered when implementing these measures were largely attributed to the factor of their existent human resources in terms of expertise and turnover. The human resources referred to in Cases One and Two mainly involved the design related personnel, especially the chief designers and the leaders of the design teams. This could be explained by the following two reasons: firstly, the designers played important roles in identifying and developing the brand positioning in the two SMEs; and secondly, both the designers' experience and their individual design style which provided the brand identity could not easily be maintained when the designers left the companies.

The adjustments to brand positioning made by the two SMEs within a short span of time could be seen as inevitable in order to sustain their branded business when their unfavorable start in terms of the deficiencies in the supporting knowledge and marketing resources are considered. The adjustments also raised the total branding investment and had some adverse consequences (refer to Table 7.5), such as the changes in the brand styles and target customers, the blurred brand image, and turnover of design personnel particularly in Case Two.

7.4.5 Developing the core knowledge and competencies

In the three studied cases, their OBM extended from the ODM stage and the target was the womenswear market operating on a B2C basis, in addition to which they had similarly limited knowledge of OBM. With the exception of a part of the mid-end knowledge directly transferred from the cases' parent companies, the prerequisite knowledge for conducting OBM was obtained from outside the organizations and then progressively developed in house

over a period of time. Of the three cases, Case Two being the longest involvement in OBM was the only one entered to the branding stage by the knowledge- and resource-led strategic operation; and Case Three was the only one to cease their OBM operation as a consequence of limited knowledge and competencies for the development of their branded products.

Table 7.6 shows the development of the core expertise/competencies of the individual cases, in terms of emphasis and priorities, adopted measures, barriers/difficulties encountered and phenomena discovered during the development process. As shown, both SMEs demonstrated an inclination towards long-term investment rather than the short-term financial performance which was preferred by Case Three. The latter was unfavourable for the cultivation of the core knowledge/competencies especially at the initial stage.

Table 7.6: Development of the core expertise/competencies by the case companies

	Case 1	Case 2	Case 3 (Brand N only)
Emphases & priorities	<ul style="list-style-type: none"> ▪ Design competence ▪ Cultivation of the brand philosophy ▪ Long-term investment 	<ul style="list-style-type: none"> ▪ Developing the collection with an across-the-board market appeal ▪ Long-term investment 	<ul style="list-style-type: none"> ▪ Financial risk control ▪ Short-term financial performance
Measures	<ul style="list-style-type: none"> ▪ Merging ▪ Recruiting professionals ▪ Strengthening across-department communication ▪ Developing a supportive internal environment for design 	<ul style="list-style-type: none"> ▪ Recruiting professionals ▪ Transferring the ODM design resources ▪ Personnel re-organization ▪ Emphasizing teamwork 	<ul style="list-style-type: none"> ▪ Recruiting professionals ▪ Transferring the ODM designers ▪ Making reference to the franchised collections operated
Barriers & difficulties	<ul style="list-style-type: none"> ▪ Acquisition of qualified designers ▪ Insufficient insights into the essential competencies for the required staff ▪ Limited budget allocated ▪ Insufficient understanding about consumer & marketing 	<ul style="list-style-type: none"> ▪ Lack of expertise ▪ Lacking brand leader & design leader ▪ Insufficient insights into the essential competencies for the staff ▪ Limited budget allocated; ▪ Tacit knowledge transfer ▪ Perception gaps between key people ▪ Personnel turnover 	<ul style="list-style-type: none"> ▪ Lack of expertise ▪ Lack of brand leader & designer ▪ Insufficient insights into the essential competencies for the staff ▪ Limited budget allocated ▪ Inadequate allocation & deployment of human resources ▪ Collective mindset of top executives ▪ Unfavourable internal environment ▪ Personnel turnover

Since all of the companies shared the same problem of inadequate branding knowledge and competencies from the inception, they all depended on the acquired human resources to supply the necessary knowledge/competencies in the various stages of branding. Recruiting professionals was therefore an essential task for the three cases. Difficulties included the limited budgets allocated, the insufficient insights into the essential competencies for the required staff especially in the early branding stages, and the unavailable expertise and limited qualified professional in the local industries (see Table 7.6). These difficulties could be attributed to the limitation of the existent resources and vision of persons responsible in the case companies, as well as the deficiencies in terms of human resources and expertise in the local environments.

The other distinct but also important measures adopted by the studied cases for the knowledge/competencies acquisition were the transfer of the ODM design resources evident in Case Two and Three, merging a small designer company in Case One, and operating a franchised brand in Case Three. The choice of these distinct measures was related to their individual internal resources and their access to the related external resources.

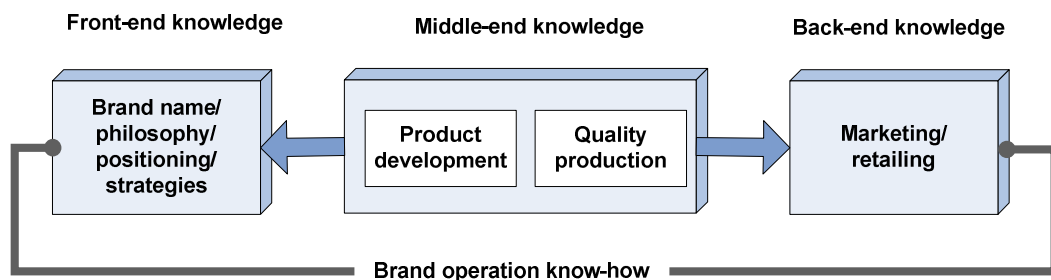
In the process of the knowledge and competencies acquisition, the three cases shared a similar feature, i.e., the prerequisite knowledge was not adequately provided in a coincidental way. Despite being incomplete and continuously improved, broadly speaking, the middle-end knowledge was firstly acquired, followed by the front-end and back-end knowledge (see Figure 7.4). The phenomenon of an inclination to the product-oriented thinking during the early branding stages was identified in all the three cases. This could be attributed to the following reasons:

- The unsuccessful transformation of the introduced expertise as identified in Cases Two and Three;

- The prevalent weakness of the local designers as particularly seen in Case One;
- The cultivation of the core competencies in design as emphasized in Cases One and Two; and
- The most prominent influence exerted by the production associated background of the parent companies as identified in all the three cases.

Except for Case Three which ended their OBM in the initial stages due to the absence of product development knowledge and the perception gaps in branded marketing, the knowledge integration was more effective at the later branding stages in the other two cases.

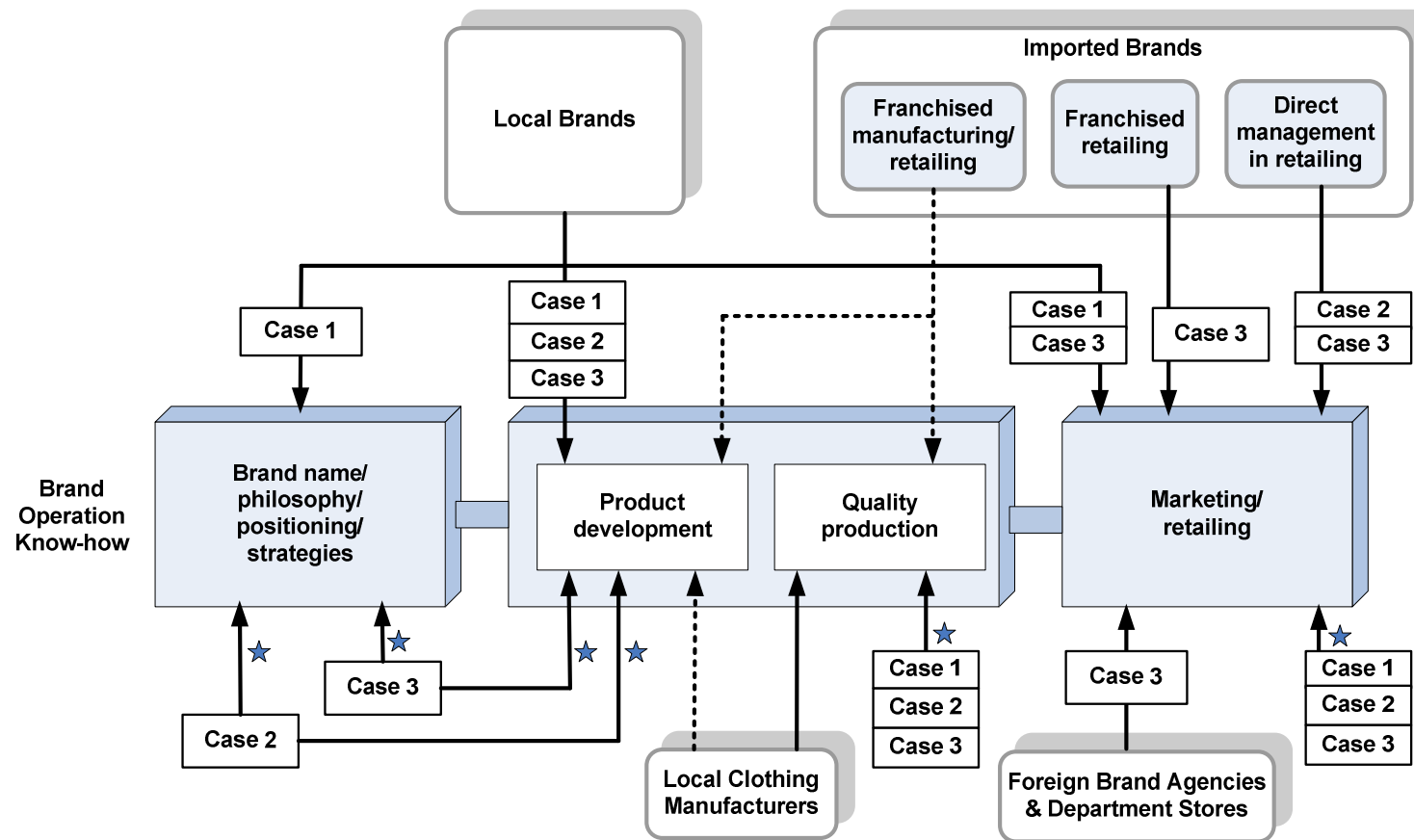
Figure 7.4: Progression of knowledge acquisition by case companies



In order to identify the knowledge sources which contributed to the OBM implementation of the studied cases, a further examination was made of the various business systems from which the recruited professionals gained their branding knowledge before they joined the case companies. Figure 7.5 juxtaposes and relates the knowledge sources of the professionals hired by the case companies to Figure 5.15 - the delineated findings from the phase one investigation whereby the brand operation knowledge contributed by various business agencies in the Taiwan fashion market was outlined. In

the phase one investigation of this study, these various business agencies were categorized into four groups – i.e., local brands, imported brands, local clothing manufacturers and the foreign brand agencies and department stores; and the contribution from each group to the local branding knowledge over the past four decades was also identified (see Section 5.5.4.5).

Figure 7.5: Sources of branding knowledge obtained via the recruited professionals



It may be seen from Figure 7.5 that except for some marked differences, most of the acquisition sources for the required branding knowledge in the three studied cases were in parallel with the general findings revealed in phase one of the investigation. That was that the local brands were the sources for front-end knowledge (although difficult), product development of the middle-end knowledge and back-end knowledge; and the imported brands and foreign brand agencies/department stores were the sources for back-end knowledge.

The marked differences revealed were the knowledge sources from the overseas brand market and the foreign branch companies in Taiwan – both had leading experience in branding, as well as the export manufacturers including the case companies themselves. The professionals introduced from the former two sources were mainly knowledgeable in the following areas:

- Front-end - seen as the weakest part in the local branded industries (refer to Section 5.5.4.5) - in Case Two and Three;
- Product development in Case Two and Three as the primary source in addition to the source of local brands, especially in case Two; and
- Marketing and retailing in all the three cases in addition to other important sources from the local business agencies.

All three cases had access to knowledge of quality production from the export production system which had more clearly-defined quality responsibilities among the supply chain members in comparison to the conventional local manufacturing of most of the local brands. It was evident that the case companies' vision for this choice was influenced by the participation of their parent companies in the GACCs. All the above marked differences showed the studied cases acquired part of their missing expertise through the knowledge flows directly from the international sources.

To answer whether this could be one of the distinct features of the OBM implementation conducted by the companies with the export-oriented background and how this feature would affect their branding performance would, however, require a further investigation which could compare these companies with the other companies from non-export backgrounds in future research.

In transferring and diffusing the introduced knowledge, two SMEs took the management measures, i.e., strengthening the across-department communication as identified in Case One, and re-organizing their personnel as well as stressing teamwork as seen in Case Two. Despite the fact that the two SMEs encountered difficulties in retaining the knowledge and transferring tacit knowledge – both of them caused by the personnel turnover and particularly in Case Two, the further integration and development of their core expertise/competencies were mainly achieved through the learning-by-doing practices for several years. By way of contrast, Case Three achieved limited results in the areas of knowledge transfer and diffusion due to the inadequate allocation and deployment of human resources as well as the loss of the newly-recruited professionals in the initial branding stage.

It was also identified that in the early branding stages, knowledge and perception gaps existed in all the three cases. These gaps were derived from the insufficient understanding about the consumer and marketing in Case One, the various disciplinary and business backgrounds of the key people in Case Two, and the collective mindset of the top executives – i.e., the production-oriented thinking - in Case Three. They not only considerably affected the case companies' business judgment and raised the cost of the internal communication, but also consequentially impacted the formulation of the strategic operation and influenced the turnover of personnel. Most

relevantly, they also hindered the progress of integrating and developing the case companies' core knowledge.

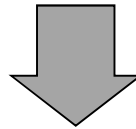
7.4.6 Governing factors and their affected dimensions

The identified governing factors which directed and influenced the major decisions and actions constituting the strategic operation in the three cases are displayed and compared in Table 7.7. It might be seen that four common factors were the vision and aspirations of leaders, the tangible and intangible resources, the competencies and knowledge, as well as the retail channel and locations. The distinct factors were the design leaders in Case Two and the management approach in Case Three.

The affected dimensions of the above governing factors upon the case companies' OBM implementation are further consolidated and compared in Table 7.7. The four common affected dimensions were the cultivation of the core competencies, market entry strategies, brand strategy, and business sustainability. Two distinct dimensions - branding overseas and brand image - appeared in Case Two and Case Three respectively.

Table 7.7: Governing factors and their affected dimensions upon the OBM development

			Case 1	Case 2	Case 3
Governing factors		<i>Vision & aspirations of leaders</i>	v	v	v
		<i>Tangible & intangible resources</i>	v	v	v
		<i>Competencies & knowledge</i>	v	v	v
		<i>Retail channel & locations</i>	v	v	v
		Design leaders		v	
		Management approach			v



Affected dimensions	Business sustainability	<i>Cultivation of core competencies</i>	v	v	v
		<i>Market entry strategies</i>	v	v	v
		<i>Brand strategy</i>	v	v	v
		Brand image			v
		Branding overseas		v	
		Sales performance			v
		Business model	v		
		Business sustainability		v	v

Of the four common governing factors, both of the factors - the vision and aspiration of leaders, and the tangible and intangible resources – were mainly developed and accumulated from the case companies' previous business, namely the decades-long involvement in the GACCs. These two factors had both favourable and unfavorable influences on all the four common affected dimensions in all the three cases. The factor of the vision/aspiration of leaders had profound influence particularly on the dimensions of core competencies cultivation and business sustainability. In Case Three, these influences were more unfavourable for nurturing their OBM venture; whereas in the other two SMEs, these influences were more favourable to the long-term development of their OBM business. This highlighted the influence of the entrepreneur's personality upon the studied phenomenon – upgrading to OBM - however the subject has not been addressed adequately by earlier researchers and is considered worthy of further attention.

The tangible/intangible resources had extensive influence on all of the four common dimensions in all the three cases, but were particularly relevant to market entry strategies and brand strategy. However, it was also the case that human resources were seen as an unfavourable factor in Case Three, and the financial resources in Case Two.

With regards to the other two governing factors – the competencies and knowledge, and the retail channel and locations - comparatively speaking, the governing factor of the competencies/knowledge had more widespread influence on all the common affected dimensions than the governing factor of the retail channel/locations which had more impact on two dimensions, these being market entry and brand strategies. However, both of these two governing factors were the inherent weaknesses of all the three cases in their early branding stages. After a continuous investment made by Case Two, these two factors turned into the company's strengths in the later

stages which consequently facilitated their expansion to the China market. By way of contrast, these two factors in Case Three remained as the inherent weaknesses which were not remedied in time. Both of the consequences - a disparity between the brand strategy and company competencies and a vicious circle in sales performance - were the inevitable result. This hence became the direct cause for the Case-three Company to terminate their OBM venture.

7.5 Influences from the GACC background and local environment

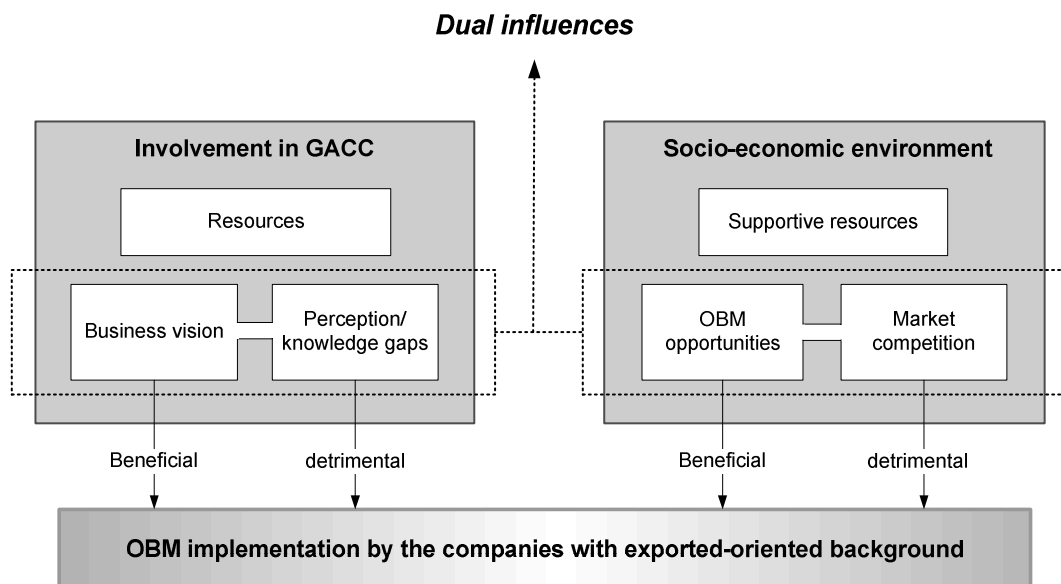
Based on the examination made in both of the within-case analysis and the above cross- case analysis, the primary influences gained from the involvement in the GACC and the closest tier socio-economic environment upon the case companies' OBM implementation are compared and further consolidated in Table 7.8.

Table 7.8: Influences gained from the involvement in the GACC and the socio-economic environments

				Case 1	Case 2	Case 3
Involvement in GACC	Resources		Business vision	v	v	v
			ODM competencies	v	v	
			Material resources	v		
			Financial resources			v
			Resources linkages		v	
			Production advantages		v	
			Partial penetration & perception gaps	v		
			Perception & knowledge gaps		v	v
Socio-economic environments	OBM opportunities		OBM opportunities	v	v	v
			Access to China market		v	
	Supportive resources		Human resources	v	v	v
			Branding knowledge	v	v	v
			Government policies			v
	Market competition		Market competition	v		
			Market prosperity & competition		v	v

After consolidation, the primary influences gained by the involvement in the GACC were three - the business vision, the resources, and the perception/knowledge gaps. The resources referred varied by cases and were exploited as the starting resources for initiating OBM. The business vision coupled with the perception/knowledge gaps were a pair of dual influences which caused both beneficial and detrimental impacts to the OBM implementation (see Figure 7.6). That was the case companies benefited from the vision cultivated during the course of linking with the global value chains, in the sense that they were not limited by the small home market and developed the business ambition to catch up with the international brands in a long-term plan. On the other hand, the case companies were simultaneously confined by the perception and knowledge gaps for branding created by their former engagement in the production associated functions in the GACCs.

Figure 7.6: Dual influences from the macro-environment



The intensity and extent of the above three primary influences exerted upon the case companies' OBM implementation depended mainly on how the resources and corporate culture were shared and transferred from their parent companies (as pointed out earlier in Section 7.2.3), and were further influenced by the effectiveness of the knowledge fusion within the organization. Irrespective of the company size – the SMEs and the large listed company - the influences were both profound and extensive in all the studied cases.

The influences from the socio-economic environments, seven in total, were further consolidated into three primary influences as shown in Table 7.8, i.e., the OBM opportunities, market competition and supportive resources. The former two were identified as a pair of dual influences, of which OBM opportunities had a beneficial and market competition had a negative influence upon the case companies' OBM implementation (see Figure 7.6). This dual-influence arose as a result of changes in the local brand market. As was seen from the analysis of the progression of the branding challenges discussed in Section 5.5.4.2, the local branded companies encountered the increasingly diversified and sophisticated marketed opportunities in accordance with the evolution of the consumers' needs, but at the same time these local companies were also confronted by increasing competition and threats from international brands (shown in Figure 5.12). In other words, due to this dual influence, the initiation of the case companies' OBM and the creation of their brands were facilitated by the versatile market possibilities and were also simultaneously subjected to the more severe challenges arising from an internationalized home market. The former phenomenon was observed from the brand strategies formulated by the individual case companies, which were either in line with the lifestyles of local consumers or emphasized individuality; and the latter phenomenon was particularly encountered in the acquisition of the retailing channel/locations by all the studied cases.

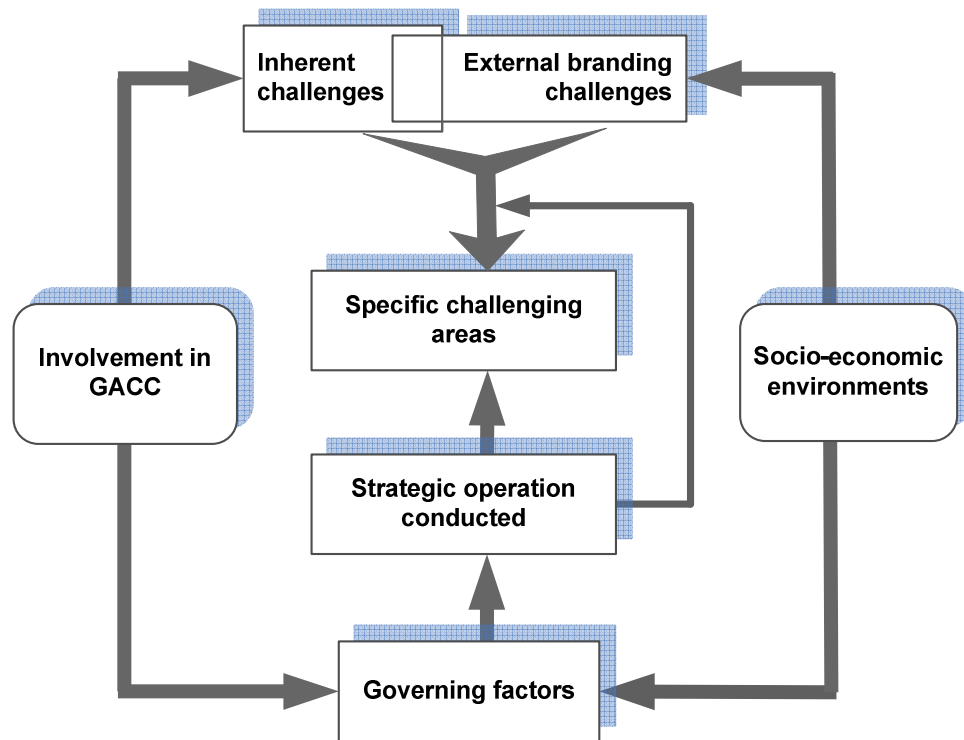
The other identified influence - the supportive resources – from the social-economic environments of relevance were further consolidated from the influences of human resources and branding knowledge developed in the related local industries, as well as the related government policies. Up to the end of this investigation, these resources appeared to be insufficiently developed and therefore were regarded as an unfavorable but progressively improving influence in the period of study.



Both of the influences derived from the involvement in the GACC and the socio-economic environment discussed in this section had an overall impact on the brand development of all the case companies during their OBM path, particularly in forming inherent and external branding challenges as well as determining the governing factors of the major decisions and actions for formulating the adopted strategic operation.

7.6 Across-case synthesis – An explanatory framework

Based on the common characteristics shared by the three studied cases, an explanatory framework which attempted to capture the interrelationships between the revealed factors in explaining the studied phenomenon was developed. Figure 7.7 presented this explanatory framework in a graphic form.

Figure 7.7: Explanatory framework for the OBM phenomenon at the firm level



Note:  represents the environmental factors in the macro-level
 represents the organizational factors in the micro-level

As shown above, the developed explanatory framework was constructed by means of seven identified factors and their interrelationships. These factors were classified as environmental factors at the macro-level and organizational factors at the micro-level. The classification, definition and exhibited characteristics of each factor are shown in Table 7.9.

Table 7.9: Classification and definition of the revealed factors in the explanatory framework

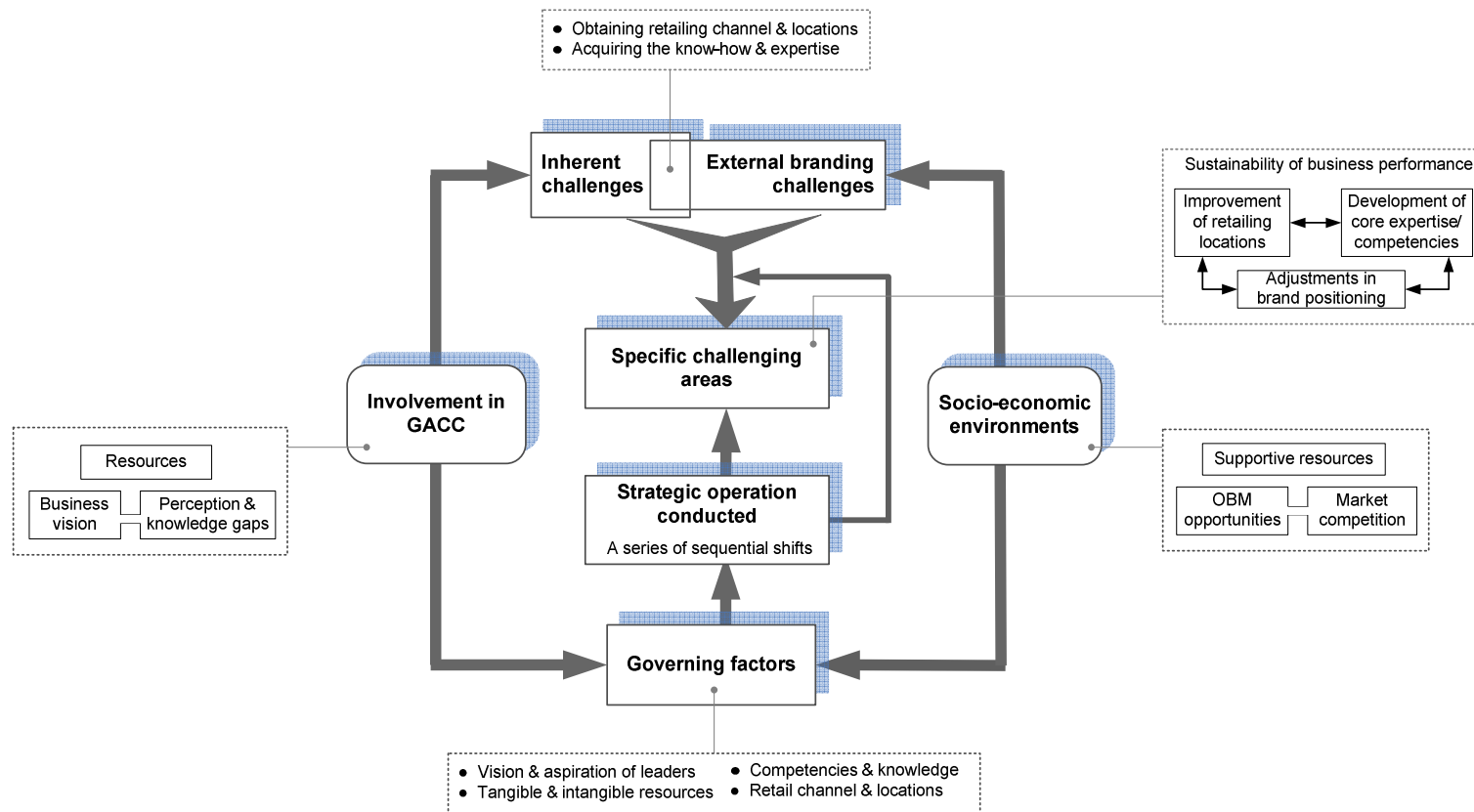
	Factors	Definitions	Exhibited characteristics
Environmental factors	Involvement in GACC	The business environment of the upgrading cases before moving to OBM	Dual influences
	Socio-economic environments	The locus environment in which the upgrading cases were most embedded	
Organizational factors	Inherent challenges	The challenges posted from the changes of the business model from ODM to OBM	Inevitable, immediate, continuous & some overlapped
	External branding challenges	The challenges entailed in the local branding environments	
	Specific challenging areas	The areas which the encountered challenges derived from during the process of OBM execution	Interrelated & complex
	Strategic operation conducted	The planned measures adopted in the OBM execution	A series of sequential shifts
	Governing factors	The factors which directed and influenced the major decisions and actions constituting the strategic operation	Dynamic & impacts varied by cases

The interrelationships between these seven factors formed the explanatory statements of Part A as follows:

- A. 1 The influences derived from the two environmental factors (i.e., the involvement in GACC and the socio-economic environments) were the primary sources which entailed the inevitable challenges (i.e., the inherent challenges and the external branding challenges) to the upgrading companies. These influences also determined the governing factors of the major decisions/actions which further affected the strategic operation conducted in their OBM execution.
- A. 2 The strategic operations conducted by the upgrading companies were subject to the governing factors of the major decisions/actions and employed to overcome the challenges emerging from the specific challenging areas in the course of OBM execution.
- A. 3 The specific challenging areas were formed from the incorporation of the inherent challenges, the external branding challenges, the strategic operation conducted and its consequences.

In addition to the above interrelationships, a further detailed framework showing the key elements under the umbrella terms of the denoted environmental and organizational factors is presented in Figure 7.8.

Figure 7.8: Detailed explanatory framework for the OBM phenomenon at the firm level



The exhibited characteristics of the identified environmental/organizational factors and the consequential influences from their included elements upon the OBM phenomenon worked within this explanatory framework were further connected and elaborated as the explanatory statements of Part B by the following text:

- B.1 Both of the two environmental factors (i.e., the involvement in GACC and the socio-economic environments) were judged to be both impeding and supporting factors. The influences derived from these two factors exerted a dual influence – beneficial and negative - on the OBM phenomenon.
- B.2 The factors of the inherent challenges and external branding challenges had two overlapped areas – i.e., the challenges of obtaining retailing channel/locations and acquiring the know-how/expertise. These were the immediate challenges when initiating OBM and also proved to be continuous and problematic challenges in the early branding stages.
- B.3 The four governing factors (see Figure 7.8) had various influences upon the firm's OBM implementation at the initial branding stages according to the individual companies' backgrounds and strengths, and were dynamic along the OBM path.
- B.4 The strategic operation conducted by the upgrading companies showed a series of sequential shifts in the process of OBM implementation. Such shifts were necessarily made according to the dynamic changes of the emerging challenges and the governing factors along the OBM path.

B.5 The composition of the four specific challenging areas and their interwoven relationships (see Figure 7.8) increased the complexities and difficulties for the upgrading companies in tackling the challenges emerging from these areas.

The above developed explanatory framework provided an explanation about how an industrial upgrading phenomenon from an ODM model to an OBM model was experienced by the three selected export-originated companies in the TTC industries, and how this phenomenon were governed by the identified environmental and organizational factors. The application of this explanatory framework is subject to the transferability or extrapolation to other similar situations rather than making any generalization as indicated in the research methodology of this study (see Section 3.3.2).

Chapter 8 Conclusion

8.1 Introduction

This study involved the investigation of an under-researched phenomenon – upgrading to OBM – by the export oriented firms which had developed from an EOI background. This upgrade has been acknowledged to be one of the most difficult but rewarding steps in the industrial upgrading process. The focus of the study was the current practice in the TTC industries, and their evolution may be seen as one of archetypal examples in the global value chains in shifting to the OBM model. The pioneers in the field experienced difficulties when moving towards the OBM phase and much of the investigation involved the exploration of what challenges were encountered and how these challenges had been overcome.

Given the lack of established theories, the results of this exploratory study were achieved by providing in-depth and rich descriptions of the investigated phenomenon through a qualitative inquiry. Two historical perspectives, the global industrial evolution and the local socio-economic changes, were provided in explaining the constitution of the OBM phenomenon discovered within the selected business organizations. The findings of this study provided contextual insights into the little-known OBM phenomenon from both micro and macro levels, as well as a pioneer framework explaining how this phenomenon was influenced by the related factors identified. Based on the adopted constructivist-interpretative philosophical stance, the research findings permitted a further comparison for the transferability to other similar situations.

8.2 Conclusions of the major findings

Focusing on the objectives of this study, the following conclusions were drawn.

8.2.1 Objective one - Inherent opportunities/barriers/problems from GACC

The results from the present study showed that, despite the fact that moving to OBM has been regarded as the last upgrading stage in GACC (Gereffi, 2001), the opportunities for achieving this shift were not supplied within the GACC's networks. The upgrading to OBM was an autonomous action taken by the companies seeking sustainability – an attempt to strengthen their respective positions in the competitive global production networks. In the process, they were also encroaching on the traditional territory of the lead firms of the developed countries by competing in the field of core competencies (see Section 2.4.3). Nevertheless, this apparently did not jeopardize their business relationships in the GACCs. No evidence was found that the barriers for moving to OBM had been intentionally created by their customers in the GACCs. There are two possible explanations for this - firstly, the buyer-supplier relationships in the studied cases were not the lock-in linkages; secondly, the studied firms avoided conflict of interest when aiming for OBM.

The in-depth findings of this study further indicated that the influences from the involvement in the GACCs upon the OBM upgrading were more far-reaching than merely the opportunities offered or the barriers constructed in the OBM initiation, as discussed in the GACC literature (as referred to Section 2.4.3). These detected influences were the resources, business

vision and perception/knowledge gaps which entailed the inevitable challenges to the upgrading firms in moving to OBM. Furthermore, these influences were also identified to be both of the impeding and supporting factors which governed the OBM execution along the implementation path and consequently affected in various branding dimensions. Especially, the influences of the business vision and the perception/knowledge gaps coexisted and were exerted as dual influences – beneficial and detrimental. This may perhaps be the unique characteristic of the OBM phenomenon encountered by the export-originated firms which developed from an EOI background.

8.2.2 Objective two - Opportunities/barriers/problems from the socio-economic environment

The study has shown that the OBM opportunities for the studied cases arose from the local consumer market and were further created by the firms through acquiring the human resources. These versatile market opportunities were, however, coupled with severe market competition from the imported brands as a consequence of a diversified and post-internationalized domestic market. This hence established a pair of dual influences which had an overall impact on the cases' own brand development. The most marked impact was the increasing difficulty experienced in acquiring the appropriate retailing channel/locations which was also one of the two major barriers encountered and the continuous challenge tackled by the studied cases.

The research findings also indicated that the home market was seen as the platform to acquire and cultivate the essential competencies before an overseas expansion to the regional markets – especially the China branded

market; however, the requisite core know-how and human resources for implementing OBM was insufficient. This deficiency was the second major barrier encountered by the studied cases when implementing their OBM in the home market. The contextual and historical insights gained from this study suggested that, this deficiency together with the delayed measures for preparing a supporting branding environment (see Section 5.4) was mainly a result of the adopted national policies - the export-led economic and industrial development from the early stages, and a late initiation of the related programmes for enhancing the brand creation. The supporting resources from the TTC industries and the local branding environments were thus referred as the weaknesses impeding the progress of the cases aspiring to OBM.

8.2.3 Objective three - Strategic operations for overcoming the OBM challenges

The findings showed that the strategic operations adopted to overcome the challenges which arose during the OBM implementation occurred in a series of sequential shifts. This characteristic was rationalized in this study as an essential change made by the cases' companies according to their developed competencies, applicable resources as well as the posed challenges which evolved along the OBM path. It was also suggested that these strategic operations were not necessarily the effective and pertinent measures to overcome the emerging OBM challenges. This was not only because the complexity of the emerging challenges derived from the interrelated specific challenging areas – an incorporation of the mixed challenges and the operation outcomes - but also due to the fact that the strategic operations were governed by four key factors, these being the

vision and aspiration of leaders, tangible and intangible resources, the competencies and knowledge, as well as the retail channel and locations.

The above governing factors were determined by the two environmental influences (i.e., the involvement in the GACC and the socio-economic changes). Furthermore, these factors were dynamic in terms of having the reverse effects on the different cases and having the opposite effects at the different branding stages. Through the strategic operations, these governing factors exerted a major influence upon the cultivation of the necessary competencies, the market entry strategies, the brand strategies and the business sustainability.

This study also provided evidence that in the choice of the strategic operation, all the three cases conducted their strategic operations differently from most of the local brands from non-export backgrounds, i.e., the long-term advantages rather than the 'shortcut' approach in terms of organization design, operation system and resources deployed. However, this priority, influenced by the vision improved through the involvement in the GACCs, was severely challenged by the immediate needs of improving their short-term business performance as identified in all the cases during the course of implementing OBM. The decisions and actions taken for solving this conflict between the short-term and the long-term business sustainability varied case by case and had distinct consequences for the OBM development.

8.2.4 Objective four - Transfer and development of the core knowledge

This study confirmed that the lead firms in the GACCs retained the necessary know-how for adopting OBM practices - as anticipated by the

earlier scholars in the field (see Section 2.4.3 and 2.5). The study also showed that the design competencies developed in the ODM phase by the studied cases were either partial or not related to the lifestyles of the local consumers when implementing the OBM on a B2C basis. However, it was evident that operation of the ODM model did narrow the knowledge gaps for the studied cases and provide them with confidence and design resources to move to the OBM stage, in spite of some negative influences.

The study indicated that except for the partial design and production knowledge transferred from their export business, the studied cases obtained the missing knowledge via acquiring the human resources - partly from the international resources and mostly from the local industries. The branding know-how diffused in the local value chains was contributed by the various agencies, including the local brands, imported brands, foreign brand agencies and department stores. Of the entire branding knowledge, the front-end know-how, identified as the weakest part due to the scarcity of experienced personnel, was the key acquisition made by the studied cases to initiate their OBM. Back-end know-how was mainly transferred from the foreign brands from Hong Kong and the early developed Western countries. This part of the findings supported the statement of a research gap identified from the literature review, of which the above knowledge flow has not been included and addressed in the traditional GACCs literature when reference was made to the OBM upgrading conducted by the late-developed countries' suppliers (see Section 2.5).

At the micro-level, within the organizations, the prerequisite knowledge and competencies were not adequately transferred and developed in a coincidental way. The phenomenon of the product-oriented thinking and the knowledge/perception gaps in marketing were prominent at the early OBM stages. This considerably affected the transformation, diffusion and development of the core knowledge within the organizations, and further

created difficulties in retaining the obtained expertise and delaying the cross-functional integration of the core knowledge. The study has also shown that in addition to absorbing the introduced knowledge, the knowledge diffusion, integration and creation were largely through the learning-by-doing practices of the studied cases. An incremental penetration into the branded fashion business beyond the perception limited by their previous role in the GACCs was achieved in the situation of the two SMEs – the quasi-successful cases.

8.2.5 Objective five - Explanatory framework for the OBM phenomenon

The explanatory framework synthesized from this study (as referred to Section 7.6) was a systemic illustration of the constitution of the OBM phenomenon at the firm level. The two environmental factors and the five organizational factors, governing this phenomenon at the overall level, were defined, i.e., the involvement in GACC, the socio-economic environments, inherent challenges, external branding challenges, specific challenging areas, strategic operations conducted, and the factors governing the major decisions/actions (see Table 7.9). The exhibited characteristics of these seven factors and their subordinate factors identified at the secondary level were also included in this framework. The interrelationships between the identified factors were delineated by Part A and B statements which arrived at the specific explanations in the overall and the secondary level respectively. This inductive framework fully reflected the dynamic nature of the studied phenomenon and the great complexity involved in managing the OBM challenges.

8.3 Significance, contributions and implications

8.3.1 Significance

The results of this study disclosed a little-known industrial phenomenon – upgrading to OBM – at the organizational level, and provided holistic and in-depth insights into this particular upgrading phenomenon - referred to as the most difficult and problematic step in the upgrading path by earlier researchers in the field (see Section 2.4.3). This significant result was realized by a multiple case study of a small number of purposive cases, of which each individual case was firstly intensively studied in its own context followed by an across-case examination. Also significant was the incorporation of an introduced dimension - the socio-economic changes – with the traditional dimension – that being the evolution of the industry. The combination of these two dimensions for investigating the OBM phenomenon was innovative. This newly introduced dimension was rationalized by identifying the important role of the local environments in the OBM initiation for the GACC suppliers of the late-developed countries (see Section 2.5), and was facilitated via a two-phase qualitative research design. By this research design, an investigation of the socio-economic environments of relevance prior to the conduct of a multiple case study was undertaken.

8.3.2 Contributions

The contributions arising from this exploratory study were several. Firstly, comprehensive understanding of this little-known OBM phenomenon was made possible by keeping the unique entity and providing thick descriptions of each case. Secondary, the insights gained into the OBM challenges and the adopted operation strategies revealed from the studied cases could assist in the formulation of appropriate strategies for the upgrading to the

OBM model to both the latecomers and related governmental agencies. Thirdly, the explanatory framework developed from the cross-case synthesis pioneered a theoretical approach in explaining the constitution of the complex OBM phenomenon at the firm level. This presents valid ground for future academic research and should facilitate a better understanding of other similar cases. Fourthly, a succession of industry upgrading (from the assembly to the OEM, and further to the ODM stages) took place in the TTC industries and other three East Asian NIEs were the archetypal examples in the GACC literature, but there was limited exploration of factors which would contribute to the next upgrading (OBM) stage or how success could be ensured in these countries (see Section 2.4.3). The findings of the OBM upgrading from this study narrowed the knowledge gaps, and might stimulate more research interest in the area. Fifthly, the phase-one investigation of the socio-economic environments of relevance provided comprehensive historical findings from 1950 to 2006, not only supplying a fundamental basis for conducting further studies in the field of Taiwan branding environments, but also offering solid ground for conducting contextual studies of other industrial practices implemented during the cited period.

8.3.3 Implications

The findings of this study suggested that moving to the OBM business model on a B2C basis was a big challenge for the export-originated firms of the TTC industries. This upgrading required substantial changes to the value-creation activities and the introduction of several new business functions. Neither of these two resultant changes was well-perceived by the above-mentioned firms before moving towards OBM. In other words, the new venture - OBM business – did not share the large commonalities in terms of knowledge and operation with the previous business model –

OEM/ODM – developed from GACCs, and furthermore it was difficult for the OEM/OBM firms to fully comprehend this gap, as indicated from the findings of this study (referred to as the perception and knowledge gaps in the explanatory framework). Based on the above notion, this particular upgrading would be better perceived as an entire business creation rather than merely a continuous or strategic extension from the existing ODM model – as viewed by most of the researchers and practitioners. The latter might result in misconceptions about introducing and preparing for the upgrading as well as most importantly underestimating the potential costs and risks of the exercise.

According to the informed constructivist-interpretative philosophical stance, the applicability of the research findings must be left to the users' own judgments, by which the transferability will be assessed and determined according to their own research settings (Section 3.3.2 and 3.3.4.2). However, it is hoped that the rich description and theorized findings of the present research will be useful for the users in making sense of similar situations, including the cases in the other three East Asian NIEs which share similar upgrading trajectories and EOI backgrounds of the TTC industries. It would be interesting to discover whether the challenges for moving to OBM identified from the selected cases were also encountered by the other export-originated firms in the TTC industries, and to what degree the identified challenges and upgrading patterns were shared in the other three East Asian NIEs.

8.4 Research limitations and future directions

8.4.1 Limitations

The research focused on current cases initiating their OBM in the domestic market. The major limitation was not only a small number of such cases to select from; but also the difficulties to obtain access to the particular cases, including one large firm having operated the franchised retailing/manufacturing for many years before initiating OBM. This thus affected the transferability of the research findings since the selected cases did not cover the maximum variation (see Section 3.5). Another major limitation also arose from the study of the current cases. That was that the duration of the studied phenomenon - the entire OBM upgrading - was a long period of time. Up to the end of this study, two studied cases were still attempting to gain return on their investment. To define whether these two studied cases were eventually successful in their OBM upgrading became problematic and arguable. The term of the quasi-successful was hence used to contrast with the failure case which closed the OBM operation during the conduct of this study. In addition to the above two major limitations to the research findings, the researcher was also aware of the personal bias and research ethics during the investigation. The reflexive issues of above were reported in Chapter Three, Research Methodology, in the corresponding sections.

8.4.2 Future directions

Based on the foundations provided and the insights gained from this study, future research is recommended in the following. Firstly, a comparative study, between the firms which had exported from the outset and those which did not, is necessary. This comparison could further verify the

findings of the present research in terms of the distinct features exhibited by the export-originated firms and further examine the theoretical implications of their particular patterns. Secondly, future studies could include OBM cases from countries in the other regions in order to determine whether involvement in the GACC by the production firms of the late-developed or developing countries had the same general consequences which influenced their upgrading to OBM as those identified in the study under discussion. Thirdly, the findings of the research highlighted the importance of the entrepreneur's influences upon the OBM implementation. This has not been adequately addressed in the related literature, and therefore would be worth exploring further.

The last recommendation is an investigation into the possible formation of an OIM model such as that which was seen in the Taiwan computer industry (refer to Section 2.4.2). This possibility was explored from the recent niche market emerging from the GACC as identified from one of the studied cases. Some branded companies of developed countries further externalized their full-design function and outsourced the concept and design for their branded products; and the export firms of the East Asian NIEs, which had already extended to the OBM business, were able to exploit their developed competencies from the OBM operation to supply the required services and products to the above mentioned firms of early developed countries. This future development may rectify our understanding of the implications and significance of moving to OBM by the export companies in NIEs, and is therefore worth exploring.

Appendices

Appendix A: Background information of key informants in phase one investigation

Code	Name	Present position	Main working experience
A	Ms. Lee	Vice President of Shinkong Textiles Co., Ltd	<ul style="list-style-type: none"> ➤ 10 years in garment export & 22 in franchised production and retailing for domestic market ➤ Working with brands such as Arnold Palmer and PGA TOUR (golf apparel), GQ Grimaldi, DDP, Elle & Pringle
B	Ms. Chen	Vice President of Mountain house Crop.	<ul style="list-style-type: none"> ➤ Totally 26 years in department store, HK brand (Theme) & Taiwan brands (Net & Udb)
C	Ms. Wang	Senior Vice President of Ruentex Industries Limited (Retail Division)	<ul style="list-style-type: none"> ➤ 4 years in export knitwear, 2 years in education & 13 years in franchised production and retailing for domestic market ➤ Working with brands such as Nautica, Kenneth Cole, Reaction, Eden Park, Hechter Studio & Jeep
D	Ms. Wei	Owner of Sakuraya Co. Ltd	<ul style="list-style-type: none"> ➤ Totally 20 years in trade organization, local brands & franchised retailing including Agnès b & Montblanc
E	Ms. Sung	Operation Manager of Dickson Concepts International Limited (HK)	<ul style="list-style-type: none"> ➤ Totally 18 years in retailing management & sales training for imported & Taiwan local brands, such as Benetton, Gucci, Theme, Udb & Max Mara
F	Ms. Lun	Fashion Designer & Design Consultant of R & F Studio	<ul style="list-style-type: none"> ➤ 3 years experience in Japan brands, 7 in Taiwan brands & 5 in of Mainland China brands
G	Ms. Mak	Design Consultant & Art Director of House of Urban Hermits (HK)	<ul style="list-style-type: none"> ➤ 8 years working with HK brands, 2 with Taiwan local brand & 10 with China brands
H	Ms. Chiang	Designer & owner of Play in' Studio	<ul style="list-style-type: none"> ➤ 16 years in designer brand creation and part-time teaching in education
I	Mr. Tsai	President of Jordon Corp.	<ul style="list-style-type: none"> ➤ 35 years in garment business for both export & domestic market, overseas production in Vietnam, own brand wholesaler & retailing in Mainland China
J	Ms. Pan	Fashion Consultant & Trend Analyst of JP Focus fashion studio	<ul style="list-style-type: none"> ➤ Totally 20 years in trade organization, trend consultant in Taiwan & Mainland China
K	Ms. Kuo	Director of Textile & Fashion Design Department, Taiwan Textile Federation (TTF)	<ul style="list-style-type: none"> ➤ 10 years in a trade organization, mainly involved in design promotion and government' design policy execution
L	Mr. Yin	Deputy Director of Product Development, Taiwan Textile Research Institute (TTRI)	<ul style="list-style-type: none"> ➤ 18 years in trade organizations, mainly involved in design training, design promotion & services, conducting product development projects with local companies
M	Mr. Tai	President of Atelier International Corp	<ul style="list-style-type: none"> ➤ 10 years in ODM for local knitwear market and 10 in own brand business in Taiwan & Mainland China
N	Ms. Kuo	Chief Designer of Atelier International Atelier International	<ul style="list-style-type: none"> ➤ 20 years in Taiwan local brands
O	Mr. Young	CEO of Fashion Marketing Section, Dept of Textiles & Clothing, Fu-Jen University	<ul style="list-style-type: none"> ➤ 17 years in HK & Taiwan Textiles & Clothing business & 10 in education

Appendix B: Interview lists of case studies in phase two investigation

Interviewees of case one (Companies A & B)	
Ms. Pan	Former Trend Consultant of Company A
Ms. Li	General Manager of Company A
Mr. Wang	President of Company A & B
Ms. Wang	General Manager of Company B
Ms. A. Chen	Purchasing Manager of Company A & former Vice General Manager of Company B
Ms. Tsai	Chief Operation Officer of Company B
Ms. T. Cheng	Design Director of Company B
Interviewees of case two (Companies J & K)	
Mr. Wang	President of Company J & K
Mr. T. Wang	Vice General Manager of Company J
Ms. J. Chen	Vice General Manager of Company K
Ms. S. Chen	Financial Manager of Company K & former Financial Manger of Company J
Ms. Hu	Production Manager of Company K & former Assistant Manager of Production Control of Company J
Ms. Chou	Assistant Manager of Production Control of Company K
Ms. Lin	Chief Designer of Company K & former Knitwear Designer of Company J
Ms. Chung	Fashion Designer of Company K
Ms. E. Chen	Chief Designer of Company J & former Knitwear Designer of Company K
Ms. Luan	Former Fashion Designer of Company K
Ms. Sung	Former Manager of Human Resource of Company K
Ms. Wei	Former Brand Manager of Company K
Ms. Mak	Former Fashion Designer of Company K
Ms. Cordsen	Design Consultant of Company J & K
Mrs. Wang	One of the six share holders & retired Manager of Company J & K

(Appendix B continued)

Interviewees of case three Companies M)	
Mr. Tsai	Manager of Strategic Planning Office of Company M
Ms. Ma	Former Creative Director of Brand O
Ms. Pan	Fashion Consultant of Company M
Ms. Chang	Former Senior Designer of Company M
Dr. Wang	Associate Professor of Fu-Jen University; former Strategic and Organisational Consultant of Company M (2000 -2004); & former Outside Director of Company M (2005 – 2007)
Mr. Wang	President of Branding Business Division I of Company M & Spokesman
Ms. Chen	Director of Product Development Dept of Company M
Mr. Lien	Sales Manager of Branding Business Division I of Company M

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