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**The Development of Industrial Cluster from  
Branding Perspective: The Keqiao Model**

**Luo Mei**

Ph.D

The Hong Kong Polytechnic University

2016

The Hong Kong Polytechnic University

Institute of Textiles and Clothing

**The Development of Industrial Cluster from  
Branding Perspective: The Keqiao Model**

**Luo Mei**

A thesis submitted in partial fulfillment of the requirements

for the degree of Doctor of Philosophy

June 2016

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\_\_\_\_\_ LUO Mei \_\_\_\_\_ (Name of student)

## **DEDICATION**

The thesis is dedicated to my dearest grandparents, Mr LUO Zhengbao and Ms WU Chunlan, for their unconditioned love and high expectation, which made me determined to overcome the formidable obstacle and achieve my aspiration in the past years.

## ABSTRACT

This thesis set out to study the growth of Keqiao as an industrial cluster and a brand, its branding efforts and the relationship between the cluster brand and its constituent brands.

Keqiao is a district of Shaoxing City, Zhejiang Province in China, which is a typical textile cluster. In Keqiao there is the largest market of textile products in China, namely China Textile City (CTC), which hosts around 24,000 trading firms. There is also a full chain of textile manufacturing, with 9,000 firms engaged in production of chemical fibers, textiles, apparel, and dyeing and finishing. Keqiao also has other sectors serving and supporting these two wings of the cluster. CTC is now a famous brand, and there are numerous individual brands in Keqiao. Keqiao itself has also become a well-known brand in China.

This study was an exploratory research. It was primarily a qualitative research, based on interviews and focus group discussions, and a large amount of secondary data. Grounded theory method was used in the analyses. There were also supplementary quantitative analyses, based on a comprehensive questionnaire survey.

In the study the growth history and the current situation of the Keqiao cluster were investigated. The various components of the cluster, such as CTC, the manufacturing aggregation, the logistic industry, the conference and exhibition sector, the creative industry, the Online CTC, and the Keqiao Textile Indexes were

studied, and their roles in promoting Keqiao were analyzed, and the relationships among the components were examined.

Based on the qualitative analyses, a model was constructed to describe the driving forces behind the growth of Keqiao as a cluster and a brand. While each component plays a role, the major players in the model are the government, and the two wings of the cluster, with the government being the most powerful one. The government facilitates the rapid growth of Keqiao in three ways and five aspects. The three ways are investment, planning, and policies. The five aspects are infrastructure, growth poles, talents, services, and branding efforts. With various measures and efforts in these aspects, Keqiao as a cluster and a brand has been growing fast in the past decades

Two companies in Keqiao were also investigated, and their growth path and their branding efforts were examined. This was to find the dynamic relationship between the cluster and the constituent brands. It was found that the individual brands got boost from the growth of the cluster brand, and their developments also helped enhancing the brand equity of the cluster.

Quantitative analyses of the questionnaire survey indicate that individual firms benefit from the cluster in various aspects, that the government has been playing a critical role in the growth of the cluster and has rendered various kinds of help to the enterprises, and that firms pay attention to branding efforts. Some other valuable information was also obtained from the study.

Based on the above study, some recommendations were made for further growth of Keqiao, and the implications to other industrial clusters in China were also suggested. The study was focusing on the growth of the industrial cluster and its brand and the relationship for the cluster brand with its constituent brands. It will have significant academic and practical implications, and would be valuable and meaningful for many other industrial clusters and the fashion industry as a whole in the country, and other developing countries around the world.



## PUBLICATION

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2. Songmin Shang, Lu Gan, Chun Wah Marcus Yuen, Shou-xiang Jiang, Nicy Mei Luo, the synthesis of graphene nanoribbon and its reinforcing effect on poly (vinyl alcohol), *Composites, Part A*, 68 (2015) 149–154.
3. Songmin Shang, Lu Gan, Marcus Chun-wah Yuen, Shou-xiang Jiang, Nicy Mei Luo, Carbon nanotubes based high temperature vulcanized silicone rubber  
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# CHAPTER 1 INTRODUCTION

## 1.1 Background

In the late 1970s and early 1980s, economic reforms were started in China and open door policy was adopted. The economy has been growing fast ever since. The fashion industry of China, broadly defined to include fibers, textiles, apparel, fashion retailing, and many intermediate links, has been developing rapidly and become one of the largest ones in the world. Two phenomena were particularly remarkable in this process. One is that there have emerged a number of textile industrial clusters (CNTIC, 2003), and the other is that there have appeared numerous brands and that branding has become ever important (Cheng, 2011; Liu, 2011). Among the textile clusters, one is particularly prominent, which itself has become a famous brand, and which has incubated thousands of constituent brands, while the latter in return has also helped the growth of the cluster and the brand. It is Keqiao District in Shaoxing City of Zhejiang Province. It is the purpose of this study to investigate the mechanism which enables the fast growth of Keqiao and the relationship between Keqiao as a brand and its various components.

### 1.1.1 Industrial Cluster

An industrial cluster is a place where firms which produce the same category of products or provide similar services are located geographically together (Porter, 1998). There have been many studies on industrial clusters in China. The phenomenon occurs for profound economic reasons, as a cluster can help reduce costs and increase efficiency, can help disseminate useful information and promote innovation, and can help the growth of the cluster itself.

In China's textile and apparel industry, in the past few decades, some clusters have emerged. According to China National Textile Industry Council (CNTIC), by 2002 there were already 10 industrial bases, 10 cities with special features, and 19 towns with special features, and numerous others, all could be regarded as textile clusters (CNTIC, 2003). These have played important roles in promoting the development of the fashion industry in China.

Keqiao (柯桥) is a typical textile cluster. Now a district of Shaoxing City, Zhejiang Province, it is a geographic area and an administrative unit, referring to the map shown in figure 1-1, with a small city and several rural communities. The registered population is about 650,000, with about the same number of temporary residents. Within the area there are around 9 thousands of enterprises engaged in manufacturing various textile products, from chemical fibers, to yarns and fabrics, dyeing and finishing, and to apparel and accessories. These enterprises of various sizes like stars spread over the land of Keqiao. Within the city of Keqiao, there is a huge market of various kinds of textile products, but primarily fabrics. The market is officially called China Textile City (CTC), which itself is comprised of several complex buildings, altogether containing around two thousands firms engaged in trading of textiles. Many of the firms in CTC are the marketing branches of the manufacturing enterprises in Keqiao. CTC boasts the largest wholesale market of fabrics in Asia, and probably the largest one in the world as well. In addition, there are also other sectors which serve the manufacturing and trading sectors of textiles, such as logistics. There have also emerged a conference and exhibition sector, a creative industry, and research and educational institutions, which are all closely related to the above textile sectors.

Many of the firms have established their own brands, especially the large ones. Some of the brands are well known, primarily in the region, and some in the entire China market. Many firms are making conscious efforts to develop their brand equity.

**Figure 1-1 The Geographical Location Of Keqiao in China**



Source: [www.Understand-China.com](http://www.Understand-China.com)

In this process Keqiao has built a brand name by and of itself. Now it is a relatively well-known brand as a textile cluster both at home and in the world, and at the same time is also a model in China for fast economic development. People are impressed with the rapid growth of the local economy and well-developed infrastructure, while in the marketplace, Keqiao (especially its CTC) is a renowned supplier of fashion related products.

### **1.1.2 Brand and Branding**

Branding has increasingly become one of the most important marketing strategies for various companies. In China, since the late 1970s and early 1980s when economic reforms were started, and the country became ever open to the outside world, brand awareness has been increasing among consumers, and branding strategy has gained ever growing significance among companies and marketers (Cheng, 2011; Liu, 2011). This is especially true for companies of the fashion industry, since most of the companies have to deal with final consumers directly in various ways.

In the process of fast growth of the textile and apparel industry in China, there have emerged some very large companies, and also numerous brands (<http://brand.efu.com.cn>). Some of the brands are well known in their particular product category. For example, Bosideng's down apparel and Belle is a shoe brand for women. Especially in recent years, many of the companies become highly vertically integrated ones. Many of them have expanded forwardly and established their own retailing businesses. For example, Esquel Group follows this way. As such, brand or branding has become even more important.

Currently, China has some high influenced fashion related brands domestically. For example, one source ranked the largest brands in some categories of fashion products (<http://brand.efu.com.cn>). For example, Firs, Septwolve, and Younger are well-known men's wear brands in China, and Simer, JeansWest, and MetersBonwe are well-known casual wear brands. There are also famous brands in other categories, such as women's wear, children's wear, sportswear, sports

shoes, intimate apparel, and home textiles. For example, Ochirly is women's wear and Li-Ning is sportswear.

While these brands are quite successful in the domestic markets, they also share some common problems, such as the lack of differentiation, the lack of famous designers, and the weakness and even absence in the international markets (Cheng, 2011; Yang, 2012).

Globally, there are some very prestigious and strong fashion brands. For higher end women's wear, there is a list of brands, such as Chanel, Dior, Prada and so on. For casual wear, there are American Fashion and Levi's. For sportswear and sports shoes, there are Nike and Adidas. These enjoy very high awareness and positive image, and are popular in most countries in the world. They also have strong presence in China, and take quite large market shares in their own target segments. No Chinese fashion brand has reached such a status. Evidently, there is still a long way to go before China cultivates its own brands, which can compete internationally with these brands.

The industry has long realized the weakness and made efforts to change the situation. In 2011, CNTIC published "The Twelfth Five-Year Plan of Textile Industry of China", a document about the strategy for making China a textile power in the world, in which it announced that one of the goals for the years 2011 to 2015, and would be to cultivate some famous and strong fashion brands which are capable of competing in the international market ([http://www.china.com.cn/policy/txt/2012-01/20/content\\_24456823.htm](http://www.china.com.cn/policy/txt/2012-01/20/content_24456823.htm)). Now



CNTIC is busy making the next five-year plan, and it can be quite certain that the goal will be re-emphasized.

### **1.1.3 Cluster as a Brand and Its Constituent Brands**

It has been pointed out that places can be brands, such as Bordeaux in France and Shangri-la in China. Industrial clusters can also be brands, and the most famous one in the world being the Silicon Valley in the US. There has been a large body of literature on these place brands.

In China, as the industrial clusters grow, many of them have become well-known brands as well. For example, Yiwu, a city in Zhejiang province of China, hosts the largest wholesale market for small commodities in the world and has attracted professional buyers from all over the world, with thousands of foreign buying offices stationed there, it has become a brand. The same is true of Keqiao.

The growth of a cluster is closely related to its constituent companies. As the cluster itself becomes a brand, and its constituent companies build up their own brands, there is dynamic relationship between the cluster brand and the constituent brands.

Evidently, the growth of a cluster cannot be separated from the companies located in the area. It is these constituent companies, which make the area a cluster. On the other hand, as the cluster grows, its advantages become stronger and better known, and it can attract more companies to come, and at the same time it incubates many new companies. The relationship is truly two-way and dynamic.

As more companies are located in the cluster, and especially when some very large and influential companies are settled in it, both the quantity and quality of the companies help make the cluster a famous brand name in its industry. On the other hand, the cluster as a brand can attract many buyers to come and bring about more businesses to its constituent companies. This helps the companies grow, and some have better chance to become well-known brands.

However, it is important to know that the process is not a natural one deemed to happen. The various stakeholders have to make conscious efforts to make it happen. Many times the local government plays an important role in this process. The government has to make many strategic decisions and take many effective measures to promote the growth of both the cluster and its constituent companies. This may be critical for the individual brands and especially for the cluster brand.

## **1.2 The Investigation of Keqiao Model**

There is a very large body of literature on industrial clusters and clustering (Rosenfeld, 1996), and there is also a large body of literature on brands and branding (Keller, 2008). In both cases, researchers have conducted theoretical researches and empirical researches, and have some important findings. In recent years, there have appeared some studies on places as brands, which is called place branding. However, very few studies thoroughly investigate the growth of a cluster, particularly clusters in China, describing the various forces which make a cluster to take shape; and virtually no studies have seriously examined the relationship between the cluster brand and its various components.

This research was set out to fill in this gap. In the project, the growth process of Keqiao as a brand was thoroughly investigated. The various aspects of the brand strategy implemented by Keqiao government were examined. Meanwhile, a couple of constituent companies were also investigated, but the focus was the relationship between the cluster brand and the constituent brands, rather than the constituent brands per se.

The research will have significant academic and practical implications. Academically, it not only discloses the growth pattern of a cluster as a brand, but also how the cluster helps its components grow, and vice versa; it thus also discovers the relationship of a cluster brand and its constituent brands. In practice, by analyzing the experiences and the current situation, both the strengths and weaknesses of Keqiao are identified, and thus it will help Keqiao better manage the self-brand and the constituent brands, so that opportunities will be taken and challenges will be overcome. This project will be meaningful not only for Keqiao, but also will be very suggestive and indicative to other clusters, so that those clusters and their constituent brands can make better efforts to promote their growth.

### **1.3 Objectives of the Study**

The goal of the research was to investigate the growth of Keqiao as a cluster brand, and to build a model based on the investigation, and to examine the relationship between Keqiao as a cluster brand and its constituent brands. Following this, there were several objectives to be accomplished in the study. Specifically, these objectives were:

1. To thoroughly investigate the growth and development of Keqiao as a well-known industrial cluster of textiles from the perspective of branding;
2. To examine the roles of various stakeholders in the growth of the Keqiao cluster brand, and build a model based on the examination;
3. To investigate a couple sample companies of Keqiao so as to disclose the growth patterns of the brands in Keqiao;
4. To describe the dynamic relationship between Keqiao and its constituent companies, that is, how the companies helped promote Keqiao as a brand and how Keqiao helped its constituent companies to build and develop their brands; and
5. Based on the above, to make corresponding suggestions and recommendations to Keqiao government and the companies in Keqiao, and also to other clusters and the fashion industry as a whole in the country.

#### **1.4 Scope of the Study**

As a case study, the scope of the research was relatively limited. While Keqiao as whole was thoroughly investigated, the study only covered those aspects which were related to the development of Keqiao as a brand. As Keqiao model is primarily related to the fashion industry, only the fashion industry was examined. Thus, other aspects of Keqiao and other industries of Keqiao were not covered.

A couple companies were examined as sample in the study. Only those aspects of the companies which were related to branding were studied. Other functional operations of the companies, if not closely related to branding, were not examined,

such as technology, human resources, logistics, and so on, which were not the subjects of the research. On the other hand, if a relationship of these aspects with Keqiao the cluster was found, and was deemed influential and relevant, they were pursued as well, for example, how Keqiao helped the spread of information on new technology and how Keqiao facilitated logistic arrangement of the companies.

Macro- and micro-environments, when they had impacts on the branding strategies of Keqiao and its constituent companies, were investigated. These may include the general environment change, such as what was experienced during the financial crisis in 2008; it was important to investigate how Keqiao as an entity helped the constituent companies or brands overcome difficulties, and how Keqiao as a whole managed to deal with the crisis so as to become stronger. The objective was to understand how challenges and opportunities were taken for further brand growth by Keqiao and its companies. If the aspects of environments were not closely related to branding and deemed to have little impacts, they will not be explored.

### **1.5 The Originality of the Study**

There exists a large body of literature on brand and branding, and many researchers have conducted studies and published papers, both theoretical and empirical. Similarly, there is also a large body of literature on cluster and clustering. Yet this project possesses its originality in several aspects.

First, while many clusters have been investigated, few have been analyzed from

the perspective of branding. Previous studies on industrial clusters focus on the pattern of cluster formation, the advantages and benefits of clusters, and so on. This research, however, investigated Keqiao not only as a cluster but also as a brand. Thus, special attention will be paid to the branding strategies.

Second, while many brands have been examined, they are mostly companies. In recent years, there appear some place branding studies, but these are concerned with places as administrative units. No studies for industrial clusters as brands have been found. Thus, it represents originality to study a cluster from the perspective of branding.

Third, following the above, the nature of the project determines that it is necessary and possible to investigate the relationship between the cluster as a brand and its components, including its constituent brands located in the cluster. In the literature, no previous such studies have been found.

Fourth, in the context of China, few studies have been found to identify the roles played by the stakeholders of clusters, particularly in their branding efforts. This study will endeavor to disclose these, and based on the findings a model will be constructed. No such models have been seen in the cluster or branding literature. This will be a big contribution of the research, and it will also represent a major originality of the study.

## **1.6 The Significance and Value of the Study**

Five objectives will be accomplished in the study, which are listed above, and

each one of them is of significance. For the first objective of investigating the growth of Keqiao as a brand, though conclusions drawn from the project may not be fully expanded to other clusters due to the exploratory nature of the study, such analyses will be indicative and will provide insight into the growth of industrial clusters. For the second objective about the roles of the stakeholders in the growth of the cluster brand, the discoveries will indicate how these roles can be strengthened for the benefits of the cluster brand. For the third objective, the growth patterns of the sample companies can be compared with the theories and models discussed in the literature, so that it can be learnt how these are applicable in China's environment. These will certainly be very useful to Chinese brands, particularly for their efforts in the competitive international market. As for the fourth objective about the interactive relationship between Keqiao as a brand and its constituent brands, the analyses will give some indication and inspiration on other clusters and their constituent brands. Finally, by giving suggestions and recommendations, it is hoped that this will help clusters in China grow strong, and help the brands and the industry in their branding efforts, particularly in their efforts of promoting their brands to the international market.

The study will be of value both in academics and in practices. In academics, a new route will be broken to investigate a cluster as a brand, and the relationship between the cluster and its components, which will be significant. This also represents a new approach to investigate brand growth and brand strategy. Besides, grounded theory method was employed in the analyses. These represent originality, and will contribute to the knowledge of branding studies. In practice, insight obtained will be very valuable to the growth of Keqiao, and will be very

valuable to other clusters in China. This will help make Keqiao stronger and promote its further growth. This will make the constituent brands of Keqiao stronger and promote their further growth as well; and also boost China's fashion industry grow and strong from domestic to international.

## **1.7 Organization of the Dissertation**

This dissertation is organized into eight chapters. In addition to this chapter, the introduction, in Chapter 2, relevant literature will be reviewed so as to orient the study. In Chapter 3 the methodology employed in the study will be described in detail. Chapter 4 is devoted to the description of the Keqiao cluster and Keqiao as a brand with each of its components. In Chapter 5 the Keqiao model will be discussed, and the various efforts and conditions will be analyzed to disclose the driving forces of the cluster growth and the brand development. This is supplemented by Chapter 6 which is focused on individual companies, which describes the pattern of the constituent brand growth. This is followed by Chapter 7, which is the discussion of the results of the questionnaire survey. Finally, the Chapter 8 is the conclusion of the study, and the recommendations and implications; which also acknowledges the shortcomings of the research and gives suggestions for future studies.



## **CHAPTER 2 LITERATURE REVIEW**

Literature review is viewed as an integral part of the study, which inspires research ideas and helps position the current project. In this study, a broad range of relevant literature was reviewed and analyzed. These include previous studies on industrial clusters and clustering, on brands and branding, on the combination of the two areas, place branding, and on all of these in the context of China. These reviews are arranged in that sequence.

### **2.1 Literature Review on Industrial Cluster**

An industrial cluster is a geographic concentration of interconnected companies and institutions in a particular field (Chen, 2005; Porter, 1998). A cluster may include suppliers of specialized inputs, manufacturers of complementary products, and also institutions, such as universities, standards-setting agencies, training providers, trade associations and so on. The firms in the cluster must be linked in some way. There can be vertical linkages such as buying and selling chains; or horizontal linkages such as complementary products and services, the user of similar specialized inputs, technologies or institutions, and other linkages. Most of these linkages involve social relationships (Chen, 2005; Emisht, 2001; Karlsson et al. 2005; Rosenfeld, 1996).

Industrial clusters have long been observed, such as New York as a center of finance industry, Detroit as a center of automobile manufacturing, and Pittsburgh as a center of steel making. Thus the phenomenon would naturally attract the attention of researchers. The theory on industrial clustering first appeared in the

1920s, and was firmly established in the 1990s by Porter (Brenner, 2004; Chen, 2005; Emisht, 2001; Wang, 2010). Literature on industrial cluster can be roughly divided into two categories, the first one being the advantages of industrial clusters and the second one the reasons for industrial clustering, though the two cannot be entirely separated, as intuitively it can be seen clearly that the formation of industrial clusters must have something to do with the benefits which are brought about by clustering. In this section the literature on the advantages of industrial clusters will be delineated first, followed by a relatively more detailed discussion on the literature on the reasons for the formation of industrial clusters.

### **2.1.1 Advantages of Industrial Clusters**

Researchers have found that industrial clusters possess substantial advantages (Brenner, 2004; Brown et al. 2013; Li, 2009; Lu, 2006; Porter, 1998; Wang, 2001). An industrial cluster forms a more effective market competition and constructs specialized production factor concentration, which enables the provision of shared public goods, market environment and external economy, lowers the costs in information flow and logistics, leads to effects of agglomerative economies, economies of scale, externality, and regional competitive power. Generally these advantages can be divided into three categories: lower costs and higher productivity; information dissemination and innovation promotion; and formation of new businesses, which expands and strengthens the cluster itself.

#### **2.1.1.1 Lower Costs and Higher Productivity**

Clustering helps lower costs and enhance productivity (Brown et al. 2013; Emisht,

2001; Karlsson, 2008; Lu, 2006). There are several reasons for this. Companies in a cluster can have better access to qualified employees. When a relatively large number of firms concentrate together, which produces similar products, there naturally forms a large pool of specialized labor force. The location may attract many people to come to seek jobs, due to the reputation of the locality, which makes the pool even larger. It is also easier for companies in a cluster to get suppliers. Since a concentrated cluster will provide a large customer base, suppliers of various kinds will come. Besides, institutions and various public goods providers will tend to come, these include research institutions, consulting companies, financial firms, legal firms, certification agencies, logistic companies and so on. Proximity of all of these can substantially lower the transaction costs of various kinds. For example, it is said that in Shengze, a town of Suzhou city, Jiangsu province in China, which is a large cluster of fabric manufacturing, most of the factories do not need to stock different kinds of spare parts for their machines. Whenever there is a need for any machine parts, a phone call even at midnight will solve the problem in minutes, since there are firms which provide not only the spare parts but also related services. In an apparel cluster, there are suppliers of various buttons. Thus, an apparel manufacturer can get any buttons needed without having to go out to search for them. This reduces the costs of production enormously (Brown et al. 2013; Wang, 2010).

Besides, there is also cooperative relationship among the companies in a cluster, such as: complementary products that meet customers' needs like a supermarket; coordination of activities across companies; externality in marketing due to reputation of a location as a particular base; and being an attractive buying source

to customers with multi-suppliers or easy switch of vendors. All of these reduces transaction costs and increase efficiency (Brown et al. 2013; Kuchiki & Tsuji, 2005; Lu, 2006; Sarach, 2015).

#### **2.1.1.2 Information Sharing and Innovation Creating**

The proximity of companies facilitates the dissemination of useful information to the companies (Brown et al. 2013; Kuchiki & Tsuji, 2005; Liu, 2011; Richardson, 2013). Information on market trends easily spreads. Emerging technology, machinery, services, and marketing concepts can be learnt early. These are valuable for the development of the companies in the cluster. Clustering also helps innovation. Not only does it provide a better window on the market due to the sophisticated buyers who come to the cluster, but also there is competitive pressure, peer pressure, and constant comparison among companies within a cluster. Besides, it provides the capacity and the flexibility to act rapidly. All of these promote innovation in a dynamic way.

#### **2.1.1.3 Formation of New Businesses**

Clustering also enhances the formation of new firms in a cluster (Brown et al. 2013; Fischer & Reuber, 2000; Lu, 2006; Parrilli, 2007). This is because there is easier detection of gaps in products or services provided for individuals working in a cluster, thus opportunities are not missed and firms will be formed to fill in the gap. Also, there are lower entry and exit barriers for firms in a cluster, which facilitates the formation of new firms. This is because there are needed assets, skills, inputs, and staff in a cluster, and there are usually local financial institutions and investors, local market and social relationships.

### **2.1.2 Theories on Industrial Cluster Formation**

Since 1920s, many theories have been put forward to explain the formation of industrial clusters from various aspects (Brenner, 2004; Lu, 2006; Paytas et al. 2004; Wang et al. 2006; Wu, 2006; Wang, 2010). These theories are inspiring to the current study.

#### **2.1.2.1 The Theory of Industrial District**

The theory of industrial district was proposed by Marshall, who began to pay attention to the concentration of enterprises very early (Karlsson, 2008; Lu, 2006; Wang et al. 2006; Wu, 2006). He termed the phenomenon of the concentration of a large number of similar enterprises in a particular location “industrial area”. He pointed out that the reason to form such concentration is that the enterprises could benefit from external economy. These benefits include the synergy effects and the innovation environment, the sharing of auxiliary services and a high level of specialized labor market. These promote the healthy development of the local economy, help balance the demand and supply of labor, and give convenience to customers. Marshall also analyzed the characteristics of such locality and its advantages. He stated that in an industrial area trade secrets could hardly be kept and would become public; competitors would soon learn them; excellence in work would be rightly appreciated; any innovation and renovation in equipment, process, and organization would soon be examined and imitated. Any new idea will be adopted by others, and integrated into the ideas of others, and become the source of even newer ideas. Evidently, Marshall’s idea contains almost all the elements of the advantages of industrial clusters.

Industrial clustering at that time was still at its budding stage. The major characteristic of the clusters was the external economy generated by the geographic concentration of numerous materially connected companies and institutions. While the most important contribution of Marshall was the discovery of the environment of collaborative innovation, it was limited to technology. As in Marshall's era the connection among the firms was primarily input and output of materials, he did not elaborate on the non-material rationale for enterprise concentration (Lu, 2006; Wang, 2010; Wang et al. 2006).

#### **2.1.2.2 The Industrial Location Theory**

Weber was one of the earliest economists who studied industrial clustering and proposed the industrial location theory (Karlsson, 2008a; Lu, 2006; Wang et al. 2006; Wu, 2006). He believed that industrial clustering could be divided into two stages: in the first stage, there was the simple expansion of scale of enterprises, which was the lower stage of clustering; in the second stage, some enterprises concentrated in a particular location, which attracted more enterprises of similar nature to the location. Then the prominent advantages of such concentration were the agglomeration effects.

Weber summarized that factors in four aspects performed critical role in the formation of industrial clusters. The first one was the development of technology and equipment. Specialization of technological equipment increased the entire efficiency, but the inter-dependence of such equipment prompts locality concentration of enterprises. The second one was the development of labor organization. Weber viewed a well-developed and comprehensive labor force as

equipment in a sense. As the labor force was specialized, it also promoted industrial clustering. The third one was the market, which Weber believed was the most important one. Industrial clustering could maximize the scale of purchases and sales, obtain credit with lower costs, and even eliminate the “middle men”. The last one was the operational costs, since industrial clustering would lead to development of infrastructure such as gas, water and so on, which lowered the costs of operation (Karlsson, 2008; Lu, 2006; Wang et al. 2006; Wu, 2006).

Weber’s analyses on industrial clustering were pure theoretical study. Besides, he neglected the dynamic external environments and factors such as rules, society, culture, history and market competition, so that his conclusion seems insufficient in explaining the reality (Lu, 2006; Wang et al. 2006; Wu, 2006).

### **2.1.2.3 The Theory of Growth Poles**

Perroux was the first one to put forward the concept of “growth poles” (poles de croissance) (Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006; Wu, 2006).

A growth pole is an industry, or group of related industries, which have growth rates above the national average and the capacity to generate growth through the impacts of strong input-output linkages. He introduced the concept of “propulsive unit”, which was a dominant economic unit. When such unit grows or innovates, it induces the growth of other units. Such units become the growth poles of a region, which is actually an industrial cluster.

Later in the 1960s Boudeville further developed the idea (Lu, 2006; Wang, 2010; Wang et al. 2006; Wu, 2006). He pointed out that the propulsive units would have

two kinds of growth effects. One is the multiplier effect, which is the fast economic expansion due to the linkages of existing enterprises; and the other is the polarization effect, which is the increase in efficiency due to linkages formed with outside of the region. Thus an industrial cluster will promote growth in both ways.

The theory emphasizes the roles played by government for the formation and growth of industrial clusters. With the investment of government to propulsive units or enterprises, there will be agglomerative effects around these units, leading to fast economic growth of an industrial cluster.

#### **2.1.2.4 The Theory of Territorial Production Complex**

The theory of territorial production complex was originated in the former Soviet Union (Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006; Wu, 2006). This theory holds that, based on the natural conditions and economic geography, enterprises should be properly arranged to reach special economic goals. Such a complex should be comprised of branches of different functions: operational, which are specialized enterprises representing the direction of regional growth, and thus are the core of the complexes; affiliated, which are the forwardly or backwardly associated enterprises; auxiliary, which depend on the by-products of the core enterprises; and finally, the infrastructure, which provides the general conditions for various enterprises. Such a complex is really an industrial cluster, with the specialized enterprises being the core, with the enterprises linked by input-output, and with the enterprises sharing the infrastructure.



The theory emphasizes the stable and formal input-output linkages among the enterprises. It takes into consideration spatial transaction costs, not only transportation costs, but also communication and coordination and management. This has significant implications for regional planning. However, the theory is the product of planned economy, in which the economic functions are often eclipsed by stronger political goals.

Studies of the above theories pay more attention to the material linkages of enterprises in a region, and emphasize the advantages of external economy brought about the concentration of enterprises, but neglect the non-material linkages among the enterprises (Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006). Later on there have been newer developments in research on industrial clusters. These are discussed below.

#### **2.1.2.5 The Industrial District Theory**

The Italian scholar Bagnasco proposed the concept of new industrial district in the 1970s, which is a complex formed in a region by people and enterprises with common societal background. Becattini further developed the idea, pointing out that the industrial district was a regional complex, with the aggregated characteristics of people and enterprises in a region constrained by its nature and history. The foremost feature of the district is the local networks, that is, the formal cooperative relationships among the entities of the region and their informal communication linkages formed in the long-lasting processes of interactions (Belussi & Sammarra, 2010; Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006).

Industrial clusters are such industrial districts. They possess various characteristics which cannot be cloned. The first character is the high level of specialization due to clustering. The theory emphasizes the division of labor among the enterprises in a region or the long-term stable relationship of sub-contracting. The relationships are formed based on the reliance and trust between the enterprises. The second character is the local networks. The networks means that the entities in a region, including enterprises, universities, research institutions, and government organizations, selectively cooperate with other entities in formal and informal ways and, based on this, form a long-lasting and stable relationship. The third character is the rooting nature of the enterprises, that is, the competitive power of the enterprises is rooted in the regional and local environment, as any economic activities cannot be separated from the social and cultural environment. The last character is the symmetric relationship between the entities. All the enterprises are equal and relatively independent, with no domination or attachment, participating in the networks with an equal status (Belussi & Sammarra, 2010; Karlsson, 2008; Karlsson et al. 2005; Wang et al. 2006).

Bagnasco and Becattini proposed the concept of new industrial district, but it was only after Piore and Sabel proposed the concept of flexibility plus specialization that the theory began to attract the attention. Piore and Sabel analyzed the industrial districts and suggested that the characteristics of the districts are flexibility plus specialization (Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006).

In Piore and Sabel, flexibility means that the re-allocation of production factors continuously changes the production process, while specialization means that the re-allocation of resources are done within a limited range, as the enterprises all know that they are engaged in production of a specialized field. One characteristic of the clusters is their exclusiveness; other producers outside the cluster cannot enjoy the provision of various resources and institutional arrangements. Another characteristic is that the clusters encourage innovation but limit excessive competition, since vicious competition in wage and work condition will hinder technological progress (Karlsson, 2008b; Lu, 2006; Wang, 2010; Wang et al. 2006).

#### **2.1.2.6 The New Economic Geography Theory**

It was Krugman who proposed the theory of new economic geography (Karlsson, 2008; Krugman, 1991, 2009). He pointed out that the geographic concentration of enterprises might be caused by “incidental events” in the local history, and the subsequent cause-effect relationship accumulated. The foundation of the theory is increasing return to scale. Using a simple two-region model he explained the minimization of transportation costs due to economy of scale, leading to the selection of enterprise location at the point where market demand was large, which in return was determined by the distribution of the industry. Thus, Krugman explored the motivational causes for the enterprises to agglomerate, which is the formation of industrial clusters (Karlsson, 2008).

The new economic geography theory integrates transportation costs into the theoretical framework, which combines economic agglomeration, externality, and

economy of scale with the analyses of enterprise location selection and regional economic growth. The theory is regarded as more convincing. It provides theoretical foundation for support of industrial policy, which may promote the rise and development of regional agglomeration (Lu, 2009; Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006).

#### **2.1.2.7 The New Institutional Economics**

Coase was the founder of the new institutional economics. He proposed the concept of transaction costs, and developed the corresponding analytical method, using it to explain the institutional structure of economic activities. He also developed the concept of inter-firm organizations (Karlsson, 2008; Rutherford, 2001).

Inter-firm organizations are those which are between the pure market organizations and pure bureaucratic organizations. Their existence is due to their efficiency or survival capability. Pure bureaucratic organizations may entail diseconomies of scale due to high coordination costs, while high transaction costs may entail market failure. Then inter-firm organizations emerge to balance the two. Regional concentration of enterprises is essentially such an organization. From this perspective, industrial clustering can be viewed as an organizational structure which is based on specialization and cooperation of many enterprises. Such a structure is more stable than a market but more flexible than a bureaucratic organization. Such a structure lowers transaction costs by division of labor and cooperation, interaction and communication, and reaches the goal of economies of scope (Karlsson, 2008; Rutherford, 2001).

### **2.1.2.8 The New Economic Sociology**

There are three fundamental themes in the new economic sociology: embeddedness, social network, and system. From an entirely new theoretical perspective, this school combines economics and sociology, integrates social structure into the analyses, and takes into consideration the influences of such factors as society, culture, power, system, and social structure (Karlsson, 2008; Granovetter & McGuire, 1998).

Granovetter put forward the concept of embeddedness (Granovetter, 1985). He pointed out that economic activities were embedded into networks and systems, which were structured by the society and possessed cultural implications. Enterprises embed and network in the locality, concentrate in such places, and structure a system of interaction and cooperation, leading to increased competitiveness. Social networks based on personal trust can overpass the boundaries of firms and strengthen social interaction. Enterprises in such networks have strong desire for cooperation and risk sharing, which reduces opportunism. Relationship between the firms is relatively stable, so there is less retaliation. There are mutual benefits among the firms, so it is easier for them to act in concert and reach the common goal.

The concept of embeddedness proposed by the school of new economic sociology better explains the social and cultural factors of industrial clusters and the functions of local environment, and rightly emphasizes the importance of networks. Later research indicates that embeddedness plays a larger role in the earlier stages of a cluster but that a strong embeddedness may hinder the growth

of the cluster towards higher levels of the cluster after a certain point. Therefore, when a cluster is going global, embeddedness may need to be deemphasized (Karlsson, 2008).

#### **2.1.2.9 The Regional Innovation Theory**

It was Schumpeter (1934) who first put forward the idea of innovation economy, which was later developed into the regional innovation theory (Karlsson, 2008; Giersch, 1984). The major concern of the theory is the social-cultural environment, such as various rules, regulations, and practices which promote innovation, thus the theory connects the spatial concentration of enterprises with innovation activities. Such an environment makes it possible that the innovative organizations can work and coordinate with other organizations. Such an environment is brought about by the synergy of firms and the collective efficiency. Thus, clustering enables the firms to share the benefits of large scale production and technological and organizational innovation.

The core idea of the theory is that innovation is possible due to the backward and forward linkages of economic networks brought about by concentration of firms. The levels of linkages correlate with the levels of innovation. In other words, it is impossible for isolated companies to innovate individually, whereas innovation can be largely improved through close interaction and knowledge communication between customers, suppliers and knowledge generating institutions.

The theory emphasizes the importance of innovation to the development of enterprises. The theory points out that industrial clustering not only has benefits

such as economies of scale and economies of scope, brought about by the geographic concentration, but more importantly, it leads to enhanced learning capacity of enterprises in a particular region (Belussi & Sammarra, 2010; Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006).

#### **2.1.2.10 The New Competition Theory**

Porter systematically analyzed industrial clustering and subsequently proposed the new competition theory, which lead the relevant research into a new level and a new field (Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006). He defines industrial clustering as a group of inter-connected companies and institutions concentrated in a particular area, which forms a specialized production factor concentration. This enables the provision of shared public goods, more effective market competition and external economy, lowers the costs in information flow and logistics, and leads to agglomerative economies effect, economy of scale and externality, and regional competitive power (Porter, 1990, 1998).

Examining ten important trading countries including the US, the UK, Japan, Italy, Germany and Denmark, Porter concludes that the competitive power of the countries is primarily not in their comparative advantages but rather in their industrial clusters. These clusters are the major sources of their competitive power. He believes that innovation is the most important route for firms to gain competitive power, and is the core for a firm to maintain its competitiveness and a country to its advantages. Industrial clustering is an effective way to stimulate innovation because it creates an environment conducive to innovation (Porter, 1990, 1998).

The major characteristics of the industrial clusters examined by Porter are the long and stable relations among the firms, which are both competitive and cooperative, and the subsequent cost reduction and the ability increase in continual innovation. This provides insight and guidance to promote regional development. However, there are criticisms to the theory. The major criticism is that the theory is able to explain the growth of existing clusters but unable to predict how they will grow and which will be the successful clusters that have not emerged yet. The theory has not been universally recognized (Karlsson, 2008; Lu, 2006; Wang, 2010; Wang et al. 2006).

From the discussion above it can be seen that industrial clusters have been studied from different perspectives, and the various theories proposed have disclosed a range of rationales for clustering. Each of the theories has thus enriched our understanding of this important economic phenomenon.

## **2.2 Industrial Cluster Strategies and Policies**

### **2.2.1 Overview of the Issue**

Porter was the first one to put forward the concept of industrial cluster, and he raised this issue to the level of competitive power of nations. From this perspective industrial clusters are viewed as national competitive strategy (Porter, 1998; Karlsson, 2008).

Two terms are used to describe industrial policy related to clusters, one is “cluster policy” and another is “cluster-based policy” (Wang & Wei, 2009a). Many



countries have established such policies. Italy is often viewed as a pioneer in this regard, as it has policy for the development of its “industrial districts”. Netherland established its Industrial Network Cooperation Program in 1989. This program provided financial support and service for a large number of networks which had resemblance with industrial clusters, and the effects were widely hailed as exemplary. In the US there are also similar programs, usually at state level, such as Network Programs by Oregon, the Berkshire Plastics Networks by Massachusetts, and the Technology Coast Manufacturing and Engineering Network by Florida. United Nations Industrial Development Organization and OECD have done research in this aspect (Andersson & Schwab-Serger 2004; Wang & Wei, 2009).

### **2.2.2 Clusters and Regional Development**

Other than the advantages of clusters to individual firms, researchers have investigated the roles clusters play in promoting regional development (Andersson & Schwab-Serger 2004; Barbieri et al. 2012; Bednarek et al. 2014; Borrà, 2008; Chen et al. 2010; Ganne & Lecler, 2009; Karlsson, 2008; Kuchiki, & Tsuji, 2009; Lu, 2006; Qian, 2004; Sullivan & Sheffrin, 2003; Wang, 2001; Wang & Wei, 2009; Wu, 2006; Younes, 2012; Zeng, 2010). The findings indicate that industrial clusters can significantly advance the development of a region.

Industrial clusters help the backward areas of a country to move forward fast and enable the areas to fulfill the leap-type development. This is because clusters have the advantage of specialization and can facilitate transaction, thus is a more efficient way to organize production in a region and can realize fast growth

(Andersson & Schwab-Serger 2004; Zheng, 2009; Sonobe, 2006).

Also, industrial clusters are favorable to innovation and thus enhance competitiveness of a region. Among the firms in a cluster, knowledge, skills and information are relatively easy to be accumulated and then spread; and also the clusters create an environment which facilitates the learning of firms and thus can shorten the learning curve of the firms individually and the cluster as a whole collectively. The costs of learning would be much lower (Barbieri et al. 2012; Bednarek et al. 2014; Chen et al. 2010; Lu, 2006).

In addition, an effective and efficient cluster can substantially increase the competitiveness of a region. This is because with industrial clusters the region will be able to produce products either with lower costs or with more unique differentiation, which are the two important sources of competitive advantages (Andersson & Schwab-Serger 2004; Lu, 2006).

These roles played by industrial clusters thus lay a solid foundation for argument to develop regional or even national policies and strategies to promote the establishment and growth of industrial clusters, even though government intervention can be very controversial.

### **2.2.3 Arguments for Establishing Industrial Cluster Policy**

Many scholars advocate establishing industrial cluster policy. In the literature, different arguments for establishing such policies have been deliberated (Borrà, 2008; Chen et al. 2010; Nishimura & Okamuro, 2011; Wang, 2001; Wang & Wei, 2009; Younes, 2012; Zeng, 2010).

Some researchers view industrial cluster policy as an important component of industrial policy (Andersson & Schwab-Serger 2004; Lu, 2006; Zhang, 2008). Generally an industrial policy is the combination of various interference policy to reach a certain social and economical goal, which fills in the gaps of market mechanism, optimizes resource relocation, and protects infant industries. Cluster policy, on the other hand, emphasizes the regional distribution of the industry.

Some researchers believe that establishing and implementing cluster policy can help make adjust to the external changes (Andersson & Schwab-Serger 2004; Lu, 2006; Zhang, 2005). According to the nature of the changes, often taxation and administration policies will be adapted, service costs will be lowered, administration process will be simplified or expedited, transaction environment will be improved. Some infrastructure, training and education will be provided.

Some researchers argue that establishing cluster policy can help SMEs to grow (Fischer & Reuber, 2000; Parrilli, 2007; Potter & Miranda, 2009; Sheng, 2009). Compared with large enterprises, SMEs have disadvantages in many aspects, such as the lack of ability to conduct R&D, to improve technology, to raise capital, and to develop and implement marketing strategy. Government supports thus will be valuable and many times necessary. The support can be realized with the cluster policy. There are also researchers who argue that many clusters which are formed spontaneously need the support of cluster policy so that a more orderly growth can be achieved.

#### **2.2.4 The Kinds of Industrial Cluster Strategies**

Governments in different countries and regions have developed and adopted different kinds of cluster strategies to promote the growth of industrial clusters. Researchers investigated these strategies, and found that generally the strategies can be divided into three categories: to strengthen the existing cluster so as to develop new ones; to attract powerful enterprises to cultivate clusters; and to develop industrial parks to cultivate clusters (Chen et al. 2010; Ganne & Lecler, 2009; Karlsson, 2008; Kuchiki, & Tsuji, 2009; Lu, 2006; Wang, 2001; Wang & Wei, 2009).

The first strategy suggested in the literature is to maintain and strengthen the advantages of the existing clusters, and based on this cultivate new clusters. This kind of strategy is suitable for clusters which are already there but whose emergence was somehow spontaneous and whose development disordered. Then the major objective of the strategy is to strengthen the existing cluster. This has been seen in many countries, such as the Silicon Valley of the US, the textile cluster in Lyons of France, and the tableware cluster in Solingen of Germany. Strategies developed and implemented by these clusters significantly promoted the growth of these clusters (Andersson & Schwab-Serger 2004; Karlsson, 2008; Lu, 2006).

The second strategy is to attract strong enterprise to enter a region and cultivate the cluster with the enterprise as an anchor. When a leading company settles, it can substantially reduce the risk of failure of the cluster. Internationally, there are also numerous examples of such strategy. The best example is the Toyota auto-city

in Japan. The local government has done extraordinary work to plan and implement its strategy, so a cluster with Toyota as its center and a large number of small companies which serve and support Toyota eventually flourished (Ganne & Lecler, 2009; Karlsson, 2008; Kuchiki, & Tsuji, 2009; Lu, 2006; Wang, 2001a; Wang & Wei, 2009b).

The third strategy is a very common one and has been adopted by many local governments, which is to establish industrial parks to cultivate industrial clusters. The best example of success of such strategy is the Xinzhu scientific industrial park in Taiwan. During the late 1970s, Taiwan government established the park and tried with various favorable policies to attract enterprises. The most impressive part of the policy is that they attracted numerous talents who studied abroad to come back and create enterprises, and these individuals became the most valuable assets of the park. There was vertical division and specialization along the value chain, and there were active interactions among the firms. Due to their overseas background, there was exchange between the park with Silicon Valley of the US both in talents and in information, which enabled the park to grow rapidly both in quantity and in quality (Andersson & Schwab-Serger 2004; Contreras et al. 2013; Kobayashi, 2014; Lu, 2006; Zhang, 2006).

#### **2.2.5 Government Policies to Stimulate the Growth of Industrial Clusters**

It is said that almost all governments were using various policies to support the growth of their industrial clusters. Scholars have conducted investigation to categorize these policies (Andersson & Schwab-Serger, 2004; Ganne & Lecler, 2009; Karlsson, 2008; Kuchiki, & Tsuji, 2009; Lu, 2006; Mitra, 2003; Wang &

Wei, 2009; Younes, 2012). Among them, the work of Mitra (2003) and Andersson and Schwab-Serger (2004) are particularly worth mentioning.

Mitra (2003) examined the policies of different countries and regions towards industrial clusters, and he divided these policies into six categories.

1. It is very common for governments to establish policies to improve infrastructure for the locality of the clusters. These include not only roads, power, water, and communication, but also knowledge facilities, special services and the establishment of technological centers.
2. Many policies are enterprise oriented. With such policies, the governments provide financing, offer consultancy, or help train personnel for the enterprises.
3. Some policies aim at strengthening the attractiveness of the clusters. The governments encourage internal investment, and make efforts to attract resources such as technology, capital and labor from the outside.
4. Some policies are information oriented. The governments do jobs in collecting, storing, disseminating and even trading of various kinds of information, which is deemed valuable to enterprises in clusters, in areas of technology, market, trade and other business areas.
5. Some policies focus on training and R&D. The governments provide supports for education, training and some R&D projects in favor of enterprises in clusters.
6. Some policies aim at encouraging cooperation. Governments take measures to support collaboration and enterprise networking, and to cultivate a climate and culture of openness and competition.

Similar to this, Andersson and Schwab-Serger (2004) also investigated government policies towards industrial clusters, and divided the policies into five categories:

1. Some policies are oriented towards establishing agency or intermediary institutions. There is a broad range of activities the governments undertake, for example, they establish scientific parks; set up enterprise incubators; support cooperation between public and private sectors; strengthen the knowledge communication between organizations; and conduct statistical analyses to evaluate the development of the clusters.
2. Some policies are established from the perspective of the demand side. With such policies, governments try to implement public purchase; establish market information exchange center; establish the global marketing system under the leading role of the government; and help form global demand network.
3. Often governments have training policies. The core of such policies is the occupational training plan, which may include public information service, college education, and some profit-making occupational training by the private sectors
4. Some governments establish international-relation promotion policies. With such policies, the governments try to attract foreign direct investment, overcome trade barriers set up by other countries, participate into the division of labor in world value chain, and build global exchange channels.
5. Sometime, governments develop frameworks of environment policies. The emphases are the factors which influence the environment and innovation in clusters. These can be very broad, including macro economy, product and service market, factor market (capital and labor), educational system,

medicine and hygiene, security, law, transportation, and rules to promote innovation.

Government cluster policies can also be categorized in other ways (Karlsson, 2008; Lu, 2006; Wang & Wei, 2009). According to the degree of government interference, there are strong and weak interference policies; and according to the different stages of life-cycle of clusters, such as start, growth, maturity, and decline, policies established should have different emphases to address the different problems encountered by the clusters.

Wang and Wei (2009) examined the government policies towards industrial clusters from the perspective of government interference levels. They divided the policies into five levels, from virtually no interference to heavy interferences. These can be described as:

1. No interference: The government takes a hand-off policy and does not interfere at all
2. Contacting: The government may contact the stakeholders but only provide very limited supports or instruction. The government only plays an indirect role in promoting the private sector to participate the growth and development of the clusters.
3. Supporting: Based on the contact as described above, the government may invest in infrastructure, education, and training, or provide specific policy to encourage investment in these areas.
4. Mandatory policy: Based on supports aforementioned, the government establishes policies to restructure the local economy, or makes specific



mandatory goals and plans.

5. Interference policy: Based on the mandatory policy, the government makes most decisions concerning the development of the cluster, or takes various methods to develop the cluster; these methods include: large amount of subsidy, reward for entry into the cluster, and protection or regulation. Sometimes the government may demand for ownership or control of the cluster.

### **2.2.6 Government Policy Tools for Implementing Cluster Strategies**

To implement the cluster strategies, it is necessary that governments use appropriate policy tools. In reality, governments of different countries and regions employ different tools to promote the growth of industrial clusters. In the literature, there are studies which analyze these tools (Karlsson, 2008; Kuchiki & Tsuji, 2009; Lu, 2006; Sullivan & Sheffrin, 2003; Wang & Wei, 2009). Some of the common tools used by governments are discussed below.

One of the tools governments often use is to procure products from the clusters so as to increase the demand for such products. These public purchases range from office equipment to automobiles. While the practice occurs at any stages of the cluster growth, it seems that this kind of purchases often take place at the early stage of the clusters so as to boost the growth of the clusters, and also during economic difficult times so as to help enterprises in the clusters to smoothly overcome the difficulty (Chen et al. 2010; Karlsson, 2008; Ganne & Lecler, 2009; Lu, 2006).

Often governments take actions to reduce the transaction costs for clusters. Specific measures include the provision of some public goods to create platforms for cooperation, subsidy to enterprises which newly hire employees, subsidy for R&D, and favorable terms for loans, and some others. These help the growth of clusters (Chen et al. 2010; Karlsson, 2008; Ganne& Lecler, 2009; Lu, 2006).

Governments supplement human capital for enterprises in the clusters. There are numerous discussions in the literature for actions in this direction (Karlsson, 2008; Wang & Wei, 2009). For example, governments may provide subsidy for hiring innovative personnel, and offer suggestions and consultancy to enterprises; they encourage venture investment, and sometimes directly participate in the management of incubators; they support the establishment of creation centers, provide innovation training, or supply technical and economic intelligence to enterprises in clusters.

Governments disseminate public information to enterprises in clusters, especially information concerning technology and trends, so as to enhance the ability of companies to discern opportunities. They also take measures to cultivate decision making capabilities so as to enhance the ability of companies to make long term strategies. These can be helpful for healthy growth of clusters.

Government directly support R&D projects, and set up policy frameworks for priority of supports. Such frameworks include supports for dynamic research of industrial development, plan for promoting enterprise cooperation, loan for R&D projects, subsidies for using some commercial facilities, and establishment of

innovation center which serves clients in clusters. There are also supports for establishing incubators, R&D centers, commercialization of research outcomes of universities or institutions, and also establishing institutions which coordinate technology transfers.

Finally, a government may make efforts to develop the whole cluster as a regional brand and promote such brand so as to attract potential investors or foreign direct investment. This helps the cluster expand and grow.

To summarize, there is a full range of policy tools governments can use to promote the development of industrial clusters. However, government must be careful and cautious in the selection of these tools, since that may severely distort the functions of the markets.

### **2.2.7 Principles of Government Interventions**

Following the above, scholars warn that it is important for the markets to play the major roles. The governments should only support, rather than replace the markets. Based on the successful experiences and some lessons learnt from failures, some principles have been recommended (Chen, Guan & Hu, 2010; Kuchiki, & Tsuji, 2009; Lu, 2006; Sullivan & Sheffrin, 2003; Wang, 2001; Wang & Wei, 2009; Younes, 2012; Zhang, 2008). Researchers believe that following these principles of government intervention can help reduce failures and mistakes. It is suggested that usually a combination of tools or measures is needed; a single measure may not be effective. When governments implement policies for the benefits of enterprises in clusters, the policies should be easy for enterprises to know and

understand and take advantages of. If the policies are too complicated, it would be difficult to implement. Also the policies should not increase the burden of the enterprises, and red tapes should be avoided. The measures should encourage and increase the connection and cooperation among the enterprises. Healthy competition should be encouraged, but the competition should not damage the growth of clusters. Constraints should be set for the policies and measures, which should only aim to remedy the market failure, not beyond; the policies should not substitute the market itself. And finally, in most cases the policy should not target a single enterprise, and all enterprises should benefit from the government intervention and all enterprises should be viewed equal.

### **2.2.8 Government Policies Concerning Industrial Clusters of China**

Due to the unique characteristics of political and economic systems in China, governments play a much more active role in economic activities than those in the western countries. Researchers are very interested in the government policies concerning industrial clusters of China (Fleisher et al. 2010; Zhou, 2011). Having examined the economic development plans of provinces of China, researchers found that each of them had a plan to develop industrial clusters (Lu, 2006; Wang & Wei, 2009; Zhou, 2011).

#### **2.2.8.1 Strategies and Policy Tools Used by Local Governments in China**

The provincial governments stated different strategies to develop their clusters. Wang and Wei (2009) studied their strategies, and identified the following strategies used by local governments in China.

1. Large-enterprise-leading-cluster strategy: Governments promote enterprises to make cross-region or even cross-country integration and restructure, so as to make a number of large enterprises and enterprise groups. These large enterprises would then have strong radiation effects to help clusters grow. Such strategies are usually undertaken at the provincial level to have some very large scale projects or engineering construction, which can bring up clusters.
2. SME oriented Cluster strategy: The core of such strategy is to strengthen the specialization among firms and their complementary roles with each other in a cluster; the emphasis is to support the SMEs to develop assorted parts and products.
3. Inviting outside investment strategy: The goal is to invite and attract foreign investments, to be receptive to the international industrial migration from the developed countries. With such strategies, international economic cooperation can be established, which brings out growth, and in many cases results in the formation of industrial clusters. Examples in Guangdong province in the early years have proven the effectiveness of such strategies.
4. Infrastructure construction strategy: The rationale and the goal of such strategies are to develop a good condition for businesses to settle in. In many cases, with specific goals in mind, such strategies target some particular industries, such as service, finance, insurance.
5. Regional development strategy: There are variations in implementing such strategies, depending on the specific situations of the provinces or places. Sometimes governments take measures to speed up the construction of industrial bases and industrial parks, which helps attracting enterprises and

facilitates the growth of existing firms. Some provinces put policy in place to strengthen the service functions of central cities, so that clusters can grow smoothly. Some try to develop industrial zones to promote regional development. Also some provinces make efforts to develop county economies (county-centered economic activities), since most of the clusters are located in the countryside.

6. Science and technology revitalization strategy: The core of such strategies is to encourage the enterprises to use new technology, new materials, new processes, and new equipment, so that competitive advantages could be built, and clusters can grow.

While the above strategies are really the goals of cluster development, governments tend to use various related policy tools to realize these goals. Wang and Wei (2009) also summarized the most common policy tools used by the Chinese governments. While there is overlapping with the strategies, these tools are usually more handy for governments to operate.

- Planned development: plan for modern industrial bases; plan for regional development
- Financial policies: development of regional financial center; establishment of tax-free logistic centers, tariff free zones and bonded areas; guaranteed loans; companies going public
- Attracting investment: setting up demonstration plot; inviting foreign investment in accounting, auditing, agency, certification and so on
- Scientific innovation: establishing scientific platform; information restructuring

- Spatial development: integration of industrial parks of national, provincial and local levels; leading production factors to aggregate towards the preponderant regions, industries, parks and enterprises; speeding up the construction of some center towns, implementing the “one region multiple parks” model
- Environment protection: increasing the support for environment protection; constructing green industrial parks, cultural tourism attractions, and bio-agricultural production and processing bases
- Infrastructure: cultivating logistic industrial clusters; constructing logistic and information platforms, and the establishing standard system of logistic technology

#### **2.2.8.2 Criticism of Government Cluster Policies in China**

There have been heated debates on the performances of government cluster policies. While in general researchers believe that governments have played a very positive role in promoting cluster growth, there are also criticisms on these policies (Fleisher et al. 2010; Lu, 2006; Wang & Wei, 2009; Zhou, 2011).

Some researchers have found that most local governments do not have an appropriate policy framework. This framework should be market oriented, based on the current conditions, and take into consideration comparative advantages of the locality, and correctly position and strengthen the local specialty. But many times these are neglected. Also, based on the above, the governments should be selective to the enterprises, and only those which have the relationship of specialization and cooperation should be allowed to enter the cluster. However, it

is quite common in China that governments only pay attention to the quantitative growth of the clusters, such as the number of enterprises in a cluster, and thus try to attract investments in a undifferentiated manner. Thus, in some clusters there is a lack of coherence. Besides, government policy should be oriented towards the provision of public and semi-public goods or platform such as infrastructure, education, medical care, and so on, so as to optimize both the hard and soft environments. These are often neglected also.

Another problem concerns governments at county level. In China, in terms of administration, a county is one level below the city. In most cases, the county governments are the most important ones to promote cluster development. Often their functions are to implement plans on cluster development made by their superiors, such as city or provincial governments; and to provide necessary policy support of their own. However, the counties may not have the sufficient legislative power to implement and enforce the policies (Lu, 2006; Wang & Wei, 2009; Zhou, 2011).

Researchers have pointed out that most of the governments pay attention to attracting outside companies to come into the cluster but neglect efforts to cultivate growth from within (Lu, 2006; Wang & Wei, 2009; Zhou, 2011). The local governments are usually under tremendous pressure to have high rate of GDP growth, which is closely related to the promotion of government officials. It seems that an easy way to speed up growth is to expropriate land from the farmers, then the government invests on infrastructure, establishes industrial parks, then attracts outside companies to come in, with various incentives such as low price



and low tax, and sometimes even at the price of sacrificing environment. Many times the companies who came in have low relationship and low match with the local resources and productivity level, and thus are not rooted with the locality. A better way is to have a small number of local enterprises which profit well and can be a role model for other SMEs in the locality. These companies can grow and be rooted in the place, and can also induce others to grow.

It has been found that many local governments only pay attention to attract big enterprises and develop large projects, but neglect the cluster of small companies (Lu, 2006; Wang & Wei, 2009; Zhou, 2011). Large companies have a long chain of related businesses with close association with each other, and are able to bring up the related industries, enterprises, and institutions, which can form a cluster naturally. However, it has been noticed that the large enterprises and large projects may not be able to bring up a cluster of small and medium sized enterprises, which can form a healthy foundation for growth of local economy. Many times such large enterprises and projects may not help cultivate local entrepreneurs either.

Some researchers criticize that many local governments overly rely on the directing effects of special funds but neglect the gravitational effects of the local environment. The problem is that such funds are usually limited and such supports are thus short-lived. Thus, it should be more encouraged that, in addition to create favorable conditions with improvement of infrastructure, supports should be given in ownership system, finance channels, information and technology services, and attracting talents. If the network in the cluster is optimized and thus transaction

costs are lowered, it would be more beneficial for growth of larger clusters.

### **2.2.8.3 Recommendations for Further Development of Industrial Clusters in China**

Based on the above analyses, scholars have made some recommendations for further development of industrial clusters in China (Lu, 2006; Wang & Wei, 2009; Zhou, 2011).

First, it is recommended that survey and statistical investigation of clusters should be conducted. At the forefront is that a set of criteria to determine a cluster has to be established. These would include primarily three aspects: how to quantitatively and qualitatively identify a cluster, and how to classify a cluster and how to draw the boundary of a cluster. This can only be done by some government agency or agencies. Without these, policy making would be blind and ineffective.

Related to this, it is important to construct a scientific system of cluster indexes. These indexes should be able to reflect and measure the development of clusters and help evaluate the contributions made by the clusters to the entire economy. They should also provide information about the total value, the composition and the change of clusters. These should reflect the real situation of the clusters. Only with this kind of information can policies be correctly decided.

Secondly, industrial policies and regional policies of governments should be adjusted. Currently the emphases of such policies are to support a few key enterprises but support to industrial clusters is neglected. The policies, in the

implementation at regional level, are often oriented towards single enterprises, called “supporting the excellent and the strong”, which is baseless theoretically in the first place. The industrial policies of governments should be adjusted towards a cluster orientation with the objectives to promote the growth of entire clusters, rather than individual enterprises, and to enhance the competitiveness of the clusters. Emphases should be given to supporting the autonomous innovation of the clusters as well. In the national strategies such as to develop the west, to revitalize the northeast and to make the central region of China emerge, cultivating industrial clusters should be an important element. For all the industrial parks being developed by various regions and at various levels, their growth should also be made cluster-oriented, specialized, and with their own characteristics.

Finally, there should be a national cluster development plan. Clusters should be differentiated, and managed accordingly. Some are taking the high-end approach, that is, to develop high-tech industries; while others are based on traditional labor-intensive industries. The key for the high-end clusters is to establish the mechanism of venture capital and to promote the commercialization of research outcome; and the key for clusters based on traditional industries is to promote technology innovation, improve product design and enforce brand development. Also, it is very important to build public services and platforms. These should include information services (such as demand and supply of products, price fluctuation, emerging technology, policy changes, taxation changes, environment requirements, and so on), notarization, arbitration, accounting, auditing, personnel market, and tax agencies. Also, it is important to establish trade associations and

use them as a tie between the government and the enterprises.

## **2.3 Literature Review on Brand**

### **2.3.1 Overview of Brand**

According to American Marketing Association, brand is “Name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition” (Keller, 2008). This definition captures the very basic essence of brand. But the meaning of a brand is much richer. A brand also implies awareness of the brand, its reputation in the market place, and many times its various associations related to the brand.

Brand is not something new. In the literature, brand was traced back to Roman times; but actually it has existed in China for a long time. While certainly not as brands or branding as we know of today, but even in the ancient time of China, names of certain commodities and products won high reputation (Cheng, 2011).

Nowadays brand as a concept and practice has been wide spread. It is said that almost everything can be branded. For example, not only can physical goods services, retailers, online products and services be branded, as people commonly know, even people and organizations, sports, arts and entertainment, geographic locations, and even ideas and causes can also be branded (Keller, 2008). Branding of geographic location, or place branding, is one of the concerns of this project.

### **2.3.2 Benefits of Brand to Buyers and Sellers**

Evidently brand must have had significant benefits to both sellers and buyers, otherwise the sellers would not have spent so much effort in branding, and the buyers would not have paid so much attention to the brands. Of course, there is an important premise, that is, the brand has to be relatively well known or enjoy relatively high brand awareness, and the brand has to have a positive image and enjoy relatively good reputation. For either of the two, a seller has to make long and enormous efforts. That is why, it is said that brand is a bridge: it bridges the seller to the buyer, and the seller's past efforts to the buyer's future usage experience (Keller, 2008).

Brand brings significant benefits to buyers. Now with an overwhelming number of every kind of products in the marketplace, it has become tremendously difficult for consumers to make a purchasing decision. It is in this context that consumers benefit from brand (Champniss & Vila, 2011; Erdem & Swait, 1998; Fournier, 1997). It is said that brand has become a risk-reducer for consumers. By using branded products, a buyer can reduce functional, physical, financial, social, psychological, and time risks (Roselius, 1971).

Brand can bring tremendous benefits to sellers. The most important one is that brand can be a source of competitive advantages and can bring about considerable financial return (Chernatony & McWilliam, 1989). Especially for a strong brand, there are numerous benefits, such as less vulnerability to market competition, larger profit margin, and greater loyalty from the customers (Erdem & Swait, 1998; Fournier, 1997). Some have summarized the benefits of brand to sellers into

two, namely the increased market share and the premium price (Lassar, Mittal & Sharma, 1995). Some brands benefit primarily from increased market share, with the best example being McDonalds'; and some brands benefit primarily from premium price, with most of luxury goods being the case. Most brands benefit in both ways, i.e., increased market share and premium price.

### **2.3.3 Brand Equity**

Brand equity is a very important concept, both in academics and in practice. In a sense, all the efforts made by companies are to increase brand equity. Brand equity, according to Keller (2008), is defined as marketing effects uniquely attributable to a brand, or the differences in outcomes due to brand.

#### **2.3.3.1 The Measure of Brand Equity**

There are different ways to measure brand equity. Generally, brand equity can be measured at the company level, product level, and consumer level (Interbrand Group, 1992; Jones, 2005; Keller, 2008). It is at consumer level, called consumer based brand equity (CBBE), which has the most academic value, has attracted the most academic research (Keller, 1993, 2008).

According to CBBE, the power of a brand, or the true value of a brand, lies in what resides in the mind of consumers. This is sometimes is referred to as brand knowledge. Brand knowledge has two components: brand awareness and brand image.

### ***Brand Awareness***

Brand awareness refers to how much consumers know a brand. This kind of awareness has two measures, namely brand recognition and brand recall (Keller, 2008). Brand recognition is whether a consumer can recognize a brand when exposed with some hints or clues, and brand recall is whether a particular brand would come to the mind of a consumer without any hints when in needs of some commodity (Cowley & Mitchell, 2003; Park & Smith, 1989). It is important to have a higher level of awareness for a brand, because that would give the brand a higher chance to be picked up by the consumers (Bettman & Park, 1980; Hoyer & Brown, 1990). Thus it is very important for brand managers to make efforts to enhance the awareness of the brand.

### ***Brand Image***

For any brand, with some level of awareness consumers would form a perception of the brand, which is referred to as brand image. The importance of projecting a positive brand image is self-evident. The image of a brand is embodied in two aspects: attributes of the brand, and benefits of the brand (Adaval, 2003; Jacoby, Syzabillo & Busato-Schach, 1977). It is important for a brand to have a strong, favorable, and unique image (Aaker, 1997; Founier, 1997; Vriens & Hofstede, 2000).

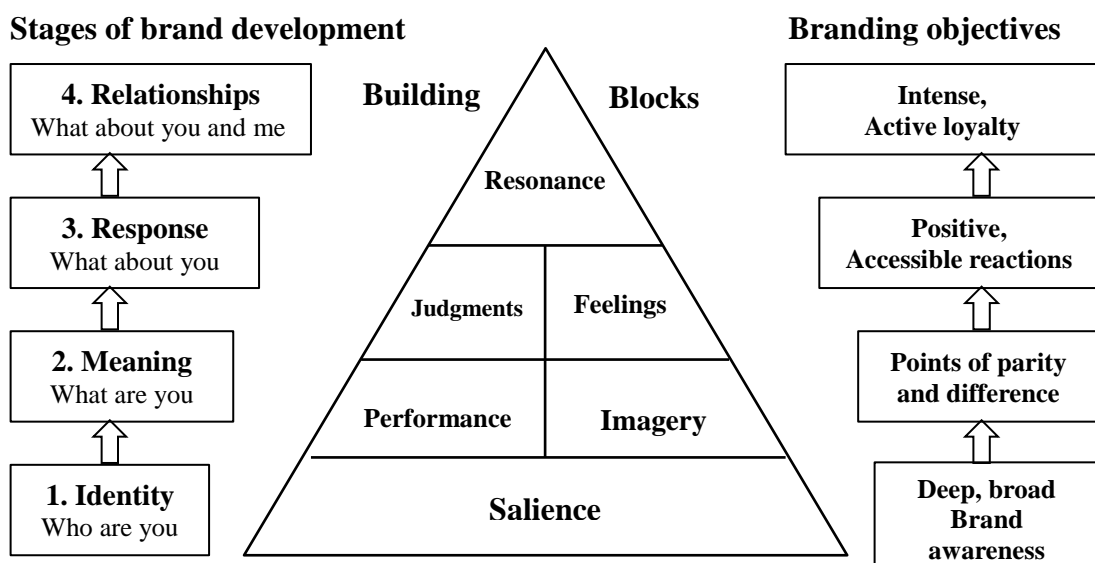
Consumer based brand equity clearly indicates the source of brand equity. If a brand wants to be strong, or in other words to have high brand equity or brand value, all it has to do is to improve consumer knowledge. It has to make efforts in two directions: to enhance brand awareness, and to build a positive brand image

among consumers. That is, the brand itself has to be good, and the goodness has to be known by consumers. These are related to the 4 Ps in marketing. Thus, the product has to be good in the sense that it meets some needs and wants of consumers; the price has to be right to the consumers, in the sense that it is not too high to be unaffordable and not too low to project a cheap image; and in terms of place the product has to be delivered at the right time and right place. To be good alone is not enough to build up brand equity; it is also important to let the consumers know the goodness. While this awareness is related to the first three Ps, obviously the last P, promotion, has to play an important role in that. Thus, the brand is good, and consumers know that it is good, which will definitely lead to increased market share and premium price. Either way, and in both, brand equity will grow (Sull & Turconi, 2008; Jin et al., 2012).

### 2.3.3.2 A Model of Building Brand Equity

Keller (2008) has suggested a model of building brand equity. This model can be illustrated with the figure 2-1.

**Figure 2-1 Model of Building Brand Equity**





This model depicts the four stages in building brand equity. The four stages are called Identity, Meaning, Response, and Relationship. These stages are sequential, that is, one stage forms the foundation for the next one, and the next stage can only be built on the basis of the previous one. The model identifies the components of each stage, and defines the branding objectives of each stage.

The objectives of the first stage, Identity is to build as broad and deep brand awareness as possible. This stage is characterized with brand salience. Many fundamental jobs have to be accomplished in this stage. The foundation for branding and for marketing has to be laid, such as STP (segmentation, targeting, positioning) (Cowley & Mitchell, 2003).

The second stage, based on the work of the first one, is called Meaning, as the task in this stage is to establish the totality of brand meaning in consumers' mind by linking tangible and intangible associations with certain properties of the products. In this stage, efforts have to be made to establish the various desirable attributes and benefits to consumers. These include two categories, with one being performance and the other being imagery, each with several components. Tremendous efforts have to be made in each component of each category.

The third stage, Response, is to elicit proper customer response to the brand identification and meaning. Based on the attributes of brand products and benefits the brand brings about, and the performance and imagery of the brand, consumers will form a judgment about the brand and its products and have a feeling toward it and them. Firms need to guide consumers to form favorable judgment and feeling

(Chaudhuri & Holbrook, 2001; McAlexander, Schoutern & Koenig, 2001).

Finally, the last stage, Resonance, is to gain the trust of consumers, so that loyalty, attachment, a feeling of community, and engagement will be established. This is the ultimate goal of the brand managers, and with that strong brand equity can be established (Boulding et al., 2005).

#### **2.3.4 The STP of Branding**

Branding is part of marketing, thus the two in theory and in practice inevitably share some similarity. STP (segmentation, targeting, positioning) is important for both (Keller, 2008; Kotler & Keller, 2006). Without STP, there cannot be success of branding, which has been emphatically stressed in literature. Market segmentation is identifying and profiling distinct groups of buyers who differ in their needs and preferences. There are various ways segmentation can be undertaken, for example, it can be based on geography, demographics, psychographics factors, and behavior. Each may have many segmentation criteria. Then, based on the resources of the company, the strategic direction, and the analysis on the competition and market situation, the firm has to select one or more market segments to enter, which is targeting. Finally, brands have to position themselves in the marketplace, or occupy a distinctive position in the mind of consumers (Sujan & Bettman, 1989).

#### **2.3.5 Brand Elements**

Many studies in the literature indicate that brand development is a long process

which requires efforts in many aspects. One such aspect is choosing the brand elements (Keller, 2008). Brand elements are brand identities, trademark devices which serve to identify and differentiate brand. Brand elements include name, logo, symbol, character, spokespeople, slogan, package, and nowadays also URL (Uniform Resource Locator, the page on web or the domain name).

In the literature many studies give detailed analyses on the elements of many brands. It has been found that following a set of criteria for brand elements will be very helpful for brand development and for establishment of brand equity. These criteria stipulate that a brand element should be memorable, meaningful, likable, transferable, adaptable, and protectable (Cohen, 1991). It is very difficult to satisfy all the criteria. Nevertheless, brand managers should know that brand elements play an important role in enhancing brand equity. Appropriate elements can help enhance brand awareness, and also brand image. Thus, attention has to be paid to the elements.

### **2.3.6 The Four Ps of Marketing and Branding**

Branding and marketing as academic disciplines are intertwined, and in practice cannot be totally separated. One of the ultimate goals of marketing is to establish brand equity, whereas to build brand equity it is necessary to establish and implement strategies on the 4 Ps (Keller, 2008; Shugan, 2005). The difference is that marketing strategies may have short-term objectives and measures, but for branding long-term efforts are needed.

The marketing mix is comprised of 4 Ps, namely product, price, place, and

promotion (Kotler & Keller, 2006). Nowadays place is often referred to as distribution channel, and promotion as market communication. It is important for the marketers and brand managers to realize that each of the marketing mix bears the image of the brand. That is, the image of a brand is concretely materialized on each component of the marketing mix. In terms of product, for example, if a brand is to be a prestigious one, it is absolutely necessary that quality of the product has to be superior. In terms of price, for example, the status of a prestigious brand is definitely reflected in its high price, whereas if a brand targets the low to middle segment of the market its price level has to reflect that and to be relatively low. The same is true for place and promotion (Keller, 2008).

It is important to correctly implement the strategy for each component of the marketing mix for branding development, but it is even more important to coordinate the strategy for the marketing mix as a whole (O'Guinn, Seminik & Allaen, 2006). This includes the coordination of the 4 Ps (Naik, Raman & Winer, 2005), and also the coordination within any component of the marketing mix, such as advertisements and sales promotion. In literature it has been pointed out that unfortunately many times for many brands there are failures in integrated communications. For example, for the same brand there is often conflict between mass advertising, price promotion, product label, company sales literature, and so on (Alba & Hutchinson, 1987; Kotler & Keller, 2006). The cause for the problem is once again a failure in communication from different units of the company. The result is a confusing company image and brand positioning to be projected, which is ultimately detrimental to the efforts of build up brand equity.

### **2.3.7 Leveraging Secondary Brand Associations for Brand Equity**

For building up brand equity, often the strategy of leveraging secondary brand association is used (Keller, 2008; Rao, Qu & Ruekert, 1999). This is an indirect approach to building brand equity by “borrowing” some brand knowledge and equity from other entities. For example, many brands use a spokesperson who is not directly related to the brand, but if the person is a popular public figure with very positive image, then some kind of association can be established between the person and the brand. If the association is strong, whenever the person is seen by the consumers, it is hoped that the brand will be remembered of. In this way, the brand awareness will be enhanced, and the brand image will also be improved. The Associative Network Memory model has been suggested to explain the connection between the brand and the other entities (Keller, 2008).

There is a broad range of sources for secondary brand association (Keller, 2003). Examples include people, such as employees, endorsers (spokesperson), and many times the founders or the top managers of the company; events, causes, and third party endorsement; places such as country of origin; company, extensions, and ingredients. However, it is very important that these sources be properly leveraged so that the brand equity will be enhanced rather than diluted or even damaged (Misra & Beatty, 1990).

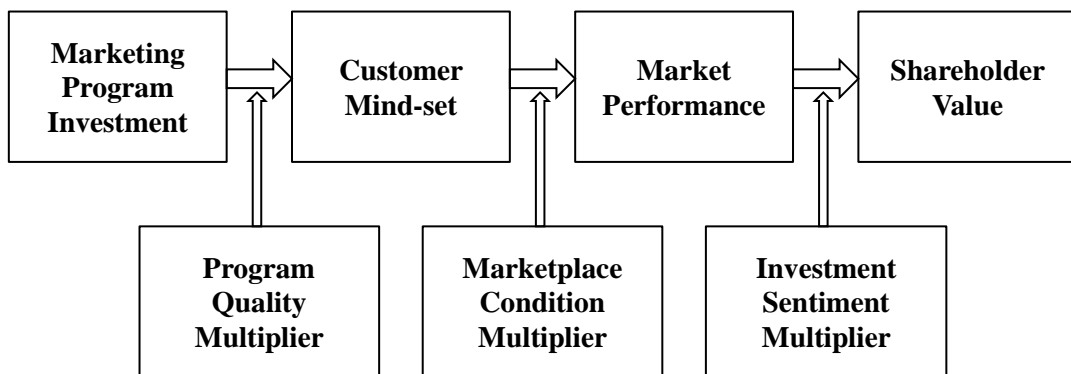
### **2.3.8 Managing and Measuring Brand Equity**

#### **2.3.8.1 The Brand Value Chain Model**

To build up brand equity is a continuous process. In the literature, a model has

been suggested for managing and measuring brand equity, called brand value chain model (Keller, 2008: Keller & Lehmann, 2003). This model provides a structured approach to assessing the sources and outcomes of brand equity and the manner by which marketing activities create brand equity. There are three basic premises of the model, which are: the brand equity resides with customers; there are four stages of brand value creation process; and there are linking factors (multipliers) intervening between the stages. The model is illustrated graphically in figure 2-2.

**Figure 2-2 The Brand Value Chain Model**



It can be seen from the diagram that the four value chain stages are: Marketing Program Investment, Customer Mind-set, Market Performance, and Shareholder Value, while the three multipliers are: Program Quality, Marketplace Condition, and Investor Sentiment. The four value chain stages are sequential, and the three multipliers are in between and have impacts on them.

The model starts with marketing program investment. These are the efforts made by the company (or brand) in various aspects, such as product, communication, trade, employee, and others. It is hoped that the investment will lead to desired second stage, customer mind-set. The measures for the second stage include

awareness (good recall and recognition of the brand by consumers), positive associations or image of the brand (good understanding of the attributes of the brand and the benefits it brings about), desirable attitude of consumers towards the brand (strong, favorable, and unique), established attachment of consumers with the brand (loyalty, adherence, and even addiction), and desirable activities of the consumers (purchase, use, talking to others, or seeking related information about the brand, etc.). These are really the sources of brand equity, which should be reflected in the outcomes. That is the third stage, the market performance. Measures on market performance include variables such as price premiums, market share, expansion success, good cost structure, and finally profitability. Many times, the fourth stage is added, which is shareholder value of the brand or company, which include measures such as stock price, P/E ratio (price/earning), and market capitalization (the total market value of the company).

The model includes multipliers as a force to shape each of the stages. That is, after the investment is made by the company or the brand, how the investment leads to desirable customer mind-set to a large degree is determined by the program quality multiplier. For example, if the investment is well executed, the quality of the program is high, then it will be effective for the next stage, namely consumer mind set (Lassar, Mittal & Sharma, 1995).

The brand value chain model has some important implications. First, the model indicates that brand value creation starts with the marketing program investment, thus there must be well-funded, designed and implemented marketing program, including STP (segmentation, targeting, positioning), 4Ps (product, price, place or

distribution channel, and promotion or marketing communication), and others (appropriate elements of brand, and effective secondary associations, etc.). Second, value creation requires that value should transfer from stage to stage, thus efforts made in the previous stage lays a foundation for the next stage, and have to be continued and followed in the next stage. Third, the model provides a road map for tracing value creation, and indicates the measures for each of the stages and multipliers (Keller, 2008; Kamakura& Russell, 1993).

### **2.3.8.2 Brand Tracking Studies**

Based on the brand value chain model, it is important to conduct brand tracking studies. Brand tracking study is the practice of collecting information from consumers on a routine basis, typically through quantitative measures of brand performance on a number of key dimensions. In literature, the benefits of tracking studies have been documented. With such study, the brand manager can have a better understanding of category dynamics, learn the changes in consumer behavior, monitor the competitive vulnerability and opportunities faced by the brand, and have a clear picture of the marketing effectiveness and efficiency so that efforts can be made in a more targeting way (Chay, 1991).

Generally there are three levels of tracking: product-brand tracking; corporate or family brand tracking; and global tracking. Product-brand tracking is the most fundamental. Primarily, such studies track the situation of brand awareness and brand image (Dillon et al., 2001).

Methodology for such tracking studies is very much like that for marketing



research. Thus, both secondary data and primary data should be collected, and both qualitative and quantitative approaches be adopted. For qualitative analyses, in-depth interview and focus group discussions are commonly used; whereas for quantitative analyses, various types of surveys are used. There are many techniques. The brand managers have to employ the appropriate ones to get the needed information as the foundation for decision making (Clark & Amber, 2001).

### **2.3.9 Growing and Sustaining Brand Equity**

In the literature, many studies have found that, after a brand has been built up, it is important to make efforts to grow and sustain the brand equity, as there are many challenges on the road.

#### **2.3.9.1 Brand Structure**

As companies grow, sometimes they may have a range of brands, so the management of the structure of the brands will be a problem to be solved (Gurhan-Canli, 2003). Primarily two questions have to be addressed: how to maximize brand equity across all different brands and products; and which brand elements to apply across products. There are two ways of handling this: brand architecture (brand-product matrix), and brand hierarchy. In the architecture or brand-product matrix a brand name may carry several products, but at the same time different brands of the company may carry the same products. Then the company has to decide the breadth and depth of the products it wants to carry. On the other hand, a company may also have brand hierarchy so that below the name of the company there are family brands, individual brands, or even modified

brands (Erdem & Sun, 2002; Kim, 2006). These form a hierarchy, which defines the relationship between the brands.

### **2.3.9.2 Brand Extension**

Brand extension is an important brand growth strategy. There are two kinds of extension, one is line extension, which is to apply parent brand to a new product for a new segment within the same product category, such as Levi's has a new jeans wear called Red Tab, which targets a more fine market niche; another is category extension, which is to apply parent brand to a different product category, such as when Nike extended from sports shoes to sportswear and then to sports gears (Dacin & Smith, 1994).

Brand extension offers advantages to the growth of the company. It can improve brand image, reduce risk perceived by customers, increase the probability of gaining distribution and trial, increase efficiency of promotional expenditures, reduce costs of introductory and follow-up marketing programs, allow for packaging and labeling efficiencies, and permit consumer variety-seeking. In other words, brand extension can help utilize the awareness and image of the established brands to more of their potential for growth (Bridges, Keller & Sood, 2000).

In the literature, however, it has been cautioned that brand extension has to be excised with care, as there are also risks related to the extension. For example, there is the probability to confuse or frustrate consumers; the extension may encounter retailer resistance if it is from a manufacturer; the attempt may fail and

end up hurting parent brand image; even if it succeeds, it may cannibalize sales of sibling brands or parent brand; or it may succeed but hurt the image of parent brand, and also it may dilute brand meaning.

### **2.3.9.3 Reinforcing Brands**

In the process of brand development, measures have to be taken to reinforce the brand, so that the brand can keep the momentum and the growth can be sustainable (Moore, Wilkie & Lutz, 2002). To achieve that, the literature has pointed out that efforts have to be made in several aspects. First, the brand has to maintain consistency. Thus, if the brand has been trying to project an image in prestige, it has to keep doing that, and cannot carelessly change into low price even if that can bring in short-term benefits. If the image drifts, consumers will get confused. Second, on the other hand, as the general environment changes, it is also important that the brand has to move forward. Thus, the brand has to balance consistency and change. In the literature it has been suggested that the source of brand equity has to be protected. At the same time, the brand can fine-tune the supporting marketing programs, whether that is product related performance associations or non-product related imagery association. And in the whole process, brand awareness and brand image have to be improved to reinforce the brand.

### **2.3.10 Building Global Brand**

In recent decades the economies of most countries have been globalized. In the great tide of globalization, many strong brands go global. In many cases, design and product development of the brand are undertaken in one country,

manufacturing is carried out in another country or other countries, and the final products are sold in international markets. An important indication of the strength of a brand is its presence in international market (Fishman, 2004).

In the literature, advantages of global branding have been widely examined and discussed. These advantages include economies of scale in production and distribution, and lower marketing costs. Global branding represents power, enhances the consistency in brand image, and enables the brand to leverage good ideas quickly and efficiently, and promotes uniformity of marketing practice (Zou & Cavusgil, 2002).

However, global branding also has huge risks and brings about tremendous challenges. These challenges are primarily caused by differences in social and cultural environment, in economic development, in legal system and so on. The brand management must build up the ability to deal with all these differences and accumulate the experiences in these markets.

One big issue in global branding is standardization versus customization. Standardization means that there should be uniformity of marketing programs (product, price, place or distribution channel, promotion or marketing communication) of a brand across country markets, while customization means that marketing programs have to be adjusted according to the specific environment of each country. In practice it mostly a mixture of both, and thus it is important to keep an appropriate balance (Samiee & Roth, 1992).

## **2.4 Literature Review on Place Branding**

As this project concerns the growth of Keqiao as a brand and the branding efforts of Keqiao government, literature on place branding was reviewed. Place branding as a discipline is relatively new; it came into being around 1990s. Since then, researchers have conducted broad studies to investigate the various aspects of branding efforts of different places, and have some interesting results.

### **2.4.1 The Practice of Place Branding**

Anholt, an influential scholar in the field, has pointed out that the practice of place branding has long existed, though not called that way (1998). For example, places have always needed to promote their attractions and images as to attract settlers, customers, visitors, traders, investors and various “influencers”. This was particularly evident in North America, especially in the colonial days. In recent years, place marketing and place branding activities have been intensified. Many places spent a large amount of money for such purposes. For example, it was estimated that Trentino region spent about 10 million euro for place marketing, while Lombardy spent US\$15 million, and Singapore spent US\$33 million (Langer, 2001). CNN conducted a research and found that in the US communities and regions spent US\$540 million to promote their localities. Worldwide, Anholt (2010) estimated that money spent on such purposes must have reached billions of dollars.

Anholt’s paper (1998) was regarded as a significant landmark and a turning point in the field of place branding. One big contribution of the paper is that it tries to differentiate “place marketing” and “place branding”. Generally, he believes that

place marketing means that the private sector, such as in tourism, markets their services, destinations and attractions, and that government, often along with the private sector, tries to make efforts to provide an umbrella of “brand” or image of the place.

In 2010, Anholt published a paper as the editorial of the journal, in which he reviewed the history of practice in place branding, and tried to define the term and answered several questions related to place branding. He pointed out that a place name is actually a brand name, and a flag is a logo. He proved these with convincing arguments. For example, in many cases people select or construct a name “that contains some branding power: a vision, a purpose, a political direction, an interpretation of history”. In the tide of globalization, place branding has become even more important, not only for nations, but also for regions and cities. A flag is purposely designed to convey a meaning, persuasive and communicative, both internally and externally, and that is exactly like the function of a logo.

The strongest message Anholt tries to convey is that branding efforts are much more than just to promote the name, the logo, to participate in various exhibitions or sponsorships, though these are important. Much like a corporate, or a private brand, while market communication is critical, more importantly, there must be coordinated efforts in all of the four Ps: product, price, place, and promotion. Thus, if a place is really serious about its place brand, it is not just a problem of image; it has to make efforts so that the place lives up to its image. That should be the coordinated efforts of both the government and the private sector. So if a place

is trying to attract investment, then efforts must be made to improve the environment, policy must be in place to be attractive to investors, there should provide good logistics, and so on.

Gertner published an important review paper in 2011, which survey the research on place branding for the past two decades. The author identified 260 papers related to place branding in various journals. These papers cover a very wide range of geographic entities, including business districts, boroughs, cities, metro areas, nations, even groups of countries and continents. The papers also embrace various activities to promote the entities, including festivals, advertisements of different sorts, and exhibitions. It was found that places compete for various reasons, but primarily for investors, businesses, events, talents, and often for foreign students. For all these purposes, place branding has become very important for the government of the places.

#### **2.4.2 Branding Efforts: Hard and Soft Aspects**

Researchers have long realized that in place branding, efforts should be made in two aspects; these two aspects used to be called hard factors and soft factors. Kotler et al (1999) were the first ones to point out the importance of the distinction in the two. They identified the hard factors, which include: Economic stability, Productivity, Costs, Property concept, Local support services and networks, Communication infrastructure, Strategic location, and Incentive schemes and programs. The soft factors they identified include: Niche development, Quality of life, Professional and worldwide competencies, Culture, Personnel, Management, Flexibility and dynamism, Professionalism in contact

with the market, Entrepreneurship, Unexpected relevance. These were later further expanded by Eickelpasch et al (2007). In their study, the hard factors include: Supply of skilled workers, Supra-regional transportation links, Regional transportation links, Proximity to universities, Proximity to research establishments; and the soft factors include: Additional education supply, Support of local financial institutions, Support of job centers, Local government promotion, Support of business development corporations, State government promotion, Chambers ' support, Regional image. It can be seen that basically the hard factors are the ones which are tangible and measurable whereas the soft factors are the ones which are intangible and difficult to measure, yet nevertheless have significant impact to business activities.

Along this line, Giovanardi (2012) proposed the concepts of functional and representational dimensions of place branding. The so called functional dimension is in parallel with hard factors of the places, or the physical aspects, whereas the representational dimension is in parallel with the soft factors of the places, or the symbolic aspects. Giovanardi's contributions are two fold: one is the matrix to indicate the level of branding of places, and the other is the intertwined of the two dimensions. He stated that a four cell matrix can be developed, in which the localities may be divided into four categories, those which are strong in both dimensions, weak in both dimensions, and strong in one dimension but weak in the other. These indicate the strengths and weaknesses in their branding efforts. The author emphasized that there must be efforts in both dimensions and a balance has to be reached. Besides, He also coined the words "haft" and "sord" to illustrate how the two dimensions are intertwined. Thus, the hard factors have soft



implications, factors such as infrastructure, transportation, environment, cost of living and so on all have communicative and representational values, whereas the soft factors such culture, tradition and so on also have enormous impacts on the hard factors and the functionality of the places.

### **2.4.3 Some Findings of Place Branding Studies**

Caldwell and Freire (2004) conducted research concerning branding techniques of countries, regions and cities. They have a very interesting conclusion. Based on analysis of variance (ANOVA), they concluded that at national level branding efforts should be focused on the emotive aspects while at regional and city levels the efforts should be focused on the functional aspects.

Some researchers investigated the importance of place brand, particularly for industries such as tourism. Hosany et al (2006) suggested that place personality has enormous impacts on destination selection. The authors concluded that in tourism brand image and brand personality are related concepts. Along this line, D'Astous and Boujbel (2007) tried to quantify country personality. For this, they build a model to measure country personality with six dimensions: agreeableness, wickedness, snobbishness, assiduousness, conformity and unobtrusiveness. Altogether they devised 37 items with scales to measure these dimensions. These items showed stability in the tests they conducted.

Ayyildiz and Cengiz (2007) conducted an interesting research. They tried to discover the relationship between customer loyalty with country image in the context of hot springs in Turkey. They collected data from nearly 300 customers,

and found that country image is closely related to such variables as perceived quality, customer expectation, perceived value, customer satisfaction, customer loyalty, and word of mouth.

Nowadays for many countries education has become an important money-making industry, and it is also very important to attract foreign students to schools. In such efforts, it is critical to enhance the image of the country as well as the image of the institution and the educational programs. Cubillo-Pinilla *et al* (2009) conducted research to investigate the relationship between them. They examined the decision making process and found that country image has significant impacts on the image of institutions, but not so much on the programs. On the other hand, the image of the institution significantly influences the evaluation of the programs.

Gubler and Moller (2006) built a model for investment location selection process, in which there are five steps. These are: first a total set of potential places for the business purpose has to be developed; then an awareness set of places has to be compiled of which some knowledge is known; then a consolidation set has to be created of which some primary criteria are satisfied; then a choice set is to be formed, which is small, usually only two or three places, which are most competitive, each with some advantages and some disadvantages; and finally the selection has to be made, out of the choice set, after weighing all of the strengths and weaknesses. Evidently, in this process, the two categories of factors discussed above will play a very important role. That is, to what degree a place has branded itself, or the effectiveness of place branding efforts will be critical.

Jacobsen (2012) built a model and undertook an empirical analysis. The research is of interest both in its model and in its results. In the model, there are two parts: the perception part and the behavior part. Perception refers to the branding efforts leading to the formed perception in the mind of target audiences. The perception is divided into two categories: operative place brand management, which is operationalizing the place brand emphasizing the place brand attributes; and strategic place brand management, which is the place brand value proposition emphasizing the place brand benefits. Such perception would lead to behavior, that is, by establishing effectiveness of the place brand, the investing companies tend to have positive consideration and make the investment decision. The tangible place brand attributes include such factors as quality, impression, promotion while intangible place brand attributes include awareness, heritage, image, personality, reputation and confidence. Based on research results of others, Jacobsen divided brand benefits into three categories: functional, experiential and symbolic benefits. Functional benefits encompass lifestyle, education, welfare, real estate market as well as employment opportunities. The availability of technology, know how, the price/performance ratio and the convenience/service of the place form additional functional place brand benefits. Experiential benefits are primarily sensory pleasures, including aesthetic, cultural, culinary and entertainment experiences. Symbolic benefits are split into social (like prestige and distinction) and psychological (like identity) benefits.

Jacobsen (2012) collected primary data with 101 North European creative industry investors, accounting for 31 percent of the total population. The result indicates that place brand attributes and place brand benefits are important aspects

for potential investors. The effectiveness of place brands in influencing the behavior of investors are determined by the two aspects. Thus, it is important to establish and apply these aspects to influence the behavior of investors. Place brand attributes assist the operational place brand management, while place brand benefits support strategic decisions to be taken by place brand managers.

#### **2.4.4 The Current State of Place Branding Studies**

Gertner (2011) reviewed 260 papers on place branding. First the survey found that a large number of the papers dealt with issues rather than business, management, marketing, and branding, but cover very broad topics, such as public diplomacy, urban planning, and so on. Secondly, it was found that, in terms of methodology, few if any papers were of quantitative analyses, and the literature was dominated by qualitative, descriptive analyses, often based on disparate case studies. Few studies were empirical studies, and many of the papers were very subjective. Gertner stated: “Of the 212 articles reviewed, 200 were almost entirely based on the authors’ personal opinions. Just a few proposed some concepts, but without any theoretical background, testable models or hypotheses. In addition, most of the qualitative articles did not advance any research questions or even explain the methodology used in the study” (p96). The survey also found that research in this field mostly used secondary data or convenient samples. Two thirds of the papers were exclusively based on personal opinions. This indicates that research in this field is still in a very early stage, and the discipline is still being developed.

## **2.5 Literature Review on the Development of Clusters in China**

As industrial clusters mushroom in China and play important roles in economic and social developments, many scholars have conducted research on this phenomenon, and there is a large body of literature on this issue. In this section, studies on the development of clusters in China will be reviewed.

### **2.5.1 The Regional Distribution of Industrial Clusters**

Researchers have investigated the regional distribution of industrial clusters in China and have found some interesting pattern (Gu, 2004; Šarić, 2013; Wang, 2001; Wang, 2007; Wu et al. 2009; Zhang, 2008; Zhu, 2010). These can be described from different perspectives.

It has been found that, generally speaking, clusters usually appear in places where the condition of market mechanism is better developed and where economic activities are more dynamic (Meng, 2009; Zhu, 2010). In China, naturally this is the eastern coastal region, and gradually moving north from Pearl River delta to Yangtze River delta and finally to the Bohai Sea rim. The reason is that, the eastern coastal region is more advanced in economy than the other regions (the northeast, the central, and the western regions). The movement of the clusters is parallel to the level of economic openness. When economic reforms started in the late 1970s and early 1980s, it was the Pearl River delta which was the forefront in the reforms and whose economy became the most active one in China. This wave then moved north to Yangtze River delta and eventually to the Bohai Sea rim, and so appeared the industrial clusters in that pattern as well.

Researcher investigated the distribution of clusters among the provinces. It has been found that the clusters primarily locate in Zhejiang, Guangdong, Jiangsu, and Shandong provinces, which account for a very large percentage of the clusters (Gu, 2004; Li & Huang, 2007; Li et al., 2005; Wu et al. 2009). Of them, Zhejiang has the highest cluster density. In Zhejiang they have a special term called “block economy”, and Dong (2005) counted that there were already 179 such economies with output of more than RMB 1 billion each in 2003. These are industrial clusters. Collectively they accounted for about half of the total output of the entire province. Dong (2005) further elaborated the characteristics of some of the clusters. Of them, Wenzhou accounted for 70% of world’s lighter production, Shengzhou for 30% of world’s necktie production and China’s 80%, and Yongkang for two thirds’ of China’s weighing devices. In terms of total output, several of these blocks or clusters had output more than RMB 20 billions. These are certainly impressive. In Guangdong province, there were more than 160 townships whose economy was specialized in some particular products and also amounted to RMB 2 billion each. In Jiangsu province, there were about 110 clusters with a total sales value of more than RMB 532 billions (Wu et. al., 2009).

It has been noticed that the clusters are not evenly distributed, either within the nation or within a region (Wu et. al. 2009). In particular, researchers have found that, with a few exceptions where the clusters locate in suburbs of large cities, most of the industrial clusters locate in the countryside, particularly in the townships. Nearly none is located in city centers. Most of the “Textile Towns with Special Features”, identified by China National Textile Industry Council (CNTIC), are literally towns. It is noticed that of the 404 townships in Pearl River delta a

quarter of them possess the characteristics of industrial clusters. The most important reason for that is that small enterprises started from the countryside and are rooted there. Low costs of land and labor play a very important role in this process.

### **2.5.2 The Growth Patterns of Clusters in the Regions**

In the literature, the growth of clusters in different places has been investigated. The patterns have been examined, and the reasons of the growth have been studied (Fleisher et al., 2010; Li et al. 2005; Šarić, 2013; Sheng, 2009; Wang, 2001; Wu et. al. 2009; Zhou, 2011).

Researchers believe that industrial clusters first appeared in Pearl River delta because the delta is the first place to experiment and experience the changes in China in the late 1970s and early 1980s (Wang, 2001; Wu et. al. 2009; Zhang, 2006; Zhang, 2008). As Pearl River delta is nearest to Hong Kong, Macao and Taiwan, and its people have the social connections with the people in the three places, it is quite natural that capitals from the three places first invested in Pearl River delta. Even foreign investment also first occurred in this area due to its political and economic climate at that time. At that time investments were primarily in labor intensive industries, such as apparel and textiles, and electronics assembly, which were the major industries of Hong Kong, Macao and Taiwan at that time as well, so industrial clusters appeared in Pearl River delta in that manner.

Zhang (2004) tried to discover why industrial clusters soon appeared in the

southeastern parts of Zhejiang province, and eventually the whole Yangtze River delta. Due to their culture and tradition, Zhejiang people are very sensitive to business opportunities. When economic reforms started, they were among the first ones to perceive the relaxation of the policy restriction and jumped to catch the chance. Zhang's study was interesting because he gave description of the emergence of one cluster (2004). With very limited choices, and without capital and technology, some farmers tried to knit some socks for sale, since it cost little to buy a device to knit socks and there was not much technical barrier. And due to the shortage of almost everything at that time, it was easy to sell though with poor quality and very low margin. This way a small factory was formed. This gave inspiration to others who imitated to do the same thing. Very soon families in the whole village were knitting socks and the village eventually became a cluster of socks.

In literature, researchers also investigated the other patterns of or reasons for emergence of clusters in different places (Li et al. 2005; Šarić, 2013; Sheng, 2009; Wang, 2001; Wu et. al. 2009). The growth of clusters in Jiangsu province is one example. With better economic foundation than other places historically, township economy developed based on collective ownership. Then some industrial parks were established by local governments, and following the market principle eventually evolved into various clusters. Zhongguancun in Beijing is another example, which is an area around a street and now boasts the largest high tech cluster in China, often famously called China's Silicon Valley (Li, 2009; Zhou, 2011). It started with some teachers and researchers of universities in Beijing, who wanted to turn their knowledge and skills into business, so they started their



companies in the street near the universities.

Researchers have found that there are also some other patterns of emergence of industrial clusters in China (Fleisher et al., 2010; Li et al. 2005; Šarić, 2013; Sheng, 2009; Zhou, 2011). Some are based on the traditional strengths; some were due to the radiant function of cities (first serving the cities and then developing into clusters); and some rely on local resources.

### **2.5.3 Clusters of Different Industries**

Researchers have investigated the clusters from the perspective of industrial structure (Fleisher et al. 2010; Li, 2009; Lu, 2006; Wang, 2001; Wu et al. 2009). It has been found that industrial clusters in China can be focused on any of the industries, such as textiles, apparel, shoes, furniture, and medicine and electronics. Their products range from semi-products to final products. However, most of the clusters are engaged in the production of traditional products, such as textiles and apparel, or the so called labor intensive industries. The development of high tech clusters or clusters with a combination of capital and technology falls far behind. Most of the clusters produce products which are closely related to daily lives of people. Usually these industries have lower entry barriers and allow production of small scales, so that the requirements for capital, technology and labor skills are relatively easy to meet. There are only a few high tech clusters, concentrated in large cities such as Beijing and Shanghai, and a few in some particularly areas in Guangdong and Jiangsu provinces.

In the investigation, researchers have also found that the clusters in China are

usually in the lower end of the value chain, with most of the enterprises in the clusters engage in manufacturing, with very little R&D and very limited marketing and branding (Fleisher et al. 2010; Lu, 2006; Wang et al. 2015; Wu et al. 2009). In other words, most of the firms are in the stage of OEM (original equipment manufacturing), with very few in ODM (original design manufacturing) and even fewer in OBM (original brand manufacturing). As such, the profit margin is relatively low. Compounded with fierce competition and many times the problem of overcapacity, most enterprises face difficulties.

Researchers also examined the nature of the enterprises in industrial clusters of China, and have found that absolute majority of them are non-state-owned and most of them are SMEs (small and medium sized enterprises) (Wu et al. 2009). This is primarily caused by the fact that at the early stage of the cluster formation, capital mainly came from Hong Kong, Macao and Taiwan, and other foreign sources, or from local private investments. For example, in 2001, of the 6,523 textile and apparel companies in Dongguan, 1,622 were foreign direct investment, 1,210 were joint ventures, and 3,660 were local private companies. In the industrial cluster of Wenzhou, state-owned enterprises account for less than one thousandth. While in the US and in Japan, often large companies and SMEs co-exist in industrial clusters, in China it has been noticed that nearly all companies are SMEs.

#### **2.5.4 The Driving Force for the Formation of Clusters**

Researchers have made efforts to disclose the driving forces for the formation of industrial clusters in China, and some forces have been identified (Fleisher et al.

2010; Lu, 2006; Wang, 2001; Wu et al. 2009). It is generally recognized that the most important condition is the economic reforms and the open door policy, and the most important force has been the market. The profound changes which took place in the late 1970s and early 1980s created the possibility for the start, and the entrepreneurs who were sensitive to the changes caught the opportunity. Within the cracks of policy constraints, the general conditions were actually favorable, since there was little competition but there was strong demand for nearly everything. The early enterprises in many cases became the seeds of the industrial clusters, as they played an exemplary role. As soon as the seed was sown and the embryo of the cluster began to take form, the advantages of clustering began to play, which formed a virtuous cycle. That is, the cluster as a platform will drive down the production cost and improve the productivity, through further specialization and division of labor, and competition will further increase efficiency and enhance innovation, and so on, which in return prompts further growth of the cluster, as widely discussed in literature on industrial clusters.

On the other hand, all the researchers recognize the importance of local governments in the process of cluster growth (Fleisher et al. 2010; Lu, 2006; Wang, 2001; Wu et al. 2009). At the beginning, the formation of the clusters is mostly the spontaneous activities of the entrepreneurs, but immediately after the clusters took form, usually the local government takes various actions to support the enterprises and thus make great and sometimes critical contribution to the growth of the cluster. It has been identified that governments usually play important roles in the following aspects (Lu, 2006; Wang, 2001; Wang & Wei, 2009; Wang, 2001; Wu et al. 2009):

- They make favorable policies to attract investment and help the enterprises grow. These include primarily preferential taxes (in many places tax-free for the first three years and reduced tax rate for the next two years) and provision of land. These have created a favorable condition for the growth of clusters.
- They improve the basic infrastructure, such as road, water, power, communication and so on, to enhance the general business environment, so as to attract more enterprises.
- They build industrial parks to attract enterprises to “enter the district and settle in the park”, and in this way expedite the aggregation process and the formation of the clusters.
- They establish trading markets, which help further reduce transaction costs for the firms and expand the scale of the clusters.
- They try to hold exhibitions and trade fairs, which enhance the reputation of the clusters, enlarge the influences, and promote the entire clusters.
- They guide and support innovation, mostly in way of dissemination of information, and thus promote the upgrading of the clusters.
- They make efforts to promote the cooperation between the industry, the academia and the research institutions, and thus make the clusters more innovative.

### **2.5.5 The Routes of Cluster Formation**

Researchers have investigated the route of formation of industrial clusters in China. From the perspective of formation mechanism, researchers have identified different routes (Lu, 2006; Wang, 2001; Wang & Wei, 2009; Wang, 2001; Wu et al. 2009).

The first route is based on the traditional advantages of the localities. These can be further divided into three categories: local traditional culture, local traditional business, and local resources. Local traditional culture has been identified as the most important factor to evoke the formation of clusters in Zhejiang province. Traditionally people in Zhejiang have the spirit of risk taking and the sense of business making. Thus they became the first ones to take the opportunity to start enterprises, which lead to the formation of various clusters in the province. They even ventured to other places as well. Many clusters developed based on local traditional business, often related to crafts, such as pottery and porcelain, silk, and firecrackers. As people have the skills in such trades, it was only natural for them to start business in them and eventually form a cluster. And many clusters developed primarily thanks to the specialized resources, for example bamboo product making. In more broad terms, all the above three can be regarded as different forms of local advantages.

Another route is based on the location advantages in terms of markets and transportation. Economic reforms started in the eastern coastal region, and then moved inland. At the beginning, many places in the coastal region tried to establish bases, called “Three plus one trading mix” (a Chinese term to describe custom manufacturing with materials, designs, and samples supplied by clients and compensation trade). These eventually grow into various clusters. Many electronic clusters and apparel clusters in the Pearl River delta formed this way. Related to this are the establishments of many large specialized distribution centers and trading markets, which lead to the growth of many clusters, since these centers and markets create demands for products and also facilitate

transactions.

Another route is connected to some large enterprises. Surrounding some very large companies there emerge various suppliers of parts and related services, which form a cluster. Also, to solve the problem of low efficiency the governments dissolve some state-owned enterprises while only keep the core business, which are still usually very large. Individuals are encouraged to create new businesses to support and complement the core business of the state-owned enterprises. In this way, a network of companies, with the large enterprises as the center or backbone, eventually forms an industrial cluster.

Yet another route of clusters is taking advantages of human capital. This usually takes place in localities where there concentrate some universities and research institutions. Staff members of these universities and institutions create companies which use their knowledge and skills. Such companies are usually high-tech ones. The aforementioned Zhongguancun is the most well known example in this category.

Finally, there are many industrial clusters which came into being directly under the planning and working of governments. There are high-tech industrial parks, economic zones, and other clusters with different names but similar functions. It has been estimated that the number of such clusters is quite big, but there has been concern that the growth of them may not be smooth and that, deviating from the market principles, many of the clusters may not be successful.

In the literature, there are also studies which focus on the formation of individual clusters (Fleisher et al. 2010; Wang & Wei, 2009; Wu et al. 2009). Some clusters particularly attract the attention of many researchers, and deep investigation was undertaken for them, such as the IT industrial cluster in Dongguan of Guangdong province, Zhongguancun high tech cluster, the shoemaking cluster in Jinjiang of Fujian province, the apparel cluster in Wenzhou of Zhejiang province, to name just a few. Some of them have been examined from various aspects, such as Zhongguancun, due to its fame and its uniqueness in innovation. However, while they are all the results of the economic reforms and development of China, each possesses some individual characteristics in its formation and growth, and function and operation.

#### **2.5.6 The New Trends of Industrial Clusters in China**

Researchers also examine the trend of development of the clusters in China (Gu, 2007; Liu et al. 2015; Wang & Wei, 2009; Wu et al. 2009). They point out that the development of the industrial clusters is not totally a spontaneous process but rather is influenced by many factors, in particular by the situation of the related industry, the market demand and the policies of the government. It is believed that there is still large room for the clusters to grow, and that generally the clusters will be more specialized, more internationalized, and more follow the economic principles of market (Fleisher et al. 2010; Zhou, 2011). From the studies, it can be summarized that there are some noticeable characteristics of the trend of the clusters in China.

First, it is believed that economic scales of the clusters will enlarge (Wang & Wei,

2009; Liu et al. 2015; Zhou, 2011). Actually, one characteristic of industrial clusters is that it has the ability to grow, and often that is one of the reasons why the phenomenon has attracted so much attention. As China's economy has been growing rapidly, according to the world standard (or any standard in that matter), the clusters tend to grow even faster. One example cited is Xiaolan, the largest ironware cluster in China, a township of Zhongshan city of Guangdong province. The total output of the cluster grew from some RMB 40 million to more than RMB 17 billion from 1985 to 2004, an average annual growth rate of 36.8%. During the same period, the number of firms increased from 47 to 3079 with an average annual growth rate of 24.6%, and the number of people engaged in the ironware business increased from a little more than 4 thousands to more than 82 thousands with an average annual growth rate of 16.5%. While remarkable, this is not entirely uncommon. Similar growth rates can also be found in many other clusters.

Second, it is believed that new clusters will continue to emerge (Wang & Wei, 2009; Liu et al. 2015; Zhou, 2011). This is because the existing clusters become mature, the specialization of the clusters has been intensified, and the expansion will lead to emergence of new clusters. For example, the growth of shoemaking cluster in Jinjiang of Fujian province lead to the increased demand for fabrics, which lead to the growth of a new cluster of fabric production nearby, which in return lead to growth of a derivative cluster of apparel. Also, in Zhejiang province, as there are several apparel clusters which need sewing machines and similar devices, a new cluster of apparel manufacturing equipment eventually formed in Taizhou. Besides, the other regions of China try to learn from the



experiences of the eastern coastal region, and they are making efforts to cultivate their own clusters, focusing on their traditional industries. This trend has been observed in the west and northeast, where some clusters are taking shape.

Third, some famous brands are emerging from the clusters (Wang & Wei, 2009; Liu et al. 2015; Zhou, 2011). In the process of cluster development, taking advantages of the platform provided by the clusters, some companies experience rapid growth. The entrepreneurs make efforts in various aspects of the company operation, such as production and marketing, and have made their company the leading ones in their business. They continuously improve the management, and adopt the modern concepts of enterprises, which promote the growth of these companies. Thus, some large and influential companies emerge in the industrial clusters. It is reported that in the plastic cluster in Taizhou, 2% of the companies account for 40% of the output, which indicate the concentration and dominant roles of the large companies. It is also reported that in the appliance cluster in Huizhou, some very large companies have become the top ones in the world. Meanwhile, the entrepreneurs also realize the importance of branding, and make efforts to cultivate their brands. On the other hand, branding also helps the growth of the companies. For example, in the apparel cluster in Jinjiang alone, a town in Fujian province, a few dozens of famous brands have emerged, including some of the family names well known in China, such as X-Boxing, Sepwolves, and some others. This is a very promising development.

Finally, the clusters are making efforts to upgrade themselves to a higher level (Wang & Wei, 2009; Liu et al. 2015; Zhou, 2011). In addition to efforts in

creating better environments both in hard and soft aspects, and improving the infrastructure, clusters all try to develop an overall condition, such as communication building, cultural activities and facilities, and other supplementary facilities. They try to cultivate some famous brands, which will not only help with the growth of the cluster but also enhance the awareness and image of the entire cluster. They try to promote innovation, and help companies in the cluster go from OEM to ODM and OBM. Many of them try to establish R&D centers, design centers, certification centers, testing and inspection centers, and so on. They also try to set up training centers, and many of them try to introduce research institutions and university campuses to the locality.

### **2.5.7 The Roles of Clusters in Regional Development**

It has been commonly recognized that clusters have tremendous economic advantages, as has been discussed before in this chapter, since the firms have specialization and division of labor, and at the same time through external cooperation the firms can realize economy of scale by lowering costs and increasing productivity. In particular, fast and easy information transmission enhances innovation and creation. However, in China's condition, researchers believe that clusters have played other roles in helping regional economic development, and particularly, in helping strengthen the results of economic reforms and solidify the open door policy (Wang, 2001; Wang & Wei, 2009; Wu et al. 2009; Zhang, 2008; Zhou, 2011).

The flourishing of the clusters has helped the growth of the non-state-owned economies (Wang & Wei, 2009; Wu et al. 2009; Zhou, 2011). Traditionally, most

of the state-owned economy is located in the cities. The enterprises in clusters, however, are mostly non-state-owned ones, primarily private enterprises but also some foreign invested companies. In this sense, the flourishing of the clusters is the growth of the non-state-owned economies. Development of the clusters has actually created an opportunity or platform for the non-state-owned economies to grow. In most places, the clusters prompt the private sector of economy to flourish. This has helped the process of economic reforms.

Industrial clusters help the country become more open to the outside world and become more competitive in the world market (Wang & Wei, 2009; Wu et al. 2009; Zhou, 2011). Products of most of the clusters are export-oriented. Many started with the “Three plus one” model, that is, they relied on the materials, designs, and samples provided by their clients from abroad. Later, even as the companies upgrade to a higher level, exports are still their major market. The foreign invested companies in the clusters are more likely to have international activities. Therefore, the clusters help the country become more open to the outside world. As one of the most important advantages of clustering is its lower costs and higher productivity, and also innovation in products and production processes, firms in the clusters become more competitive, and thus the clusters help make the country more competitive in the world market. Many believe that clustering is one of the driving forces to make China a manufacturing base for the world.

Clusters create employment and help the urbanization process (Wang & Wei, 2009; Wu et al. 2009; Zhou, 2011). Enterprises in the clusters create enormous

employment. Though there has been no accurate statistics, the total number of jobs created by the clusters has been estimated as many millions. The more than one hundred million migrant workers mostly work in townships rather than central cities, and many of the towns are industrial clusters. As most of the employees were peasants, so the clusters help absorb enormous labor in the countryside. This has helped the improvement of living standard for millions of people. Most of the clusters are located in rural areas, and usually used to be small towns. With the flourishing of the clusters, infrastructure and public facilities are constructed and improved, and many of the towns not only grow but modernized. Thus, the clusters have helped the urbanization process of the country.

### **2.5.8 The Problems of the Industrial Clusters of China**

Even though industrial clusters are flourishing in China, there are problems with the development of clusters. In the literature, there are a lot of discussions on the current problems of the clusters of China. In this part, these problems are discussed (Gu, 2007; Wang, 2001; Wang & Wei, 2009; Wu et al. 2009; Zhang et al. 2005; Zhou, 2011).

#### ***1. Clusters in China have not been fully developed***

Researchers have investigated the current state of industrial clusters in China, and pointed out that clusters have not been fully developed (Wang & Wei, 2009; Wu et al. 2009; Zhou, 2011). First, as aforementioned, the distribution of clusters is not even and most of the clusters concentrate in the eastern coastal region and primarily in a few provinces. Thus, in the other regions of China, namely the middle and the west, and the northwest, clusters have not been developed. In these

regions there have been some industrial foundations which can be the engine for further economic growth and they have the potential for cluster development. Second, most of the clusters are in rural areas, mainly in small towns. In large cities there are fewer clusters. This is primarily because the large state-owned enterprises are located in cities, and these enterprises tend to be self-contained, that is, they tend to fulfill a very large proportion of the supply chain and the value chain. Such a system is very detrimental to specialization, and hence to efficiency. But on the other hand, this also indicates that there is still large room for further growth of clusters in China.

## ***2. Clusters of China are mostly in the lower end of the value chain***

To view from the nature of the manufacturing, most clusters of China are engaged in labor intensive production, such as apparel, textiles, shoes and so on, as aforementioned (Kuchiki & Tsuji, 2010; Wang & Wei, 2009; Wu et al. 2009; Zhou, 2011). This is due to the formation of the clusters, since these industries usually have lower barriers to entry. These industries, though able to absorb large quantity of labor and provide significant amount of employment, tend to create little value added. The very existence and the competitive power of these clusters rest on the low costs of factors of production, such as labor and land. As the clusters tend to rely on international market very heavily, they can be vulnerable to changes in the global environment. To view from the perspective of value chain, most clusters are only engaged in manufacturing or OEM activities. There is not much R&D, and there is very little ODM and OBM. As is known, of the three stages of the value chain (design and product development, manufacturing, and marketing and distribution), manufacturing in the middle has the lowest value added while the

other two stages have much higher value added. Thus, the clusters of China are in a disadvantageous position.

### ***3. Clusters of China lack innovation***

The clusters in China are not innovation and creation oriented (Kuchiki & Tsuji, 2010; Wang & Wei, 2009; Wu et al. 2009; Zhou, 2011). In terms of industry, they tend to be labor intensive industries; very few are high tech industries. Even in the traditional industries, within the clusters and firms, innovation and creation is not emphasized. Many times the firms rely on their foreign clients for design and process, and many times firms try to imitate and copy the design of others. There are reasons for this. One reason is that intellectual property is not respected, and the related laws are not complete and not enforced. Situation like this seriously discourages innovation and creation. Another reason is that most of the firms are SMEs, and they do not have the capability to conduct R&D. Also, there is a lack of the creative talents.

### ***4. Many clusters are not mature***

Many researchers investigated clusters in China and have concluded that the clusters are not fully mature (Kuchiki & Tsuji, 2010; Wang & Wei, 2009; Wu et al. 2009; Zhou, 2011), which means that they have not formed the self-improving mechanism so that they would have the cohesive power to root the companies in the cluster and help them grow. Some clusters are only the spatial aggregation of companies, and the organic connection between them is not intimately established, and the network which helps the individual firms to act and grow has not been formed. A healthy environment which promotes both cooperation and competition

has not been created. A public platform which facilitates the activities of the firms has not been developed.

### ***5. Clusters are heavily influenced by government policies and administrative limitations***

Most of clusters in China are heavily influenced by government policies (Wang & Wei, 2009; Wu et al. 2009; Zhou, 2011). While some policies can be very favorable to the growth of clusters, the companies in the clusters can also be vulnerable to policy changes. Many times, clusters are based on industrial parks or administrative zones, and this also puts some limitations on their activities. There are also examples that ownership of facilities or even ownership of the cluster itself is still ambiguous, which causes a lot of uncertainty. Free movement of enterprises and labor is still a problem. Many of these are political issues, waiting to be solved in the future.

## **2.6 The Development of Industrial Clusters of Textiles and Apparel in China**

As industrial clustering is a new phenomenon in China, researchers started to pay attention to it only in the 1990s. Li et al. (2005) and Wang (2014) described the development of some textile and apparel clusters in the coastal regions of China, and discussed their characteristics, including their localized network. They further investigated the timing, scale, structure, internal networking, and local rooting of the clusters. They particularly examined the impact of accidental factor on the formation of clusters, and pointed out that the strength of the impact depended on the congruence of the sector choice, brought about by the accidental factor, with

the natural advantages of the region and the rightness of the policy decision of the local government. Thus, the importance of government was emphasized.

It has been pointed out that the formation of the clusters of the textile and apparel industry in China is associated with economic reforms and the adoption of the open door policy (Li, 2009; Wang, 2014; Zhang, To, & Cao, 2004). The clustering process itself has also been investigated. Four factors have played very important role for the emergence of the clusters (Li et al. 2005; Zhang, To, & Cao, 2004). There include the low entry barrier to the textile and apparel industry in terms of capital and technology; the strong demand for various products due to insufficient supply of consumer goods at that time; the location of the clusters in towns due to government policy reasons; and the role model effects of farmer-entrepreneurs to others.

CNTIC (2003) designated three types of textile and apparel industrial clusters. These are textile industrial bases, cities with special features, and towns with special features. There are 10 bases, 10 cities, and 19 towns. The total outputs of textiles and apparel of these 38 clusters amounted to RMB365 billion (about US\$45 billion) in 2002. It was pointed that the structure development of the textile and apparel industry of China was characterized in two directions: a group of large companies based in large cities with capacity in marketing and product development, often operating supply chain regionally even globally; and a number of clusters of many small and medium sized firms based in small cities and towns, with featured products and vigorous growth (CNTIC, 2003; Zhang, To, & Cao, 2004). Thus, industrial clustering has become one of the two wings of the



development of the textile and apparel industry in China. This demonstrates the importance of the clusters.

It has to be noticed that there is a very large body of literature on textile and apparel clusters in China (Wang, 2014; Wang & Jiang, 2003). However, most of the studies focus on a minute aspect of usually one cluster, and thus it is difficult to summarize. As that is beyond this project, review on these studies is not undertaken deeply and is omitted here.

## **CHAPTER 3 RESEARCH METHODOLOGY**

### **3.1 General Description**

This project is an empirical research, specifically it is a case study on a cluster as a brand and also the dynamic relationship between the cluster brand and its components. Keqiao is the identified cluster; two of its constituent companies or brands, Company G and Company F, are selected. Keqiao as a cluster and a brand was thoroughly investigated, its components studied; the two companies were examined, their growth analyzed; special attention was given to the relationships between the cluster and its components and the constituent companies.

This is primarily a qualitative research, in which in-depth interviews and focus group discussions were undertaken to gather data. The interviews were conducted with government officials of Keqiao and top managers of companies in Keqiao. The focus group discussions were held with 5 or 6 people, who were also government officials or top managers of companies. The author served as the interviewer and the focus group discussion moderator. Records were taken, significant parts were transcribed, and information gathered were coded and analyzed accordingly. Grounded theory method was adopted in analyzing the qualitative data gathered. In addition, a questionnaire survey with the companies in Keqiao was undertaken to provide a quantitative component.

### **3.2 Justification for Studying Keqiao**

Keqiao is worth studying. It is a typical textile industrial cluster, a relatively large one, with tens of thousands of firms, covering the entire supply chain of textile

products, concentrated in the geographic area.

As briefly described in Chapter 1, the wholesale market of textiles called China Textile City (CTC) and an aggregation of textile manufacturers are the two wings of the Keqiao cluster. CTC has gathered around twenty thousands of trading firms, and the aggregation has gathered around nine thousands of manufacturers, primarily in chemical fibers, fabrics, dyeing and printing, and apparel. There are also supporting industries, such as logistics, conference and exhibition, and the creative industry. Many companies, no matter in which section of the soft-goods chain, make efforts in branding.

Nationally, there are a number of other clusters, which may be bigger or smaller, and some with different products. They all share some common characteristics (Zhang, To & Cao, 2004). Thus, the study of Keqiao is very representative and indicative.

While the function of Keqiao as a cluster was investigated, in particular the study was undertaken from the perspective of branding. Attention was paid to issues such as how the cluster brand was cultivated, how the cluster brand grew, and what were the driving forces behind the cluster brand growth.

Besides, the growth path of Keqiao is also similar to that of many other clusters. The cluster began to take off almost from scratch in the late 1970s and early 1980s when the economic reforms started. It began with a small number of firms, and then grows like a snowball. The relationship between the manufacturing sector

and the market, which they support each other to grow in a spiral manner. In this process, the local government has been playing an active and critical role. Other than the buildings they built which provide the physical possibility for the market to grow, they make strategic plans for the area, and establish policies to regulate the market. They make efforts to help the cluster grow, and promote the cluster as a brand. In this sense, it is also quite typical. Thus, the study of Keqiao will give indication to other clusters in their trajectory of growth.

### **3.3 Research Methodology**

#### **3.3.1 Qualitative Research**

This research is primarily a qualitative one, though it also has a questionnaire survey as a quantitative component. Qualitative research is a method of inquiry employed in many different academic disciplines. Compared with quantitative research which is based on quantitative data, number is not the foundation of qualitative research. It is particularly suitable for exploratory research, especially when opinions, thoughts, feelings and attitudes are concerned. In most cases, the sample size is relatively small, and the research itself is chiefly unstructured or less structured. It is thus better able to provide insight, and disclose patterns which may not be represented or demonstrated with numbers. Now it is generally regarded as a vigorous method to conduct research, particularly in the field of social sciences. Admittedly, it has to be acknowledged that qualitative research is often used only at the preliminary stage, and the result may not be conclusive, and inference may not be made to the whole population (McDaniel & Gates, 2011).

In qualitative research, both primary data and secondary data are used. That is true for this project. Secondary data of broad range of sources were collected, including internal sources of Keqiao and the two selected companies, such as annual reports, plans, promotion materials and others, and also external sources such as reports of various media. Primary sources included in-depth interviews and focus group discussions.

### **3.3.1.1 In-Depth Interviews and Focus Group Discussions**

The most common methods to gather information in qualitative research are in-depth interview and focus group discussion (McDaniel & Gates, 2011), which were adopted and undertaken in this project.

Personal interviews were conducted with officials of Keqiao district and also with top managers of some selected companies, mostly the founders. Unstructured, direct, personal interview has been considered to be one of the best ways to uncover underlying motivations, beliefs, attitudes, and feelings on a topic (McDaniel & Gates, 2011). For this research, as an exploratory one, this method was deemed appropriate. In this project, a question list was designed as guide for the interviews, but generally the interviews were semi-structured.

Efforts were made to build a closer personal relationship with the interviewees, so that the interviews could be conducted in a relaxed, open, sincere, and frank atmosphere. Attention was given to specifics and to impressive stories.

Focus group discussions were conducted to supplement the interviews. Compared

with in-depth interviews, while lacking the privacy, focus group discussions may offer group dynamics, so opinion expressed by one member of the group may stimulate the thinking of others, which will enormously enrich the opinions expressed, whether in agreement or not (McDaniel & Gates, 2011). With group participation, the discussions were able to provide breadth and richness of information. Some discussions were held with only government officials or only company managers, and some were held with mixed participants. The contents of the focus group discussions were much the same as that of the interviews. Once again, a semi-structured question list was prepared and used.

For both the in-depth interview and the focus group discussions, literature has given quite detailed instruction and guidance. These were followed.

### **3.3.1.2 The Structure of Question Guide for the Interviews and Focus Group Discussions**

Interviews were conducted both with government officials and with people from the private sector, either owners of enterprises or people who held managerial positions in enterprises. These interviews were generally semi-structured, that is, while a list of questions were used as a guide for the interviews, the conduct was relatively flexible, and some questions outside the list were asked to get details or to clarify some specifics, depending on the answers. There were two versions of question guide, one for governments, and one for companies. These two versions were largely the same, with the exception that there was one more section in the version for governments.

Both versions started with a brief introduction, expressing the purpose of the interviews and making some requests, such as asking the interviewee to be as specific as possible, and better to give some numbers, cases and stories.

There were four parts which were common for both versions. The first part asked for some self-introductions, such as name, position and experiences. In addition to the information to be obtained, it was hoped that this would also serve to warm up the interview. For the company interviewees, it was also asked that a brief introduction of the company to be given, such as the products carried, the total sales value and employments. Not all the information was used later in analyses, but it was helpful in giving some insights.

The second part concerned the Keqiao experiences. In the guide, there were six basic questions. The first one asked how Keqiao grew and what milestones there were, so that the growth story of Keqiao would be made. The second one asked what conditions helped Keqiao to grow, so that the conditions could be extracted from the interviews. The third one asked in what aspects the governments played a role, and the fourth one was more specific, asking what important decisions the governments made, under what circumstances. The fifth one asked in retrospect if these decisions could have made differently, so as to get some comments and evaluation from the interviewee about the decisions and about the governments. The sixth question asked what role the market played. In the actual conducting of the interviews, brand and branding efforts were emphasized.

The next part was about Keqiao and its constituent brands, and the interactive

relationships between them. There were some variations between the two versions, so that there were 5 basic questions in the government version, but 6 questions in the company version. These questions generally asked how Keqiao helped the company to grow, in what aspects; and in return, how the individual brands helped Keqiao grow, and how Keqiao and the individual brands were connected. The differences between the two versions were that, for example, the company version asked what the company would like the governments to do for it, whereas the government version asked what plan there was for the government to help the Keqiao companies. Once again, the discussions were held with a brand emphasis.

The next part was about SWOT analyses, so the interviewees were asked to elaborate on the Strengths of Keqiao, its Weaknesses, the Opportunities and the Threats Keqiao was faced with. Also, the interviewee was asked to give his or her opinion on how the strengths could be further strengthened, the weaknesses overcome, the opportunities taken, and the threats defused or even turned into opportunities.

The last part in both versions was supplementary. The interviewees were asked to give permission to be contacted for following questions, if any, and to help recommend other people who were informative and would be willing to help, and also provide some information sources, such as articles, books, and documents.

There was one part which only existed in the government version of the interview question guide. This part concerned the efforts made by the governments to develop Keqiao as a brand. There were four basic questions in this part. The first



one asked the interviewee to identify the specific branches of governments and the individuals who were responsible for branding of Keqiao; the second one was about the specific activities done for branding development; the third one asked some specific elements of branding efforts, such as logo, slogan, spokespersons, and so on, and the effectiveness of these elements; and the last one asked what plan there was for further development of Keqiao as a brand.

For focus group discussions, the same question guide was used. The actual conducting of the discussions, due to the group dynamics, many times was even more flexible though.

### **3.3.2 Quantitative Research**

Quantitative research is the systematic empirical investigation of observable phenomena via statistical, mathematical or computational techniques (McDaniel & Gates, 2011). The objective of quantitative research is to develop and employ mathematical models pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. Compared with qualitative research, quantitative research is usually structured, the sample size is large, and the results can be conclusive and inferred to the population.

#### **3.3.2.1 Questionnaire Survey**

One of the most common methods of quantitative research is questionnaire survey.

A questionnaire survey is a structured questionnaire given to a sample to elicit specific information. Its advantage is that it is relatively easy, reliable, simple in terms of operation, but at the same time it also suffers from its disadvantages in that it is generally not suitable for some information, such as feeling and motivation, and also that the wording of a questionnaire can be very difficult (McDaniel & Gates, 2011).

A questionnaire survey was conducted in this project as a supplementary component, because the exploratory nature of the project determines that the project could not be founded on a survey, since many of the variables could not be good identified and their relationship could not be hypothesized beforehand (McDaniel & Gates, 2011). On the other hand, the general mood of the constituent companies of the cluster could be surveyed, which would be useful and valuable.

There are different ways to administering the questionnaire. Chiefly, the questionnaire can be administered with mail, telephone, and personal method and electronic method. In this project, mail was used to distribute and retrieve the questionnaires with the help of trade associations in Keqiao. Guidelines given in the literature were followed. The questionnaire was designed, pilot tested and revised, and distributed to the firms in Keqiao. It was requested that people with managerial positions to fill in the questionnaire.

### **3.3.2.2 Structure of the questionnaire**

The questionnaire started with a very brief introduction, telling the respondent the objectives of the survey and promising to keep confidentiality of the respondent.

The purpose of the introduction was to enhance the probability of cooperation from the respondent. Then the virtual content of the questionnaire was divided into three parts, with each part being of about the same format.

The first part of the questionnaire asked for background information of the respondent. It had 8 questions, all in the format which required the respondent either to select, or to fill in. These questions ranged from the major business of the respondent (in yarns, fabrics, textiles, apparel or in printing and dyeing; pure selling, or both selling and manufacturing), to total sales value of last year, total employment, the percentage of exports in total sales, and the year the company was founded and the year it settled in Keqiao. The questions also asked whether the company was headquartered in Keqiao, whether the owner of the company was a local person, and whether the company possessed its own brand. The purpose of this part was of two folds, one was to get some general idea about the respondents, as they were a sample of the company population in Keqiao, so the information itself was meaningful; the other was to see if any of the above differences would have any impacts on the questions below.

The second part of the questionnaire consisted of altogether 41 statements, and the respondent was asked to indicate the degree to which he or she agreed with each of the statements. A Likert scale was used, in which 1 indicates “strongly disagree”, 2 “disagree”, 3 “neutral”, 4 “agree”, and 5 “strongly agree”. The 41 statements could be roughly divided into 3 sections, though there was no clear division between them. The first section had 20 statements, which all were concerned with the advantages of being in a cluster. These statements were made

based on the findings in literature, which, as discussed before, indicate that firms in a cluster enjoy benefits such as cooperation with other firms, easy available information, and higher efficiency in many aspects, such as logistics. These statements itemized these advantages so as to testify whether these findings were applicable in China, particularly in Keqiao. These actually had implication with the growth of the cluster as a brand and of the constituent brands. The second section had 15 statements, which all were concerned with the roles of governments. These statements ranged from specific functions of governments such as constructing infrastructure, providing loans, spreading information, and promoting the locality to general opinions such as whether there were channels to approach the governments for help and whether the governments were willing to help the local enterprises. The purpose of this section was to investigate the functions of the governments from the perspective of the respondents. The third section only concerned those enterprises which already established their own brands; those respondents who did not have own brands did not have to answer these questions. There were 6 questions, which all were concerned with branding efforts of the companies, such as positioning, strategy, logo and so on. The purpose of this section was to examine how the companies were developing their brands.

The third or the last part of the questionnaire had 9 questions, all but the last one being open-ended; the last one was close-ended with a few selections but also with open-ended options. Two of the questions asked the respondent to use a couple words to describe the advantages and difficulties of doing business in the cluster, and two questions asked the respondent to specify the biggest help

received from the governments and the help needed. Four questions asked the respondent to give the SWOT of Keqiao (strengths, weaknesses, opportunities, and threats). The last question asked the respondent to identify the bureaus from which the enterprises got the most help. While these are closely related to the questions above, the purpose of this part was to get some answers directly from the respondents.

### **3.3.3 Sampling**

Sampling is concerned with the selection of a subset of individuals from within a population to estimate characteristics of the whole population (McDaniel & Gates, 2011). Sampling is widely used for gathering information about a population. The quality of samples has significant impacts on the result of the research. There are different ways of sampling, primarily probabilistic and non-probabilistic, with the former more desirable. However, many times the situation puts limitations on the selection of sampling method.

It is difficult to conduct research which needs samples. In this project it is fortunate that cooperation from the local government of Keqiao was obtained. The interviewees and the focus group discussion participants, both government officials and entrepreneurs, were approached with the help of the government, thus it should be regarded as convenience sampling. However, as requested, these individuals were quite representative in various aspects.

As for the questionnaire survey, after all preparations, such as pilot test and so on, twenty-seven questionnaires were given to acquainted entrepreneurs. This was

like convenience sampling. Later, cooperation with the Apparel Trade Association of Keqiao was obtained, which was willing to help among its member companies. Their membership list was used as sampling frame, and the sample was randomly selected to mail out 160 questionnaires to. This was probabilistic sampling. One hundred fifty-three questionnaires were received back.

### **3.3.4 Field Work**

#### **3.3.4.1 Interviews**

Altogether 13 interviews were conducted. Seven of the interviewees were government officials, all at or above the rank of bureau level, including two at the district level; that is, they were the heads or associate heads of the bureaus of Keqiao district, or the vice heads of the district. At such levels, they are usually more knowledgeable about the history and the current situation of Keqiao, and they knew what they were talking about. The rest six were entrepreneurs, actually all were the founders of their companies.

The interviews were conducted mostly in offices of the interviewees, with just one exception when the interview was conducted in the hotel room. This was for privacy. Most interviews lasted for more than one hour, and were audio-recorded with the permission of the interviewees. The question guide was loosely followed.

#### **3.3.4.2 Focus Group Discussions**

Four focus group discussions were held, two with government officials and two with entrepreneurs. Each one had participants ranging from 6 to 8, and lasted for

one to one and half hours. The discussions were held either in government meeting rooms, or in hotel meeting rooms. The question guide was again loosely followed, and the discussion audio-recorded. Indeed, there was group dynamics, and rich information was obtained. However, there were shortcomings, particularly with the government official discussions. It was soon apparent that the highest ranking official would dominate, and that no different opinions would be expressed. This generally did not happen with the entrepreneur discussions, though there were also individuals who tended to speak more and more forcefully than the others. Nevertheless, a lot of useful information was obtained.

#### **3.3.4.3 Questionnaire Survey**

It was difficult to conduct questionnaire survey, particularly the kind of this project which needs the cooperation of people from enterprises. That was why two sets of questionnaire survey were conducted, as described above. The two sets of answers were compared, and no significant differences were found, thus they were analyzed together.

#### **3.3.5 Analyses**

##### **3.3.5.1 For Qualitative Analyses**

Grounded theory method was employed for the analyses of qualitative research part of the project. Grounded theory method (GT) is a systematic methodology mostly used in social sciences involving the discovery of theory through the analysis of data (Savin-Baden & Major, 2013). The difference between GT and traditional method is that it does not start with a hypothesis, but with data

collection. From the data collected, the key points are marked with a series of codes, which are extracted from the text. The codes are grouped into similar concepts in order to make the data more workable. From these concepts, categories are formed, which are the basis for the creation of a theory, or rather a theoretical model (Charmaz, 2000).

There are four stages of analysis. The first stage is called “codes”, in which some “anchors” will be identified so that key points of the data will be gathered; the second stage is called “concepts”, in which codes of similar content will be collected so that data will be grouped; the third stage is called “categories”, in which similar concepts form broad groups to be used to generate a theory; and the fourth stage is called theory, in which a collection of categories details the subject of the research. It can be seen that the four stages form a conceptualization process, and from common elements eventually a theory can be structured.

In actual operation, with the collected data, such as interviews and focus group discussions or other written materials, every line is analyzed, and useful concepts are identified where key phrases are marked. In this way, the data are made into conceptual components. Each concept is then related to a larger and more inclusive category. This involves constant comparison. These concepts have to be integrated to form a theoretical model around a central category that holds everything together. This has to be refined constantly, as efforts also need to be made to look for negative cases which do not confirm the model. Basically one generates a model about how whatever one is studying works right from the first interview and see if the model holds up as one analyze more interviews. It is said



that theorizing is involved in all these steps. One is required to build and test the model all the way through till the end of a project.

It is said that one goal of a grounded theory study is to discover the participants' main concern and how they try to resolve it. "The questions the researcher repeatedly asks in grounded theory are 'What's going on?' and 'What is the main problem of the participants, and how are they trying to solve it?'" These questions will be answered by the core variable and its sub-cores and properties in due course" ([http://en.wikipedia.org/wiki/Grounded\\_theory](http://en.wikipedia.org/wiki/Grounded_theory)).

Grounded theory method is characterized with the "All is data" concept and "open coding". All is data is said to be a fundamental property of GT, which means that everything that gets in the researcher's way when studying a certain area is data. Not only interviews or observations but anything is data that helps the researcher generate concepts for the emerging theory. Open coding is conceptualizing on the first level of abstraction. Written data from field notes or transcripts are conceptualized line by line. In the beginning of a study everything is coded in order to find out about the problem and how it is being resolved. While tedious, this process will yield many concepts. These are compared as more data are coded, and merged into new concepts, and eventually renamed and modified. The GT researcher goes back and forth while comparing data, constantly modifying, and sharpening the growing theory (Savin-Baden & Major, 2013).

### **3.3.5.2 For Quantitative Analyses**

Considering the exploratory nature of the study, no sophisticated statistical

analyses were employed. Thus, for the questionnaire survey, tabulation of simple statistics was used and presented. As the samples can be divided into groups, such as manufacturers and trading companies, and companies of various sizes, t-tests and F-tests were conducted to find out the impacts of such variables.

## **CHAPTER 4 THE KEQIAO TEXTILE CLUSTER AS A BRAND**

Keqiao is a typical textile cluster with various components. In a sense, it is a perfect exemplary illustration of the textbook definition of an industrial cluster. The cluster has two wings as its major components, namely the trading markets, which is China Textile City (CTC), and the manufacturing aggregation. In addition, there is the logistic industry, which supports the functions of the above two wings. There is the flourishing conference and exhibition sector, which relies on the two wings but also promotes them. There is the newly emerging creative industry, which is closely associated with the two wings but also enhance them. There are research and educational institutions, which serve all the above sectors. And there is also the Online CTC, which is the extension of CTC but really an independent entity. Related to the two wings there is also the Keqiao indexes, which serve the two wings but also help promote the Keqiao brand. These are described in this chapter. This is not only for introduction of the components of Keqiao, but also for discussion of the roles played by these components in the branding efforts of Keqiao as a brand.

### **4.1 China Textile City**

China Textile City (CTC) is the largest specialized market of textiles in the world, and the second largest one of specialized wholesale markets of all products in China. It has a daily traffic flow of more than 100,000, and accounts for one quarter of all textile fabrics traded in the world. It has business relationship with nearly half of all the textile enterprises of China.

Started from scratch in 1988, CTC now has a trading space of 3.7 million square meters. It consists of five major market areas: the upgraded old market in the southern area of Keqiao (The South Market), the new market in the northern area (The North Market), the Qianqing textile material market in the western area (The Qianqing Market), and the modern international trade district (The Central District). Altogether there are 26,000 business rooms, dealing with more than 50,000 kinds of products. There are more than 24,000 business firms located in CTC, among them 1,100 are foreign companies (including those from Hong Kong, Macau and Taiwan). More than 5,300 foreign buyers are stationed in CTC. Its business network covers 187 countries and regions.

#### **4.1.1 Description of CTC**

Now CTC consists of five major markets, or rather market areas. These are described below.

##### **4.1.1.1 The Southern Market**

This is the oldest market in Keqiao, and many times it is called the traditional market. It is comprised of several separate buildings used as markets, all located in the southern area of Keqiao city. Most of the buildings have been either upgraded or even totally rebuilt in recent years.

**Beilian Market:** This is a very large building of four stories high, with 2,318 trading rooms, altogether nearly 220,000 square meters. Products traded in this market are primarily curtains, fabrics used for curtains or artistic fabrics. It is said

to be the largest, most concentrated specialized market with the most complete variety and most competitive price of its kind in Keqiao.

**Dongshenglu Market:** This market is said to be the birth place of CTC, but it was totally rebuilt in 2006 to 2009. The building has four zones, with more than 1,600 trading rooms and 295,000 square meters. In Zone A primarily wool fabrics are traded, in Zone B primarily high quality branded fabrics were traded. Zone C deals with knit fabrics, while Zone D deals with fashion fabrics and home textiles.

**United Market:** This market is positioned as the one with the highest building and furnishing standard, with a central air conditioning system, underground parking, individual bathroom for each trading room, and the best internet facility. Products traded in this market are primarily fashion fabrics for both men and women, but also curtains, accessories, and home textiles. The market has 1,680 trading rooms, altogether 160,000 square meters.

Other than the above three, there are also the Tianhui Market, primarily dealing with various printed and decorative fabrics; East Market, primarily dealing with linings, cotton fabrics, and knit fabrics; West Market, dealing with various fabrics used for apparel, but also retailing fabrics, as a pilot for people who were laid off but would like to venture; North Market, dealing with printed fabrics, bedding fabrics, and accessories; South Market, multiply functioned, with facilities for exhibition, logistics, catering and leisure. Each of the so called markets is a separate building, all in the southern area.

#### **4.1.1.2 The Eastern Market**

The Eastern Market is primarily an area with logistic facilities, the Exhibition Center, and a large building called The Scientific Innovation Tower. There are three major logistic facilities, namely The International Logistic Center, The Inland Logistic Center, and The Eastern Warehousing Center. As these names indicate, they primarily provide logistics and warehousing services.

#### **4.1.1.3 The Northern Market**

The Northern Market is relatively new, and close to several major high-rising buildings of Keqiao. It is comprised of two specialized markets.

**The Scarf Market:** The market has more than one thousand trading rooms, and is itself compartmented into several smaller zones, dealing with various scarves and shawls in each specialized zone, such as silk, artificial silk, linen, cotton, wool, and cashmere. It is one of the largest ones of its kind in the world, with very large variety.

**The Grey Fabrics Market:** This market has 2,400 trading rooms and 180,000 square meters. It only deals with grey fabrics, and most of the firms in this market are the marketing branches of fabric manufacturers. Currently there are more than 800 such enterprises stationed in this market, along with many wholesalers of grey fabrics which have no manufacturing of their own. It claims to be the market of its kind with the broadest resources and the most complete variety of products in China.

#### **4.1.1.4 The Western Market**

As this market is located in the town of Qianqing, very close to the city center of Keqiao though, and primarily deals with raw textile materials, such as cotton, wool, various bast fibers, and various kinds of man-made fibers, and yarns, it is often referred to as Qianqing Raw Materials Market. It is one of the ten largest markets of production materials in China, and the largest market of textile raw materials in Asia. It is said to be the barometer of trends and prices of textile materials in China, and to have substantial impacts on the demand and supply and price fluctuation in the world market of man-made fibers.

#### **4.1.1.5 The Central Market**

The above described markets are mostly large buildings of five or six stories high, modestly furnished, with trading rooms compartmented very much like booths at exhibitions. Three walls of the trading rooms are filled with samples of products, with the fourth being the door facing the isles within the building. Usually there is only one table and a couple chairs in the room. This is very easy for the traffic, and very convenient for the buyers to examine the samples, and very simple for the firms to conduct businesses.

The Central Market, however, is totally different from the above four markets. It is comprised of several high-rising buildings, like those in the central business district (CBD) of any large cities. Actually the Central Market is the CBD of Keqiao, but is called the International Trade District of Keqiao. It is built in two phases, with the first phase having seven buildings and the second having four buildings. These are very modern buildings, called Time Square, Trade Center,

Wealth Tower, Oriental Tower, Central Tower, and so on. In these buildings there are numerous modern offices and showrooms, large or small. Altogether the office size is more than half a million square meters.

The Central Market is built with the goal of “Modernization, Corporatization, and Specialization”. It is more like headquarter offices, rather than the markets in a traditional sense, as it provides spaces for product exhibition, business negotiation, office work and e-commerce. Thus, it functions differently from the above four markets, which rely more on tangible products. This market has significantly enhanced the status of CTC, and started a new era. It is said that here in this market “the business doing is corporatized, the operation is internationalized, the participants are globalized, and the business hours are not limited to daytime”. International businesses account for a large proportion in this market. Not like the other four markets, trades are not based on the tangible samples, not limited to merchandise on hand, and not founded on cash. Consequently, in this market or in these buildings there are also companies which provide various kinds of services, such as legal and financial services. Facilities in these buildings are modern and of state of the art.

#### **4.1.2 The Growth History of CTC**

In this section the growth history of CTC is delineated. It has to be noted that the purpose is not to describe the history, but rather to describe the formation of the industrial cluster of Keqiao from the perspective of CTC, and to describe the roles of various forces in this process, particularly the roles of the local government.



#### **4.1.2.1 The Background of Keqiao**

Keqiao has a favorable location. In its north is Shanghai, west is Hangzhou, and east is Ningbo, all important industrial and commercial centers regionally or even nationally. Communication is convenient.

Keqiao has a long history, which can go back to 4,000 years ago. It also has a long history of textile production. Records have it that as early as the warring states years which were 2,500 years ago, the state government encouraged its subjects to develop silk production. By Tang dynasty silk produced in this area became famous in China. By Qing dynasty silk had become a major industry in Keqiao. Records indicate that the peak years of silk production here were 1918 to 1920, when there were 2,800 firms. Later, due to the civil war and the invasion of Japan the industry dwindled. After the foundation of new China, production recovered and increased. However, for three decades before the economic reforms and the adoption of the open door policy, there were only a few state-owned and collectively-owned enterprises, prices were set by the government, there was no competition, and markets were not allowed to exist and work, which severely suffocated the growth of the industry.

#### **4.1.2.2 The Beginning**

In the old days there were small shops which sold silk to customers, and some had stalls in the streets. In the late 1970s the rigid control of planned economy showed some signs of relaxation, and some people who were sensible to the changes tried to make money by setting up stalls in one street, selling some fabrics they managed to get. In 1983 there were about a dozen of such businessmen doing

business there. This grew fast, and by 1984 there were more than 200 such businessmen in the street and in small hotels. As business grew, even boats which were the major transportation tools then locally were used to conduct the business. This is viewed as the beginning of the market, the start of the industrial cluster. This was the spontaneous behavior of the people, the natural response of businessmen out of impulse for money making, and it was driven by the economic force.

It was then that the local government decided to support and guide the growth of this little bud of market. The action of the government was a turning point which made it possible for the stalls to be developed into a market of large scale. In July 1985, with the support of the district government, the Keqiao Bureau of Commerce allocated RMB 150,000 to build a structure of wigwam style, which was 3,500 square meters, and called it “Keqiao Textile Market”. It had little facility, with 77 outlets and 89 booths. It had both wholesale and retailing businesses, selling textile products produced locally. It had a daily traffic of about 4,000, and the annual sales value amounted to about RMB 20 million.

As China’s economy grew rapidly at that time, the small market became very active and business was prosperous. However, it also became evident that it did not have the capacity to meet the demand for further growth. In 1987 the government decided to allocate a piece of land and build a multi-functional and enclosed “Keqiao Textile Market”. The construction started in January of 1988 and finished soon, and was put into use by 1 October the same year. The structure was of 23,200 square meters and had 600 rooms. It attracted more than 500 firms

of various ownerships to station there, dealing with more than 4,000 kinds of textile products. It soon became the largest indoor specialized market in the province.

#### **4.1.2.3 The Stage to Attract Businessmen**

At the same time, textile manufacturing developed very fast in Keqiao, and several towns of it were growing into manufacturing bases. This laid a good foundation for the specialized market to grow, as there were large quantity and variety of textile products to sell. As the reputation of Keqiao as a center of textiles grew, buyers of fabrics came from every corner of the country to purchase materials for production of apparels and home textiles. As the number of buyers increased rapidly, manufacturers of textile products from other areas in Zhejiang province and even from other provinces came to set up selling offices in Keqiao. In 1989 alone, more than 450 textile manufacturers from other places established selling offices in Keqiao. This had become a dynamic and spiral-up process. Total sales value reached RMB 311 million in 1989, and RMB 570 million in 1990.

Realizing the tremendous demand and the opportunity for expansion, the government decided in September 1990 to expropriate some land and invest nearly RMB 50 million to expand the textile market. In about one year, the first phase of the expansion project was finished with the construction of the East Market. It had 33,500 square meters, and 1,020 trading rooms, hosting about 1,500 business firms. The market is better equipped, with escalators and goods lifts installed. The Keqiao Textile Market soon became the largest market for fabrics in China. It was then, in July of 1992, the central government approved

that the market be named “China Textile Market”. It was the first specialized market to be authorized to carry the word “China” in its name.

In May 1992, the government decided to publically auction the 6-year-using-right of one area, altogether 186 trading rooms, in East Market. 858 enterprises and individuals registered to participate in the auction. This action raised nearly RMB 20 million. This was a landmark event, which opened a new channel for financing the development of the market. Encouraged by this, the government decided to start a full scale campaign of CTC construction. This campaign was called “Make the commerce prosper to build the market; make the market prosper to build the city”.

Soon after, another historical event took place, which was the establishment of CTC Development Co., Ltd. which became of owner of all the buildings and trading spaces of CTC. It was the first one in China to incorporate a specialized market. Since then, the government and the enterprise (CTC) were separated, and the regulation and the operation of the enterprise were also separated. In 1997, the enterprise was approved to hold its Initial Public Offering, shares began to be sold and bought in the stock market, and the enterprise became a public company. This laid a solid foundation for quantitative expansion and qualitative enhancement.

With these efforts, by 1994 CTC with its four trading areas (the west, the east, the north, and the central) had already taken form. The total market space reached more than 200,000 square meters, hosting more than 7,000 firms, and there were more than 20,000 people employed in the market. Total sales value reached more

than RMB 3 billion.

#### **4.1.2.4 The Stage to Make the Business Prosperous**

In the years before 1994, while the CTC had been expanding rapidly, it was primarily a quantitative change. Since then, however, while the CTC continued to expand with many more new building being built and put into use, several more markets being constructed, and up to millions of square meters of trading spaces being added, tremendous efforts have been made to upgrade the soft aspects of CTC. As a result, quality has been improved.

##### ***1. Hardware Renovation***

Since 1997, a large scale of hardware renovation had been carried out. The floors, walls, ceilings and electricity equipment of the four markets (The Eastern Market, The Western Market, The Northern Market, and the Central Market) were entirely renovated. A large amount of money was invested to refurnish some trading rooms in a few market areas, glass ceilings were installed over the traffic isles within some buildings, TV monitoring facilities and display screens were equipped. A computer network management system was introduced, and in many places notice boards, service desks, guiding maps and resting benches were placed for the convenience of buyers and the public. Previously there were no rules on the name signs of the firms, and not only was it messy, there were even disputes, competition, and fights over the signs. Then rules were made on the size, the shape, and the place of the signs, and more than RMB two million were spent on these signs. After that, though there were still considerable variations among the signs in style, they were generally uniformed in size and place, and they look

much better and harmonious. Parking spaces outside the market buildings were adjusted so the arrangement became more reasonable, efficient, convenient, and safer. Another RMB 2 million were spent in 1998 to renovate the corridors, staircases, and fire control facilities, which eliminated many potential danger spots and made the markets a much safer place. These hardware renovations substantially improved the efficiency and safety, and made the markets a much better place to work and to do business.

## ***2. Creating New Business Modes***

At the beginning nearly all of the firms were very small ones and the business mode was quite simple, that is, customers got into the trading rooms, and after examining the samples displayed around the three walls of the room, placed an order, made payments at the spot, and purchased the fabrics. As the market grew, the business modes were also diversified. This had gone through a period and a process.

- In 1999, a particular area on the second floor of a market was specified to be the “Imports and Exports Zone”, where the modern business mode was adopted, which was not based on barter style trade, and where international trade was conducted. This provided platform for large firms and leading enterprises to join the global markets. By 2001, 35 companies were authorized by the Ministry of International Trade to conduct exporting and importing businesses.
- In 2001, the small firms in the markets began a transition towards corporatization, 156 limited liability companies were created. By the end of

2002, the number of such companies increased to more than 400.

- Some firms, after initial capital accumulation, started vertical integration. When the government specially allocated a piece of land of 1,200 mu as industrial park for the firms to get into manufacturing, 14 entrepreneurs who were trading firm owners entered the park and invested nearly RMB 1 billion to start manufacturing textiles.
- In 2002, corporatization further grew, and two high-rising buildings were specified as Company Trading Zone, where offices were located, showrooms and negotiation rooms were provided, so that deals based on contract, rather than on spot transaction, could be conducted.
- Some foreign companies started to enter Keqiao and stationed in CTC. By 2002, there were 31 foreign buying offices and other types of agencies, with more than 300 foreigners working and living in Keqiao.
- Many small firms used to do business in the trading rooms, much like booths or stalls as described before; but now a new mode is developed called “Front store and back company”, which means that the trading rooms function like a showroom, while business is conducted in offices much like modern companies.

### ***3. Improving Management and Regulation***

CTC gradually established its management and regulation systems. For example, it developed its business room management system, which includes functions such as registration, ownership or right transfer, mortgaging, freezing, enquiry and so on. CTC has also established a credit system, which classifies the firms in terms of their level of credit based on several criteria. Related to this, CTC also

set up a dynamic monitoring system to supervise the behavior of the firms. This has significantly improved the reputation of the markets.

#### ***4. “Electronizing” the Market***

CTC established three internet platforms, namely the Market Management Information System, The Global Textile Network, and the Online CTC. The information system gathers all the information in-time, which forms the foundation for monitoring and decision making. This system has also been used to provide training for firms in the market. The Global Textile Network has become the largest database on textile enterprises in China with inputs of more than 120,000 textile firms in China. It is now being browsed daily by a quarter of a million textile professionals all over the world. It has more than 50,000 business members from more than 70 countries. The Online CTC has been built into a specialized trading platform for textile products, and is growing rapidly.

#### ***5. Expanding the Market in Other Provinces***

In 1996 the construction of Dongxing CTC in Guangxi province was completed, signaling the first step of expansion of CTC in other provinces. In the first year the total sales value reached RMB 300 million, making Dongxing CTC the largest specialized textile market in that province. In 2004, a contract was signed between CTC and Fuzhou city of Jiangxi province, and a textile market there was taken over and became a branch of CTC in that province. About the same time, CTC and Changyi city, Shandong province, started a joint venture project to build a textile materials market there, which would become a subsidiary of the Qianqing Market of CTC in Keqiao. These expansions are important strategic steps taken to



accelerate the further growth of CTC. These places were carefully chosen based on some criteria, such the existence of textile industrial clusters in the places, the demand and supply and textiles there, the local policy incentives, the infrastructure, and some other conditions. It was also necessary to make sure that these branches would be complementary to rather than a competition to CTC in Keqiao. These were carefully examined. All three subsidiaries have been successful in terms of profit making, and each one of them has been individually growing fast.

#### **4.1.3 The roles of CTC in Keqiao Branding Efforts**

Of all the components of Keqiao as an industrial cluster, CTC is the most important one in its branding efforts. Without CTC, Keqiao might still be a very important textile cluster in China, but it would be only one of them and could not have achieved its status today. In the investigation of this project, it has been repeatedly heard that CTC is the “golden business card” of Keqiao. Over the years, while the government makes efforts to make each of the cluster components grow, it is CTC to which the government pays the most attention, which will be discussed in the next chapter.

Also, from the discussion above it can be seen clearly that CTC itself is a brand. Its name “China Textile City” substantially enhances its reputation, as there are hardly any other markets which are authorized to carry “China” with them. It has established its logo (which roughly takes the form of the ancient Chinese character “silk”), and every once in a while it has its tagline. The growth history of CTC is also the growth history of the brand, and the history of the branding

efforts. It is Keqiao which makes CTC, and as a component it is CTC which makes Keqiao famous.

CTC can become the “business card” of Keqiao for several reasons. First it is the largest wholesale market of textiles not only in China but also in Asia and the world. The huge size and scale of it creates awareness and image, the two most important aspects of a brand. During the investigation, one interviewee said:

The scale is very important, being the number one is very important. You are the largest, and everyone knows you. When you talk about textile market, people would say, “Keqiao, China Textile City!” They would not say who the number two is. Actually I even don’t know where the number two is.

Size is only part of it, CTC also has the largest variety of textile products, as described above. It is like a supermarket which has the fullest range of goods for a consumer. Thus, if a buyer has a list of fabrics to buy, he can have it fulfilled in CTC. Even the higher end fabrics which are produced in France or Italy, a needing manufacturer can find them here, as there are imports, some from the foreign firms themselves.

As a market, the hard aspects of CTC have been improving and it is good in most of the buildings, which created an amiable environment for businesses. The soft aspects, in terms of regulation and rules, in credibility, in efficiency such as delivery, CTC has also been making improvements and is now reputable. To make an analogy, CTC is like the most important product of Keqiao as a company, when CTC wins awareness and reputation, that enhances the brand equity of Keqiao as

a brand.

## 4.2 The Textile Manufacturing Aggregation

### 4.2.1 The General Description of the Aggregation

Textile manufacturing is one pillar of the economy in Keqiao. As said before, the manufacturing aggregation and the CTC are the two wings of Keqiao development.

Textile manufacturing forms a relatively complete industrial chain, from chemical fibers of upstream, to fabrication, dyeing and printing in the middle, to apparel, accessories, and home textiles and industrial textiles of downstream, covering nearly every link. Primarily there are four sectors, namely chemical fibers, fabrics (weaving and knitting), dyeing and finishing, and apparel. In 2014 the numbers of large firms (those which have a sales value above RMB 20million) are shown in the table 4-1 below:

**Table 4-1 The Textile Manufacturing Aggregation In Keqiao 2014**

Sector	Chemical fiber	Fabric	Dyeing and Finishing	Apparel
No. of firms	87	467	169	47
Employment	16228	56091	90069	9170
RMB million	692	823	672	77

The total outputs have reached more than 3 million tons of chemical fibers, 1 million tons of knitted fabric, 1.6 million tons of dyeing, printing and finishing of fabrics, and nearly 100 million pieces of garments. They account for a big percentage of the total of China. For example, the output of chemical fibers is

about one tenth of China's total. Altogether the total value of outputs of the four sectors reached RMB 226.4 billion, accounting for nearly two thirds of the total manufacturing in Keqiao.

The government has set criteria to identify the so called "high-end enterprises". These criteria include conditions such as demonstration enterprises in green production or in robotic replacement designated by the provincial government; enterprises with provincial-level key-laboratories; enterprises with famous brands designated by the provincial government; or enterprises with exports value more than US\$ 10 million per year; and so on. In Keqiao there are 78 such enterprises by 2015, of which 25 are fabric manufacturers, 24 are dyers and finishers. 70 of them are large companies with sales value more than RMB 100 million per year. This is a good indication that there are a relatively large number of enterprises which are quite advanced.

Another indication is the technology and equipment used by these enterprises. The chemical fiber sector is capable of producing high-tech fibers and composite materials. Computer aided design (CAD) and computer integrated manufacturing (CIM) and management information system (MIS) are widely employed. In the high-end dyeing enterprises, the usage of CAD has reached 100 percent. Also, it is claimed that of the more than 10,000 set of dyeing equipment, majority is the state of art. A few apparel plants have started to adopt mass-customization system.

## **4.2.2 The Historical Development of the Manufacturing Aggregation**

### **4.2.2.1 The Background**

In this part of China, due to geographical reasons, since ancient time silk had been produced. Keqiao used to be one of the silk centers in China. After the revolution, while silk was still the major economic activities around there, eventually the firms and factories of various sizes became state-owned or collective-owned, especially during the 1960s and 1970s there was no private production.

Several reasons prompted the take-off and the growth of textile manufacturing in this area. Most importantly, it was the economic reforms which opened the possibility of private ownership, and as it was a shortage economy at that time, nearly everything manufactured could be sold, so demand was not a problem. Also people here historically have the spirit of risk taking and the tradition to engage in businesses. People are relatively open-minded. As one entrepreneur said during a focus group discussion:

What made us different from the others? Gut. We were just farmers, and had nothing at that time. We had no education, no knowledge. But we were bold, and had to be. We saw the opportunities, and with the little money we somehow got, we rolled up our sleeves and jumped in. We were early and it was easy to succeed. You made things and you could sell them and you made money then.

The location of Keqiao gives it a lot of advantages. As Keqiao is close to Shanghai, Hangzhou and Ningbo, communication and transportation are convenient. Thus Keqiao can radiate to many places and serve a very large

market.

As to the selection of textile manufacturing, partly it was because Keqiao used to be a silk center and people had the basic skills, and partly because the entry barrier was very low, thus many entrepreneurs started with textile products. Very little capital was needed at that time; very little skills were needed; technology was simple; and low cost labor was abundant.

#### **4.2.2.2 The Gradual Upgrading**

Like many other textile clusters in China, Keqiao started with fabric production and apparel production. At the beginning there were some state-owned and collective-owned factories, and these factories flourished since the economy was growing fast. However, they soon ran into difficulties since they were under planned economy and the system was too rigid. Later they were all transformed into private ownership. Nevertheless they were the model for the emerging enterprises in terms of production management.

The development of the manufacturing aggregation was parallel to that of CTC, and the relationship between the two was dynamic. The existence and growth of CTC substantially lowered the selling costs of the manufacturers, and also provided other advantages, such as information. Thus on one hand more local people started their own manufacturing, on the other hand Keqiao attracted many people from other places to come here to venture. During the interviews and focus group discussions, many such stories were told.

In this process many of the companies grew and upgraded. The previous small cottage like factories became big companies. They built new and large buildings, bought advanced equipment, hired more and skilled workers, and employed professional managers. The companies were better managed, better products were produced, and more sophisticated marketing was conducted. Thus, the textile cluster being formed was developing both in quantity and in quality. Meanwhile new companies kept coming out and coming in.

In the growing process, two things occurred which were significant. One is that many firms realized the importance of branding, and began making efforts in that direction. Some started making strategic plans in branding and implementing these plans in various aspects, including the brand elements such as name, logo and so on, and conducting the 4 Ps from the branding perspective. The other one is that many firms sought other ways for expansion, such as vertical integration, either going forward from fabric to apparel and to retailing, or going backward from fabric to yarns and even fibers. Along with the new investments coming into Keqiao, this led to eventually the four major sectors of the manufacturing aggregation in Keqiao cluster. That is, the original two sectors of fabrics and apparel were expanded to include dyeing and finishing and chemical fibers.

The driving forces behind this expansion are multilateral. As the economy grew and the companies grew, more capital had been accumulated which needed an outlet to be invested. In Keqiao there are many rivers and water supply is abundant, which is suitable and necessary for chemical fiber production and for dyeing and finishing processes. The proximity of CTC and the existence and

expansion of the industrial cluster substantially lower the costs. Besides, the government had given incentives. It can be seen clearly that there were both the advantages of clustering and the effects of branding.

This is significant for Keqiao, because the chemical fiber industry and the dyeing and finishing industry are more capital intensive and knowledge intensive than the manufacturing of fabrics and apparel. In this sense, the expansion itself represents upgrading. Besides, the expansion has also made Keqiao an industrial cluster with more complete supply chain in textiles, and thus more competitive and powerful. This is a self-enforcement of the brand effects.

Not like CTC which, with its numerous buildings, is relatively concentrated in the city center of Keqiao, the manufacturing aggregation is dispersed in the various towns of Keqiao district. Some sub-industries may be more concentrated in a particular town. In recent years as the standards of environmental regulation have become ever high and strict, the local government has been making efforts to move all the dyeing and finishing sector into one town where it is close to the sea and a central processing facility has been built. It has been proven that this is very good for environment protection and more efficient in production. Meanwhile, some small firms with obsolete equipment which is damaging to the environment have been forcibly closed.

#### **4.2.3 The Roles of the Manufacturing Sector for the Keqiao Brand**

Compared with China Textile City the market, the manufacturing sector is not as important for Keqiao as a brand. However, the sector is indispensable for the growth of Keqiao as a cluster and thus indirectly supports the growth of Keqiao as



a brand.

The relationship between CTC and the manufacturing sector is much like that of chicken and egg; it is hard to say which one came out first. As said before, these are the two wings of Keqiao and thus they interact dynamically and support each other. While CTC provides the markets for the manufacturing enterprises, the latter also increases the reputation of the former as it supplies a large proportion of CTC's products.

However, there is the weakness of the sector, that is, now the main part of it is still on the upstream of the soft-goods chain, primarily fabrics, and dyeing and finishing. These companies, even with brands, are only known with professionals, since they are not the producers of the final consumer goods. Thus, it is also repeatedly heard during the investigation that “we hate it that the cloth here is not made into clothes here”, meaning that there is relatively a small number of apparel manufacturers and few are large and well-known. If there are some large and famous apparel enterprises in Keqiao, their brands would substantially enhance the brand equity of Keqiao.

### **4.3 The Logistic Industry**

The development of logistics in Keqiao closely follows the development of the two wings of the cluster, both CTC and the manufacturing aggregation, but primarily CTC, since most of the products manufactured are traded through CTC. Now logistics has become a major component of the cluster and also a pillar for the growth of the cluster.

### **4.3.1 Historical Development of Logistics**

As the volume of products traded increased rapidly, evidently there grew a strong demand for logistics. However, the growth experience of logistics in Keqiao exhibits clear imprints of policy influences and government intervention.

#### **4.3.1.1 The Start**

At the early stage of Keqiao, the market of logistics had not been formed. At the very beginning it was only a few state-owned and collective-owned transportation units had small scale consignment operation. This could not satisfy the rapidly growing demand for logistics. A few individuals and companies, sensitive to the demand, captured the opportunity. They started their own consignment operation with their own space or with rented space. Some of them cooperated with transportation enterprises, while some others paid the empty passing vehicles to carry goods for them. This situation seriously handcuffed the further growth of the cluster.

Realizing this, the government took actions to break the bottleneck. They believed that a market must be built for logistics, and after some planning, two pieces of land were allocated to build dock yards primarily for loading and unloading, the West Yards, and the East Yards. Around there 98 consignment spots were established. Each day commodities of about 900 tons could be handled.

#### **4.3.1.2 Growth of the Logistic Market**

While the business boomed, the market became chaotic. It was common for

commodities to get lost or damaged; tax evasion and fraud were not unusual; and some tried to control the market. Such chaos had very bad impacts on the growth and reputation of the cluster. The government set up an office to regulate the market; the office had representatives from different bureaus, including Police, Price, Taxation, and Commerce. Measures were taken to turn the market into order.

In addition, the government decided to adopt the so called “Three no change principle”, that is, no change to the existing operation routes, no change to the business channels, and no change to the mode of contracts. Along with this, it was also announced that no permit would be given for an existing route, and no auctions would be held for rights of operations. These measures had the effects of stabilizing the market, and there was steady growth of the market. By 1998 there were 129 routes in roads, railway, and air, and capacity increased to 5,000 tons a day, yearly handling reached 1.5 million tons.

#### **4.3.1.3 The Transformation Stage**

Since 1998 there were further renovations for the expansion of the logistic market. The government decided that market mechanism be introduced and the approval system be changed into auction system. The principle was called “Setting the number of logistic firms reasonably; Open the operating right properly”. All the previous permits were retrieved back as state-owned resources, and the routes would be planned and regulated by the Logistic Development Company. The routes would be reasonably designed, and operated by one or firms according to the business volume. Market access rules were established. The numbers of firms,

the basic taxes and fees, the risk deposits were all announced and then auctions were held. Monopoly was not allowed. These measures made the market grow in a healthy and orderly way, and annual handling increased to 2 million tons.

#### **4.3.1.4 Further Opening Up of the Market**

Since 2005, the logistic industry in Keqiao has reached a new level. This is much due to the new policy of the government. The policy had four principles: First, market to be entirely open, that is, any individual who or any company which met the access requirements were eligible to be operating in the market; Second, business to be conducted inside, that is, the firms had to conduct business in designated places; Third, risks to be insured, so funds of compensation for any accidents had to be allocated to reduce the operational risks, to increase the service quality, and to guarantee the stability and development of the industry; and Fourth, operation to be monitored and assessed, so all firms needed to conduct business with credibility and trustworthiness, and service quality was apparently improved. With these measures not only the volume of business has been growing rapidly, but also the firms make efforts to improve service quality and compete with reasonable price.

#### **4.3.2 The Current State of the Logistic Industry**

Now in Keqiao there are three major logistic facilities to support both domestic and international businesses. The three facilities are The International Logistic Center, The Inland Logistic Center, and The Eastern Warehousing Center. There are hundreds of logistic companies, running hundreds of routes. Some of the

companies are specialized in road transportation, some in railway, some in air, and a few large ones dealing with multiple modes. Total capacity is more than 4 million tons, making Keqiao one of the largest logistic centers in Eastern China. The prosperity of logistics provides powerful supports for the operation of the cluster and its trading and manufacturing branches.

**The International Logistic Center:** This is a complex with a total construction space of a quarter of a million square meters. It has multiple functions such as warehousing, transportation, packing and distribution, and international freight. With a transportation capacity of 2.5 million tons, it is one of the largest logistic platforms with complete routes and functions.

**The Inland Logistic Center:** This is yet another multi-functional complex of more than 200 thousand square meters. In addition to warehousing and logistics, government agencies such as customs and commodity inspections are located there.

**The Eastern Warehousing Center:** In the eastern area is located the Eastern Warehousing Center, with 140 thousands square meters. The space was highly specialized, and there were 108 rooms for consignments, 397 rooms for warehousing, and 131 rooms for packing. It was built to share the pressure on the southern traditional market in logistics. It was put into use in 2008, and enormously facilitates the operation and efficiency of CTC.

### **4.3.3 The Roles of Logistics for Keqiao as a Brand**

Logistics is not the main player in Keqiao. However, it has played an important supportive role for Keqiao as a cluster to grow and as a brand to rise. With the largest physical market of textile products in China and with a very large textile manufacturing sector, it is unimaginable if there were no well developed logistic industry. The logistics is the lubricant for the cluster.

In modern society logistics has assumed ever more importance. The requirements for logistics are high in each of its links, not only in storage, packaging, distribution, and transportation, but also in other aspects such as services. Logistics should be safe, fast, accurate, and with fuller coverage; there should be no damage, delay and mistakes in the process. For the soft-goods chain, as there is time pressure to catch the fashion trend. Thus modern logistics is even more important.

In Keqiao, the logistic industry functions well to fulfill its mission. This has significant meaning for Keqiao as a brand in the fashion business. Should that not be the case, it would be very damaging to the Keqiao brand. Thus, the investments and the efforts are really worthy.

## **4.4 The Creative Industry**

The widely accepted definition of creative industry, sometimes also referred to as creative economy or cultural industry, was given by the UK Government Department for Culture, Media and Sport (DCMS): “those industries which have their origin in individual creativity, skill and talent and which have a potential for

wealth and job creation through the generation and exploitation of intellectual property” (DCMS, 2001, p.4). The range of the industries, however, is a contested issue. The DCMS recognizes nine creative sectors, including, for example, advertising and marketing. Particularly relevant for this study, there is “Design: product, graphic and fashion design”. Besides, many believe that R&D should be included in the list (Howkins, 2001).

It has been pointed out that “the harnessing of creativity brings with it the potential of new wealth creation, the cultivation of local talent and the generation of creative capital, the development of new export markets, significant multiplier effects throughout the broader economy, the utilization of information communication technologies and enhanced competitiveness in an increasingly global economy” (Cunningham *et al.*, 2009). Keqiao governments strongly believe that the creative industry is closely related to the functions of the cluster and that they could and should be made a growth pole for the cluster. Great efforts have been made to attract and cultivate the creative industry in Keqiao.

#### **4.4.1 Design Firms and Design Activities**

The central government has designated Keqiao as a textile industry creative design demonstration base. Following this, Keqiao governments have planned and created three creative industrial parks, called F5 Park, S&T (Science and Technology) Park, and CTC Park. A relatively large number of design and R&D firms have settled in the parks. In terms of total number of companies in the parks, the proportion of creative companies in the total, and the number of creative personnel, now the three parks as a whole ranked the third of all the particular

industrial design demonstration bases in Zhejiang province. Considering that the province is the most active in China in creative industries, this ranking is quite impressive.

There are already more than 400 firms located in the parks, and the total number of creative personnel has reached 3,000. These firms are engaged in different kinds of creative activities.

One such firm with its Chinese name meaning pondering can be used as an example. The owner of the firm was a designer. Seeing that Keqiao is a textile cluster and believing that he must be able to get inspiration from the huge variety of fabrics here, and also attracted by the incentives given by Keqiao government, he set up the design firm here which eventually moved to one of the creative parks. Very small at the beginning with only the owner and a sample maker, now the firm has more than 40 employees, mostly designers.

Now the firm has primarily three kinds of design businesses. First, they design fabrics, and they sell their design to fabric manufacturers. Second, they are commissioned to design final uses of fabrics which are provided to them by their clients, who may be a fabric manufacturer or a fabric wholesaler, either into apparel or into home textiles. Third, they design their own apparel, which they either sell the design to their apparel manufacturing clients or they contract out for production and then market the apparel products by themselves. .

During the investigation of this project the owner of the firm was interviewed. He



particularly gave two examples of the second kind of his business. A weaver was not successful in selling its fabrics, so they approached the firm for help. The firm examined the fabric and found it suitable to be used for down coats. The firm designed samples of down coats for the weaver, and the fabric could then sell well to the down coat makers. The profit margin increased from about RMB 1 per meter to more than RMB 5 per meter. Since then the weaver has become a regular client of the firm, which design sample apparels for it. Now the weaver has a total sales value of more than RMB 70 million.

In another example, a company had a very large stock of fabrics which they could not sell. When the company approached them, they made some design changes, and also made samples of final uses of these fabrics. These fabrics became hot in the market. Originally the fabrics could not sell at RMB 5 per meter, after the changes they could sell well at more than RMB 20 per meter. The firm calls this “Old fabrics, New designs”, and each year they are put forward two or three these kinds of designs, which help the fabric suppliers to sell their products.

During the investigation of this project, the owner of the design firm said:

The fabric suppliers used to use fabrics to promote their fabrics, but now with my designs they use products to promote their fabrics, which is much more effective. There is a triangle: the fabric supplier, the customer of fabrics, and me, the all three of us mutually win in this relationship. I make money in designing for the fabric supplier, and I also make money in recommending the fabric to some fabric buyers. Each one benefits.

He also said:

Now every fabric supplier has some stock-ups. In the entire Keqiao market, there is a huge stock-up of old fabrics. Firms like us can really help. Just imagine how much contributions we can make, and how much value we can create for the society!

#### **4.4.2 Fashion Activities**

Since the beginning of the new century, various fashion activities have been regularly held in Keqiao. This has been viewed as part of the creative industry, since there are firms which plan and organize such activities which are profitable, and also as part of the branding efforts, since these activities can increase the influence of Keqiao as a textile center and enhance the awareness and reputation of Keqiao.

The year of 2015 can be an example. The year saw 32 fashion activities with various themes. One was called Shenzhen Fashion Week in Keqiao. In Shenzhen concentrate a large number of higher end fashion companies, so they were invited to come to Keqiao to hold fashion news conferences and fashion shows. During the week, 14 sub-activities were organized, and the week literally became “Keqiao Fashion Week”. The Week was organized with the cooperation of Shenzhen Apparel Industry Society. As this Society is very influential in China, so not only a few very famous fashion brands and designers from Shenzhen came, but also brands and designers from all over the country came. This also attracted various kinds of media to come. The Week was a great success, and the objectives were accomplished. This also demonstrates the roles of the creative industry. Other activities included News Conference for Taiwan Designers, Competition of Hand

Painting Apparel, and so on. A forum was held on textile science and technology, which was attended by more than 200 researchers from Taiwan and the Mainland, and the forum resulted in 6 cooperation agreements, concerning R&D in functional fabrics, fashion design, and internship bases.

#### **4.4.3 Some Indicators of the Creative Industry**

During the year 2015, total sales value of the three parks reached nearly RMB 1 billion, of which design and R&D, technical services and so on accounted for RMB 126 million. About two thirds of the enterprises were being served in some way by the firms in the parks. Over the years, the number of firms has been increasing by 15 percent a year, and the number of annual fabric designs reached more than 40 thousands, and the number of annual registered patents of industrial designs reached more than 3,000. Though the creative industry is still a very young one, yet it has become a very prosperous and influential one and one with bright future.

#### **4.4.4 The Roles of the Creative Industry for the Keqiao Brand**

The major role of the creative industry is to increase the fashion contents of Keqiao as a brand. Though in the early years Keqiao was competitive due to its reasonable price and tolerable quality, both for the CTC market and for its manufacturing sector, Keqiao should not be content with being known for such an image. In today's market, variety, personality and uniqueness are the core of competitive power. These can only be made possible by a flourishing creative industry, such as impressive designs of fabrics.

It is said that a favorable, strong and unique image is part of the foundation of brand equity. Keqiao as a brand in the fashion business must make efforts to project such an image, and the creative industry, including the design studios and the fashion activity organizers, assumes such roles. So the industry is important for upgrading Keqiao as a textile center, and for enhancing its brand equity.

#### **4.5 The Conference and Exhibition Sector**

The conference and exhibition sector, after 20 years' growth, has become an important window for Keqiao. It plays multiple functions: not only does it provide an important channel to market the products of the Keqiao cluster, it also showcases Keqiao to the entire country and the world, thus promotes Keqiao as a cluster and a brand, it has also become an important growth pole for Keqiao, bringing the cluster to a higher new level.

##### **4.5.1 The Growth of the Sector**

The C&E sector started in 1996. Seeking for more effective way to promote Keqiao, in 1996 with the supports of China International Trade Promotion Commission, China National Garment Group Corporation, and Zhejiang Commerce Bureau, Keqiao government organized a trade fair of fabrics and textile machinery, with the theme "Let the world know Keqiao, and let Keqiao be connected to the world". More than 500 large companies from about 20 provinces of China exhibited their products at the fair, ranging from various fabrics to apparels and machines. A large number of visitors attended the trade fair, including those from more than a dozen foreign countries. This gave the

government and the organizers a great encouragement.

Soon in 1998 the Asian financial crisis occurred, which caused tremendous difficulties to Keqiao enterprises as well as the entire region. The government decided to organize a textile expo to exhibit products and promote sales. Thus, the first Textile Expo was held in April 1999. Two hundred fifty companies from 8 countries and regions participated in the Expo, which attracted a quarter of a million visitors and saw a total sales value of RMB half a billion. Many contracts were signed and cooperation agreements reached.

Since then the Expo has been held each year, and later it has been held twice a year. The general trend is that more companies participate in the Expo; more foreign companies participate; they are from more countries and regions; more variety of products are exhibited; there are more visitors and the visitors come from more countries; the total sales value increases; the total number of contracts and agreements increases. The Expo has become more influential both at home and in the world. In 2008 the Expo was raised to national level, and has since become a “golden business card” of Keqiao.

The conference and exhibition sector has since become a growing industry for Keqiao. To organize a conference or exhibition, especially large ones, is a very complicated endeavor, as there are so many details to be taken care of, and so many professionals are needed to organize the activities. For example, the events have to be planned, the theme to be determined, the activities to be scheduled, key people to be identified, invited and accommodated, things arranged, and so on, organizations or firms are needed to do all of these. Some firms emerged in

Keqiao, taking the advantages of the infrastructure, facilities, and reputation. Armed with experiences of the Textile Expo, other expos have been held in Keqiao, such as automobiles, houses, and others. These were organized and supported by the Keqiao government.

#### **4.5.2 The Organization of the Keqiao Textile EXPO**

The government of Keqiao is the primary organizer of the Textile Expo. The government spends over RMB 10 million each year to promote the Expo, making publicity in hundreds media of various kinds, such as TV, radio, newspapers and magazines, trade periodicals, and professional websites. It also invites trade organizations of the USA, the UK, Germany, France, Italy, Japan and other countries to form delegations to attend the Expo. This has created an excellent business opportunity for both overseas and domestic textile enterprises and trade companies.

While the Keqiao government is the organizer of the Expo, with China Textile City Exhibition & Convention Co., Ltd. to do the actual job, many government branches and organizations are involved in the making of the Expo. The Expo is sponsored in various forms, pecuniary and non-pecuniary, by the government of Zhejiang Province, China Council for the Promotion of International Trade, China National Textile and Apparel Council, and China General Chamber of Commerce. As the Expo is a major exhibition to the world, China Chamber of Commerce for Import & Export of Textile & Apparel commonly gives a lot of directions and suggestions with their expertise. The Expo also gets support from Hong Kong Trade Development Council, which has rich and wide experiences in holding and

hosting similar activities. The Department of Commerce of Zhejiang Province and the Zhejiang Sub-council of China Council for the Promotion of International Trade are actively involved in the organization of the Expo, as this is part of their responsibilities. All of these branches and organizations provide resources of various forms, which lay a solid foundation for the success of the Expo each year.

#### **4.5.3 The Publicity through Media**

The government and the other organizers of the EXPO know clearly the importance of publicity. They try to get some cooperative media, which are the mainstream media in China, including Xinhua News Agency, CCTV (China Central TV), Zhejiang TV, China Daily (which is an English newspaper published primarily for overseas readers), Zhejiang Daily, International Business Daily, Hongkong Wenweipo (which targets readers in Hong Kong), TA weekly, China Textile News. As now the internet has become a very important media channel, they also cooperate with the most important internet media in China, such as the people's net, Alibaba, and some others.

#### **4.5.4 Some Highlights of the Expo**

The organizers know the importance of improving the quality of the Expo so that they put themselves on the position of the participants and visitors, and make efforts to promote and enhance the quality of the Expo from the perspective of the participants and visitors. Thus they highlight the advantages of the Expo in their promotion of the Expo.

The organizers emphasize that the Expo has been growing rapidly and its influences are increasing in the world. They make efforts to improve the Expo in various aspects, so that it has been growing over the years. Now in China the Expo is regarded as one of the three most influential exhibitions in textiles. One indication is that a group of famous textile enterprises such as have become regular participants. The Expo, particularly the autumn one, has increasing appeal to textile enterprises of other countries as well.

One attraction for participation is that the total volume of trading on the Expo has been increasing each year. The organizers of the Expo make efforts to expand the promotion channel and to invite domestic and overseas enterprises to participate the Expo, particularly those powerful buyers. The organizers make telephone calls, send emails and faxes, and they send personnel to attend the various textile exhibitions and conferences to promote the Expo, and they do the promotion in many important textile clusters. For the important regions, they make special trips and visit the chambers of commerce, the trade associations and the wholesale markets. Their sincerity and the potentials of the Expo move many professional buyers to come and attend the Expo. Now each time more than 30,000 professionals would attend the Expo, creating a turnover of more than RMB 10 billion.

More new products are exhibited, which indicates the value of the Expo as a platform of releasing new products. Now Keqiao Textile Expo is increasingly becoming a benchmark of exhibitions in the textile industry in China, and has gained ever strong international influences. As the Expo reinforces intellectual



property protection of textile products, more participating enterprises are willing to exhibit their new products. It claims that majority of the participants exhibit their newest products they have developed, and many of them hold news conference to release their new products. The Expo has become a significant platform for textile enterprises to publish their new high value-added products.

The theme of the Expo has been “Fashion, Quality, Greenness”, and the organizers have been trying to make the image of the Expo as “fashionable and creative”, and to make the Expo at the frontline of fashion trend. The Expo has become the source and origin of fashion trend and creativity in China. The organizers particularly allocate a specific space as “creativity exhibition area”, in which companies which are creativity oriented get together, so as to have an aggregation effect. Thus, fashion and creativity in the field of textiles are demonstrated to the uttermost.

The organizers take various promotional activities for the widest coverage of the Expo. They RMB tens of millions to promote the Expo each year, and the promotion is done methodically in a multi-stage, multi-channel and full-coverage manner. The organizers cooperate with the most influential media at home, such as CCTV (China Central Television). They also cooperate with media in some regions where textile enterprises are concentrated, such as several textile clusters in Jiangsu province. They also promote the Expo in selected fashion centers in the world, such as Hong Kong. Advertisements are publicized in magazines of airlines and high-speed trains. They make special efforts to cooperate with internet media, making announcements about the Expo on the most popular websites in

China, and even promote the Expo on such global search engines as European Yellow Page, Google and Yahoo.

The organizers intend to make the Expo an important information exchange platform for the industry. During the Expo, a series of activities are conducted to further boost the effects of the exhibition. The organizers cooperate with authoritative institutions such as China Fashion Designer Association and China Textile News. A competition in fashion design and creativity is held, named "China Textile City Cup", and the award ceremony is held during the Expo. A fair is particularly organized for overseas buyers and domestic enterprises to meet, with cooperation with Online Textile City. News conferences about fashion trend, popular colors, and fashion fabrics are also held during the Expo, which make the enterprises better informed.

As the staff of the Expo becomes more experienced, the organizing skills and the service quality are also improved. New and more advanced facilities are provided. For example, visitors can register on line and have their visitor cards printed on site with self-service machines. With some conditions, professional buyers are provided with free accommodation, particularly for those who pre-registered online. During the Expo, there are free shuttle buses between the major hotels and the Expo site, and between the market places of the Textile City, which gives enormous convenience to the visitors of the Expo. A service center is set up, which provides services such as translation and interpretation, finance, booth facility, and intellectual property protection. An optical fiber of 100MB has been installed in the Expo halls, which guarantees the fluency of wifi signals in the

halls. Exhibitors and visitors get free access to the internet, so that they can receive various kinds of information, and browse the online Expo easily.

#### **4.5.5 The Roles of the Conference and Exhibition Sector for Keqiao Brand**

The conference and exhibition sector has tangible functions to play. As described above, the Keqiao Textile Expo is an important platform for the enterprises to exhibit their products, to promote themselves, and to receive substantial amount of orders. However, more importantly, the sector bears the roles of promoting Keqiao as a brand.

This sector creates events, which attract people and the attention of the media. Though thousands of buyers come to Keqiao each day, the events such as conferences and exhibitions and the fashion activities attract the important people to come. These are wonderful opportunities to impress the people with a very positive image. And the coverage of the media increases the awareness of Keqiao as a brand, and help project the image to the target community. This enhances the brand equity enormously.

### **4.6 The Research and Educational Institutions**

#### **4.6.1 Research Institutions**

In Keqiao there are now two independent research institutions, and also several research institutions affiliated with large enterprises.

The largest one is Zhejiang Modern Textile Research Institution, which was

established in 2006 as a result of cooperation between Shaoxing Science and Technology Center, Zhejiang University, Zhejiang Polytechnic University and nearly 90 other organizations. The objective was to build a platform of modern textile technology and equipment innovation with the primary goal to serve the local industry. Now it has more than ten laboratories, including textile quality testing, pattern design, fashion trend research, digital printing and so on; it also has several R&D centers, including textile information, textile and apparel manufacturing technology, textile equipment and control, and new textile materials. It conducts research projects which have common applications for the entire cluster, and is also commissioned to provide services to individual enterprises.

Another one is Zhejiang Creative Research Institute, which is focused on design related research. This is also the result of cooperation between several organizations, including Donghua University, Shaoxing Textile and Fashion Design Association, and some others. The major projects it has been conducting include branding incubation, fashion trend studies, talents introduction and training.

Other than that, there is Yuejian Textile Equipment Research Institute, which is affiliated with Yuejian Group, a textile machinery company. The institute has had some breakthroughs in chemical fiber equipment and warp-knitting equipment, also has innovations in twisting and winding technologies. The institute has had a few dozen patents.

There are also Shaoxing Textile Machinery Research Institute, Hezhongfei Textile Material Research Institute, and others. These are all affiliated with large enterprises, conducting R&D for their own companies, but also provide services and consultancies on commission basis.

#### **4.6.2 Educational Institutions**

In Keqiao there is currently one educational institution at college level, Zhijiang College of Zhejiang University of Technology. It was established only in 2004, when the industrial cluster was solidly founded. Now it has 36 bachelor programs with 7,500 students. The objective of the college is to educate professionals primarily for the local economy, Textile and apparel related programs are major ones of the college.

At the same time, Shuren University has planned to set up a campus in Keqiao, offering textile and apparel related programs. Besides, there are also several technical schools located in Keqiao, which educate technicians and technical laborers.

In addition to these schools in Keqiao, there are educational institutions at secondary and tertiary levels nearby, such as in Shaoxing, which is less than half an hour's drive away. The district also has cooperation with several universities to have training programs of various kinds.

### **4.6.3 The Roles of These Institutions for Keqiao Brand**

These research and educational institutions conduct various programs and provide services to help the cluster grow. On the other hand, during the investigation it can be clearly felt that people in Keqiao, both government and enterprises, believe that the existence and presence of such institutions are indispensable for the growth of Keqiao brand. They often mentioned the importance of Stanford and Berkeley to the Silicon Valley, and this analogy makes sense. These research and educational institutions have provided another source for secondary associations.

## **4.7 The Online Textile City**

As e-commerce and internet shopping have become more popular, the Online Textile City has been created, affiliated with China Textile City. The Online Textile City is referred to as Online CTC, and is gaining importance in Keqiao.

### **4.7.1 The Background for Online CTC**

While CTC has become the largest textile trading place in the world, it has encountered some bottleneck in its development. The biggest problem is that there is little room for further expansion, as there is less land for commercial usage and the land cost has increased exponentially. Also, there is ever higher transaction costs, as the rentals and labor costs keep rising for firms located in CTC, and for the buyers searching for products, expenses in transportation, boarding and catering are getting higher also. There is also waste of big data hidden in CTC. Information generated by the market is the most useful and should give further development the best guide; however, due to reasons such high gathering cost and

trade secrets, large amount of information was not being collected and utilized. Finally, CTC only serves as a price receiver not a setter. Under the traditional trade mode the enterprises produce according to order and sample with very low profit margin and face intensive competition.

Now as e-commerce was developing fast, and has various advantages over the real market, the government decided to invest and build the Online CTC. Online CTC has three contents: a e-commerce platform for online transaction; a specialized supply-chain management system; and a entire system to support and serve the e-commerce. The goal is to make the Online CTC “the most authentic at home and quite influential internationally”, and to help upgrade the industry in Keqiao. The Online CTC is to be founded on the real market of CTC, and rely on the advantages in such resources as goods supply, channels and information, and break the constraints of space and time. The Online CTC aims to serve the global market, and attract as many buyers and sellers as possible. At the same time, it also tries to cover the entire soft-goods chain, and meet the demands of each link along the chain.

#### **4.7.2 The Websites of Online CTC**

Now Online CTC has four websites. The first one is [www.tnc.com.cn](http://www.tnc.com.cn) (WAP version: [m.tnc.com.cn](http://m.tnc.com.cn)). This is a gate website for textile information. It aims to become two centers, namely the textile information center and the personnel network center.

For the former, the website claims to become the primary national platform to

publish policy and information. It will monitor the newest development both at home and abroad 24 hours a day and capture the hot issues all the time, so that new fashion trends, new technical breakthrough, and new marketing concepts can always be reported and interpreted. It aims to become the window for the industry to learn the dynamics of the global industry.

For the second, the website was to construct online communities, compile “who’s who”, and develop a “name card exchange system”, so that business can be build on personal basis, friendship can be developed, information can be shared and spread. Based on the real world experiences, this is important and very desired.

The second website is [www.qfc.cn](http://www.qfc.cn) (WAP version: [m.qfc.cn](http://m.qfc.cn)), which is an online virtual market. This market is primarily for spot transaction but also support production for orders. Not only does the website move the real CTC to the internet and presents the business information of each firm located in CTC, it also structures a 3-D map of the real CTC, so the virtual market and the real market can match. When a buyer goes into the real CTC, he can easily find the firms he has searched on the internet.

Under the virtual market, there are sub-markets, such as grey-fabric market, home textile wholesale market, fashion fabric market, and curtain market. Not only are there various sources of all kinds of fabrics, tools are provided for each side to search the other parties, and buyers and sellers can also exchange information and ideas with each other. There is a spot transaction market, and fast delivery system is provided, so that the manufacturing enterprises can get fast supply of needed



materials. Besides, there is also a contractor market, which gathers large amount of information about various textile and apparel contractors, such as their equipment, man-power, capability, quality level and experiences, and some historical evaluation by clients. This helps the sourcing company to find a sub-contractor, and also enhances the utilization of resources. In addition, order placement, payment, third party guarantee and credit verification can all be done with the virtual market.

The third website of Online CTC is [www.globaltextiles.com](http://www.globaltextiles.com), which is a globalized platform for textile e-commerce. It tries to help domestic textile enterprises to explore the international market and the international buyers to search quality textile suppliers of China. Thus, it provides matching services for the domestic suppliers and international buyers.

Finally, the fourth website is [www.globaltextiles.com.jp](http://www.globaltextiles.com.jp), which is particularly for the Japanese market, and is one of the very few China websites of textile trade in Japanese. It targets the Japanese market and aims to become a virtual bridge between the textile industries of Japan and China.

### **4.7.3 The Management Systems of E-Commerce on the Online CTC**

The Online CTC has developed a management system of textile e-commerce, which has the full set of software modules for the entire supply chain of textile enterprises for their e-businesses. These modules include supplier management, procurement management, customer management, order management, stock management, finance management and so on. The system has functions of

fundamental management, such as information about suppliers and clients, order follow up, commodity presentation, warehousing and so on, and this is coordinated. It can synchronize data, so that information can be updated automatically. It provide potential buyer and supplier search and match. Also, it allows sub-account, so that an enterprise can give different levels of authorization to its distributors, thus many operations can be fulfilled online to increase efficiency and reduce costs.

#### **4.7.4 The Set of Services Provided by Online CTC**

Relying on its resources in information and experiences, the Online CTC provides a set of services to textile enterprises. These include operational services to enterprises who just came to the cluster, such as space rental and keeping, registration, accounting, finance, logistics and so on; e-commerce training programs, so as to ease the anxiety of the enterprises when conducting e-businesses and to command the related skills; e-commerce operational services, which include e-store planning, product presentation, daily operation and promotion and so on; product sample presentation, which has both fixed showrooms in Keqiao and mobile showrooms at exhibitions and fashion centers around the world; Logistics, which is third party warehousing, including space renting, commodity inspections, packaging, delivery, and so on. Online CTC also has deep cooperation with banks to provide various kinds of financial services to enterprises.

Since the embark Online CTC has been growing rapidly. Statistically, by December of 2015 the average daily browsing is about 2.3 million, the

presentations of products reached more than 6 million. The number of memberships reached more than 2 million, and there are more than 620,000 online shops, more than 80,000 of them have trading functions. Total sales value of Online CTC amounted to more than RMB 36 billion and is increasing rapidly. It has been viewed as a model of e-commerce and has won numerous prizes and awards in China.

#### **4.7.5 The Roles of Online CTC in Promoting Keqiao as a Brand**

Like the above components, Online CTC is also designated as an important platform to enhance the brand equity of Keqiao. It can do this because in the virtual world there are no boundaries, particularly in today's world when internet has become one of the most important channels for communication and information dissemination.

Efforts to be made on Online CTC are far more complicated than the design of the websites and the provision of various technical tools. These are really a comprehensive project. The focus is to make Online CTC a reliable and credible platform for e-commerce, with hardware, software, and coordination of various activities and the supports of offline work and the all involving parties, such as banking and logistics. With the excellence of all these, Online CTC will improve the awareness and image of Keqiao as a brand.

## **4.8 Keqiao Textile Indexes**

### **4.8.1 Introduction of Keqiao Textile Indexes**

Prices in the market reflect demand and supply and also indirectly the state of prosperity to some degree. The relationship between prices in the market and the situations of manufacturing enterprises and exports is dynamic and complicated, but generally prices can give some indication of the market situation. The government decided that indexes be compiled so as to give an indicator to the firms. Also the compilation of the indexes demonstrates the significance of the textile businesses of Keqiao in China and in the world. This is also viewed as an important effort to enhance the brand equity of Keqiao.

It was on 21 October 2007 that Keqiao Textile Indexes were publicized to the outside for the first time. The indexes are compiled jointly by the Ministry of Commerce of Chinese Government, Economy and Trade Committee of Zhejiang provincial government and the government of Keqiao, based on data gathered from China Textile City of Keqiao. Currently there are four indexes: price index, prosperity index, trade index, and order index. The price index contains grey fabric index, apparel fabric index, home textile index, and fashion accessories index; along the time, raw materials index was added. The prosperity index contains textile market prosperity index and the textile manufacture prosperity index. The price index is published weekly with the price index of last week being published at the noon of every Monday, while the prosperity index is published monthly with the index of last month being published at noon of the first day of each Month. The trade index is published monthly also.

There are several ways the indexes are published. First, The Textile City Construction and Management Committee has set up specifically an internet website with both Chinese and English: [kqindex.gov.cn](http://kqindex.gov.cn); they were also reported regularly by some TV stations and newspapers and magazines; also they are included in the column of “Commercial Information Forecast” of the website of the Ministry of Commerce. Contents published include the general price index, the general prosperity index, some category price indexes (such as yarns, fabrics, and so on) and category prosperity indexes, which are presented both in table and in diagram forms. Contents also include the top ten price rises and top ten price decreases of specific products in terms of percentage. These are accompanied by analyses of the indexes and the market situation, and some comments.

The sampling population of Keqiao textile indexes is all the six fabric wholesale markets and Qianqing raw materials wholesale market, located in Keqiao. All 12,000 dealers of the seven special markets constitute the sampling frame. Strata sampling is undertaken, by 8 percent of the total, and representative commodities of more than 1,000 were selected. At the same time, 80 manufacture enterprises and trade companies are also sampled. Classification is done according to international and domestic textile product classification standards, textile materials classification standard, and commodity classification standard, following the principle of classification by raw materials and by usages, and also taking into consideration the specific characteristics of Keqiao market. Now all the textile products, raw materials and accessories are classified into 5 categories, 35 groups, and 35 kinds. The textile price index, prosperity index, export index, and order index are eventually based on these collected data. These indexes reflect

price changes of the products of CTC and their trends, the state of prosperity, the situation of production and capacity use, and the situation of exports, respectively. The key indexes are the price index for last week published at noon Monday and the prosperity index of last month published at noon the first day of each month. The Keqiao Textile index uses May of 2007 as the base period, but the data for base period of export index were the average of that year. While the basis point for price index is 1000, the basis point for prosperity is 1000. Keqiao district set up an index compiling office and recruited 8 staff, all with at least bachelor degree, to form a team of data collectors, who are responsible for gathering, checking and input of data needed for the calculation of the indexes. They work in each of the seven special markets. Work standards of these data collectors are stringent. For example, they have to be very specific about the composition of each fabric in terms of the percentages of cotton, wool and man-made fibers, as the differences in percentage determines the category to which the fabric belongs.

#### **4.8.2 Category indexes of the Keqiao Textile Indexes**

The indexes are a complete indexing system which can comprehensively indicate the development and the situation of CTC specifically and the textile industry of Keqiao generally. To some degree, they also give indication of the industry in the country and even the world as a whole.

##### **4.8.2.1 Textile Price Indexes**

These are the indexes which reflect price changes of textile products handled in CTC, including raw materials index, grey fabric index, apparel fabric index, home

textile index, and fashion accessory index. These are based on scientific classification of commodities, and then with careful selection of representative commodities, data are collected on the transaction price, the quantity of the transaction and the value of the transaction. The indexes are then compiled.

#### **4.8.2.2 Textile Prosperity Indexes**

These are comprehensive indexes which indicate the development and situation of CTC and Keqiao textile industry. Based on scientific classification, first an integrated indicator system was structured, which is comprised of a series of indicators which reflect the size of the market, the performance of the market, the confidence of the dealers and also some others which exhibit the growth, the situation and the prosperity of the market and the industry. Then by using a synthetic evaluation method and a multi-layer and multi-structure statistic model, the data are put in to calculate the prosperity indexes. There are textile market prosperity index and textile manufacture prosperity index; the former reflects and monitors the situation and operation and development of CTC, whereas the latter reflects and monitors the operation and development of the textile industry (both manufacturing and sales).

#### **4.8.2.3 Textile Trade Indexes**

These indexes reflect the international trade situation of Keqiao textile markets. Data are collected from those export-oriented enterprises; these data are about prices of products of major export categories, the total values, and the economic performances. There are textile export price index and textile export prosperity index.

#### **4.8.2.4 Textile Order Index**

This index reflects the business changes by using the orders received by the textile manufacturers and dealers, based on the values of orders collected from the enterprises and dealers sampled from the appropriate population.

#### **4.8.3 Characteristics of Keqiao Textile Indexes**

Even before the Keqiao Textile indexes were established, there were some indexes being published in China. However, Keqiao textile indexes are superior to them in two aspects. First, Keqiao indexes are of higher technology contents, which not only reflect the price changes due to market situation, but also the changes due to product nature and quality, such as the content changes of fabrics. Secondly, the system of the indexes is more complete and the synergy more strong and the relationship with the industry more intimate. Both manufacturing and trade are taken into consideration, so the indexes which contain not only fabrics but also international trade can much better indicate the trends of production and international trade. Such an index system is able to give an overall picture of the enterprises and the trade firms, and at the same time also with highlights.

#### **4.8.4 The Roles of Keqiao Textile Indexes for Keqiao as a Brand**

Like the above discussed components of the Keqiao cluster, the textile indexes have their real functions to give an indication of the prices, the prosperity and so on, which are very useful for the business people in Keqiao and beyond. On the other hand, they are also used as tools to promote Keqiao as a brand, since they carry the name Keqiao. Actually, this is a typical tactic of leveraging secondary



association of a brand. It is easy for people to associate the indexes with Keqiao, which helps to improve awareness and image of Keqiao as a brand. It has to be noted though, unlike the other Keqiao components discussed before, the Keqiao textile indexes are activities rather than real economic entities (including Online CTC which is run by a company). However, as it plays an important role in promoting Keqiao as a brand, it cannot be neglected.

#### **4.9 The Other Sectors of Keqiao Cluster**

In addition to the above components, there are also other sectors for Keqiao as a community and a cluster. These include industries, for example, finance, accommodation, catering. Evidently these are indispensable for the functioning of Keqiao, and from time to time they can be critical for the components described above, such as the finance sector for each of the firms. There are also others, such as various service organizations, such as law firms, certification, notarization, and so on, which are often referred to as public platform.

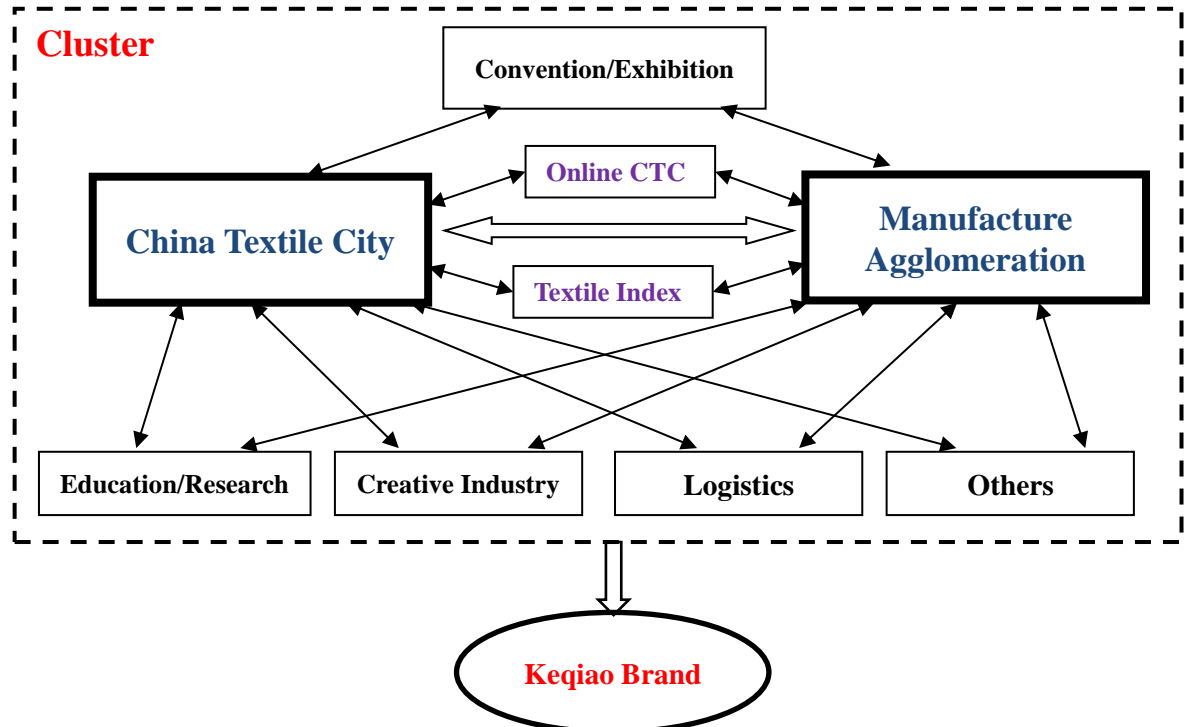
These also play very important roles for Keqiao brand. Not only are their services and products necessary for the growth of Keqiao, the overall quality of these have impacts on the brand equity. For example, the public platform substantially increases the credibility of Keqiao and hence enhances its image. The quality and quantity of hotels and restaurants are also important, as each day thousands of visitors come to Keqiao, particularly during the days when the various activities are held, the VIPs and the media are here, then the accommodation and catering sectors have become the windows of Keqiao.

## 4.10 A Model of Keqiao and Its Components

### 4.10.1 The Model

From the above discussion, it can be summarized that there are several major components of Keqiao as a textile cluster. These can be illustrated in figure 4-1. The components are China Textile City (CTC) along with the thousands of firms it hosts; the manufacturing sector, along with its four major sub-industries (chemical fibers, fabrics, dyeing and finishing, and apparel) and the numerous enterprises it contains; the logistic industry with its hundreds of firms; the conference and exhibition sector; the creative industry; the research and educational institutions; the Online CTC; and finally the Keqiao textile indexes.

Figure 4-1 The Model of Keqiao Cluster



Among these, CTC and the manufacturing sector are the two wings of the Keqiao cluster and its most important components. The others are supportive and

supplementary. There is close relationship among all the components. Not only does each one of them play an important role for the for the growth of Keqiao as a textile cluster, they all individually and collectively help Keqiao enhance its brand equity. These can be seen clearly from the diagram.

These components are closely related to each other to form a complex network. There is almost one to one relationship between any two of them. Evidently, CTC and the manufacturing sector are closely related to each other, as almost every one of the enterprises of the manufacturing sector has its marketing or trading branch in CTC, and many of the firms in CTC get their supplies from the manufacturing sector. They both rely on the logistic industry to provide services such as storage and transportation as described before, and on the other hand, the prosperity of the logistic industry depends on CTC and the manufacturing sector. The conference and exhibition sector is closely related to CTC and the manufacturing sector as well, as many companies of the latter two participate in the conferences and exhibitions, and the latter two rely on the C&E sector to promote them. The creative industry has a closer relationship with the manufacturing sector, as many times it provides services to the manufacturing enterprises, such as selling designs to fabric producers. The creative industry also serves firms in CTC. And nearly all of the firms have registered on Online CTC, as described before. These are only sketches of some of the major relationships existing among the components.

#### **4.10.2 Keqiao as a Brand**

As discussed above, some of the components of Keqiao cluster are clearly brands by and of themselves, with the most prominent examples being CTC and the

Textile Expo. Enormous efforts are made to promote these brands. Also, there are many individual brands at the company level, as many companies in each of the sectors have their own brands, and are making efforts to promote their brands as well. At the same time, Keqiao itself has become a brand, and the government has been trying hard to promote Keqiao as a brand. For example, the current slogan is “Fashion Keqiao, Happy Keqiao, and Impression Keqiao”, which is advertised widely to attract various kinds of people to come to Keqiao: investors, business people, talents, and tourists.

There are sophisticated relationships among these levels of brands, some more strong than the others. As CTC is a strong brand itself, the bond between CTC and its own constituent brand is also strong. On one hand there are the positive impacts of CTC on its constituent brands, such as the attraction of buyers from all over the world which leads to the expansion of customer base of the constituent brand, and the facilitation of businesses in various aspects as discussed before. On the other hand the constituent brands mostly want to identify themselves with CTC, thus improves the awareness and image of CTC.

Keqiao government tries hard to establish a relationship between CTC and Keqiao. There is the perception that CTC is better known than Keqiao is, thus there is a dilemma whether to refer to the market as China textile city or Keqiao textile city. It seems that the trading firms know CTC better while the manufacturing firms know Keqiao better, from the interviews and discussions.

There is clearly an interactive relationship between Keqiao and its Textile Expo,

since one mission of the Expo is to promote Keqiao in broad terms, and Keqiao makes every effort to promote the Expo as well.

## **CHAPTER 5 THE MODEL OF KEQIAO BRANDING: BASED ON THE QUALITATIVE DATA**

In last chapter, the components of Keqiao as a cluster were described in detail, and their roles for promoting Keqiao as a brand were analyzed. In this chapter, the driving forces which sculptured Keqiao as a famous brand of its kind will be discussed.

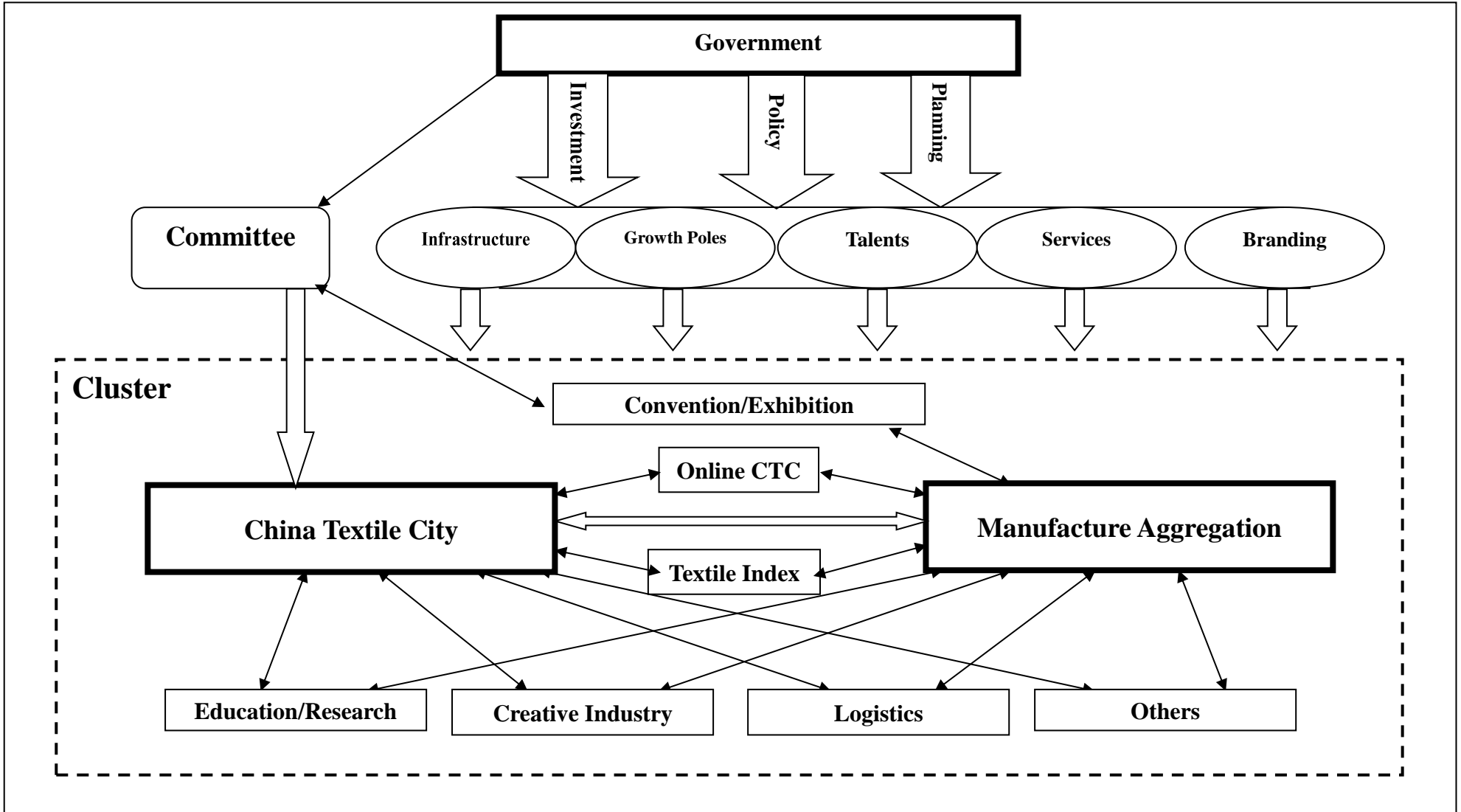
As stated before, a wide range of investigation was undertaken during the process of the study, including the collection and analyses of documents and other written materials, interviews, focus group discussions, questionnaire survey and so on. The large amount of data was analyzed with the Grounded Theory Method, and gradually, the mechanism and pattern of Keqiao growth and brand development emerged and became clear. Based on this, a model has been constructed.

### **5.1 The General Description of the Model**

#### **5.1.1 The Model**

The model is based on the analyses of all the qualitative materials collected, which illustrates how various forces work and interact with each other to make Keqiao grow and make it a strong brand, which also helps the individual brands in Keqiao prosper. This model is presented in figure 5-1, which is described as below.

**Figure 5-1 The Model of Keqiao Branding**



1. Keqiao as a district or community is the major concern of this model, which is within the box. Surrounding Keqiao is the larger macro environment, which has many factors influencing Keqiao. In particular, two factors have direct impacts on Keqiao. One is the superior governments, such as Shaoxing city government, Zhejiang provincial government, and up to the central government of China, their policies and decisions all have enormous impacts on Keqiao, usually directly through the government of Keqiao; and the other is the commonly called macro PEST (political, economic, social and technological) environments of China and the world.
2. Within Keqiao, there are three major players for Keqiao's growth, namely, the Keqiao government, the China Textile City, and the aggregation of the manufacturing enterprises. The CTC and the manufacturing aggregation are the two major parts of the Keqiao industrial cluster. There are also the other players in the cluster; particularly relevant for Keqiao as a textile cluster and as a brand, these are the logistic industry; the convention and exhibition sector; the fashion related creative industry; the fashion related research and educational institutions; the Online CTC; the Keqiao Textile Indexes; and also unnamed there are others, such finance, insurance, hotels and restaurants and so on.
3. For the cluster as a whole, the government has overwhelming impacts on various aspects of the cluster with various tools and measures. In general, these can be summed up into three ways: policies, plans, and investments. These are then implemented in five aspects for the growth of the Keqiao



cluster: infrastructure, growth poles, talents, services, and branding. The first three can be regarded as hard aspects as they are part of the cluster itself, whereas the last two are the soft aspects as they are the efforts of the government.

4. The Keqiao government has direct control of China Textile City through a committee. It also has direct control of the Expo. For the others, government's impacts are imposed with the above mentioned ways.
5. CTC and the manufacturing aggregation, as the two wings of the cluster, have close relationship with each other, and they mutually promote the growth of each other. It is primarily their growth which has made Keqiao a cluster.
6. The other sectors are all affiliated with CTC and the manufacturing aggregation in Keqiao, and they have interactions with each other as well, some more intimate than the others.

### **5.1.2 The Derivation of the Model: Application of the Grounded Theory Method**

The above model was derived with the application of the grounded theory method. The process is briefly described here.

As discussed before in chapter 3 of research methodology, in using grounded theory analysis, all the data have to be coded, concepts have to be extracted and then made into categories, and the categories have to be integrated; the whole

theorizing process has to be in constant comparisons. This method is adopted in the construction of the Keqiao model.

Some were relatively straightforward, such as the players, which were not hard to be figured out, but it was conceptual to identify that the government was the most important player of all. Some needed much categorization. For example, in conjecturing the roles of the government, with a large amount of coding, eventually the tools were integrated into three categories: investments, planning, and policies. Actually, the discussions below about each one of them can be viewed as a revealing of the coding and conceptualizing process, since they do contain the keywords of each category. The same is also true of the five aspects, which are also the results of repeated coding, conceptualizing, and categorizing.

There was also a great deal of theorizing in the process, as the relationships between these concepts and categories had to be analyzed. Intuition was important, and conjecture played a role, and finally these elements had to be integrated into a model which could stand reasoning and could be verified by the materials collected.

## **5.2 The Major Players of the Model**

### **5.2.1 The Local Government**

When examining Keqiao growth as a brand, the most important player is Keqiao government, which not only has the largest, broadest and deepest impacts, but also is the most conscious in keqiao development and Keqiao branding. In the general

environment of China, this is an undeniable reality. Like any local government in China, there are two major branches, namely the party and the administration, plus some others, such as people's congress. Though there are divisions of power and responsibility, and the status of the party is above that of the administration and the others, both play a role in the development of the locality. In this research it is hard and unnecessary to make the difference between them, and the term government refers to both. The government exerts its will in promoting the local development and influencing the local growth in various ways, such as direct investment, planning, and policies, as aforementioned. These are implemented through various government bureaus of the administration branch, such as the bureau of finance, the bureau of economy and information, and so on, and each is responsible for one aspect of the locality.

### **5.2.2 China Textile City**

China Textile City and the aggregation of the textile manufacturing enterprises are the two wings of the Keqiao cluster. China Textile City (CTC) can mean different things, namely the company, the buildings the company owns, or the thousands of trading firms the buildings host. In this dissertation, no effort is made to differentiate them.

As described in last chapter, CTC is a public corporation which owns all of the buildings where around 24,000 trading firms are located. These firms are engaged in buying and selling textile products. The majority of them are the very small booth-like firms distributed in the market areas. Collectively they sell all kinds of fabrics, and some sell various apparel as well; individually they are very

specialized, only selling a very narrow niche of products. They are very flexible; while they are primarily in wholesale business, many times they do not reject a retailing deal. There are also some relatively big companies, mostly located in high rising buildings, with their own showrooms.

### **5.2.3 The Aggregation of Textile Manufacturing Enterprises**

The aggregation of the textile manufacturing enterprises consists of the textile companies located in Keqiao. As described in last Chapter, there are around 9,000 such companies in Keqiao. They cover almost the entire soft-goods chain, from manufacturing of man-made fibers, to spinning of yarns, weaving and knitting of fabrics, dyeing, printing and finishing, to apparel manufacturing. The four major sectors, however, are chemical fibers, fabrics, dyeing and printing, and apparel. They are scattered among the entire district, with some relative concentration in a particular township, forming some sub-clusters, such as dyeing and printing primarily in Binhai. There are some large enterprises, but the majority are SMEs.

### **5.2.4 The Logistic Industry**

There are also other sectors which may not belong to the soft-goods chain but are closely related to it. A very important one is the logistic industry. As described in last chapter, in Keqiao concentrates hundreds of logistic firms. They function in either transportation or warehousing, or in both. The larger logistic companies can provide comprehensive services, while the smaller ones can be very specialized in both the products they carry and the routes they serve. There are ones which only handle international logistics.

### **5.2.5 The Convention and Exhibition Sector**

The convention and exhibition sector of Keqiao is relatively new but with high exposure due to its nature. Most of the exhibitions and conventions are related to the fashion industry. As described before, the most important one is the Fabric Expo. But there are also other kinds as well, since the infrastructure is there, and the environment in various aspects has become more favorable. To use the terms in China, this is also an industry chain, and there is really a chain of firms engaged in various activities, such as those in managing the sites, those in promoting the events, those in providing all the supports, and so on.

### **5.2.6 The Creative Industry**

The creative industry includes enterprises which are engaged in creating new things. In Keqiao, these are primarily the various design studios, the major business of which is to design new fabrics or apparel. There has been rapid growth of this industry in Keqiao, and now there are many such firms with a large number of designers.

### **5.2.7 The Research and Educational Institutions**

The two major research institutions in Keqiao, Zhejiang Modern Textile Research Institution and Zhejiang Creative Research Institute, get research funds from different levels of governments to conduct projects which have broad applications. They are also commissioned to conduct research projects for enterprises, and engaged into consulting jobs. In addition, they provide various services, such as testing and inspection, and are qualified to issue a range of certificates. From time

to time, they provide training programs to the enterprises as well. There are also other research institutions affiliated with some large companies.

Educational institutions serving the cluster include Zhijiang College and Shuren University at tertiary level and some vocational schools at secondary level.

### **5.2.8 The Online CTC and the Keqiao Textile Indexes**

The Online CTC is referred to both the company along with its four websites and the numerous companies which are registered and using the websites for promoting and actual trading. As discussed in last chapter, the Keqiao Textile Indexes are activities rather than entities, but they not only serve the industries with important information but also help enhance the brand equity of Keqiao.

### **5.2.9 The Other Related Industries**

There are also other industries which serve the functions of the textile industry in Keqiao, such as finance, insurance, certification, notarization, and hotels and restaurants. They have important roles to play for Keqiao as an industrial cluster and as a brand.

From the description above, it can be seen that Keqiao is a typical industrial cluster, a well-known brand. These important players make Keqiao a cluster and a brand. There are also complicated relationships among these players and among the individual companies.

### **5.3 The Tools of the Government**

The ultimate goal of the local government is to make the locality grow. In this particular case of Keqiao, relevant to this study, it is to make the industrial cluster grow and to make it a famous brand. After the economic reforms in China, now there is separation between government and enterprises. Government cannot directly manage the enterprises. However, government can use various measures and tools to create a favorable environment for enterprises to grow. As aforementioned, in Keqiao the measures and tools can be roughly divided into three categories, i.e., investment, planning, policies. These are implemented into the five aspects: infrastructure, growth poles, talents, services, and the direct branding efforts.

#### **5.3.1 Investment**

The government has a large amount of local tax money at its disposal. As the economy grows and the locality becomes more prosperous, the government has ever more money to spend. Other than maintaining the functions of the government itself, a big proportion of the money is invested for future growth of the city. Like the country in general, investment has become one of the most powerful engines for growth.

Investment is a broad term. It includes investment in infrastructure, such the construction of some CTC buildings in the early years, the construction of the Convention and Exhibition Center, and the improvement in general environment; investment in growth poles, such as the formation of the Convention and Exhibition Company; in attracting talents by providing awards and subsidies; in

various services, such as the provision of human resource exchange platform; and various other activities, particularly place brand promotion. Some investments are of long-term, and some are short-term ones. These have very strong impacts on the conditions and the development of the cluster.

### **5.3.2 Planning**

Planning has strategic significance for the development of the place. The government pays serious attention to its planning. Like the country as a whole, Keqiao government has very long plans, but the most influential ones are the five-year plans. These are usually parallel to the national five-year plans, and aligned with them, but they have to be locally oriented.

The plans are the roadmap for the future, and the blueprint for the economy. They make plan for the infrastructure, some broad, some detailed; plan for growth poles, such as the number of firms of the creative industry by a certain time; plan for talents, such as the number of different levels of talents by a certain time; plan for services, such as train programs to be provided; and plan for branding efforts, such as number of exhibitions to participate to promote the place brand.

The making and implementation of the plans exhibit the vision of the decision makers, and they have enormous impacts on the development of the locality. They have significant impacts on the enterprises in the place. Many times the enterprises align their own strategic plans with the plans of the government. During the investigation of this project, once and again the importance of planning is mentioned by the people, either government officials or entrepreneurs.



Particularly terms such as “The third start-up” were repeatedly said by the various people.

### **5.3.3 Policies**

The impacts of investment and planning are often of long-term, while the impacts of policies can be very soon or immediate, and consequently can be very direct. The word “policies” is a broad term, which also includes concepts such as rules and regulations. They can be positive, such as incentives and awards, and they can also be negative, such as prohibitions and punishments. Also, compared with investment and planning, the various policy tools can be very handy and be used flexibly, and there is a large kit of various policy tools which can be used by the government. The policies can also be changed from time to time. Evidently the policies can have significant impacts on the various stakeholders in Keqiao.

## **5.4 The Five Aspects of Government Impacts**

### **5.4.1 Infrastructure**

Infrastructure refers to the fundamental structures, systems, and facilities serving a country, city, or area, including the services and facilities necessary for its economy to function (Sullivan & Sheffrin, 2003). Infrastructure is often divided into two kinds: hard and soft. Hard infrastructure includes concepts such as roads, ports, power, water, communication and other physical facilities, whereas soft infrastructure includes concepts such as culture and policies. In this section, only hard infrastructure is concerned. In many cases, infrastructure is provided by the government, and this is particularly true in China. In Keqiao, government

investment and management of infrastructure have been one of the driving forces for the growth of Keqiao as an industrial cluster and a brand.

Keqiao government gives priority to the improvement of infrastructure, believing that a well developed infrastructure lays a solid foundation for the growth of the cluster and can enhance the place brand equity. The government documents collected clearly indicate this, and nearly all the participants of interviews mentioned this. The concept of infrastructure can be divided into several levels: some infrastructure concerns the general environment of the entire district, such as roads, ports, power supply, communication, and even provision of schools and hospitals; some concerns the economic activities of the clusters, such as logistic facilities; some concerns a particular sector of the cluster, such as buildings for China Textile City; some concerns a particular aspect of operation of the cluster, such as the development of internet facilities.

#### **5.4.1.1 General Living Environment**

Anyone who comes to Keqiao and knows its history would be impressed with the enormous changes which have taken place in the past three decades. It has changed from an old countryside town into a modern city. During the investigation, time and again people mentioned the changes. One government official said:

I witnessed the changes of Keqiao. I was born here, grew up here, and have always been working here. Now nowhere can you find the traces of old Keqiao. Probably only the rivers are still there in the old places, but even the rivers have also changed. Look at the Guazhu Lake, the water is clean, willow

trees are around; it is beautiful. The government has spent a lot of money on it. Now we have created a very good environment here to live and work. We have middle schools and elementary schools which are as good as those in Shaoxing and Hangzhou, and Southern Medical University has set up an affiliated hospital here, which is very well equipped. The government talked to the university and gave subsidy to build the hospital. People want to live here, work here and have their businesses here.

In its plan for the “Third Start”, the government also explicitly stipulated that during the next five years it will expedite the further planning and construction of supplementary living facilities in the market areas:

The general principle to be followed is that the facilities have to be relatively concentrated, their styles have to be unified, their level has to be relatively high, and they have to be managed according to regulations. Then the planning and construction have to be carried out along the transformation of the south side of Guazhu Lake and the overall restructuring of the old and obsolete markets. These living facilities will provide amenity for the business owners and the buyers who come from various parts of the world. These facilities include catering areas, business meeting areas, and leisure and shopping areas.

The government set up the ambitious goal, which stipulated that along the CTC, construction of high rising commercial buildings would be enforced, and the international trade zone of CTC was to be built into a CBD with modern commercial buildings, hotels and top quality apartment blocks. These were accomplished, and in this way the city construction and the market enhancement

were integrated. In this process, some high quality catering, shopping, entertainment, and even parking were all taken into consideration, even including a system of free bicycle rent.

#### **5.4.1.2 CTC Construction**

Nowhere are the government's efforts more apparent than the construction of CTC. When asked about the contribution of government to the growth of Keqiao, one government official said:

It was the government which spent the money to build the first big arch shelter of 3500 square meters in 1982, which was the first step of CTC. It was the government which built all the new buildings of the CTC phase after phase. It was the government which made the overall layout plan and implemented and overviewed the construction. Without these there would be no CTC, and there would be no Keqiao of today.

During the period of the 12<sup>th</sup> five-year plan, the government made different emphases for the five market places, such as that for the south and west zones the emphasis was renovation, for the north zone it was innovation, for the central zone it was cultivation for fast growth, and for the east zone it was the enhancement of logistic functions. As the interviewee said, it was the government which “implemented and overviewed” to make sure that all were done.

#### **5.4.1.3 Infrastructure for E-Commerce**

The government feels that it is very important to strengthen and perfect a supporting system for e-business development, taking advantages of the well-developed tangible markets and logistic networks in Keqiao. It makes efforts

in building such infrastructure, including communication and networks, particularly those which are internet based. It initiated and accelerated such projects as “optical fiber city” (which installed optical fibers in each building of CTC) and “broadband Wi-Fi city” (which made Wi-Fi available in every building of CTC), and build the framework of “Keqiao big data”.

The government, in learning the successful experiences of “Yiwugou” (meaning “Purchase in Yiwu”, which is a e-commerce platform in Yiwu, the largest and most important industrial cluster and trade center of smallware in the world), tried to optimize and integrate all the resources used for the Online CTC. The goal is to improve and perfect the operation mechanism of the Online CTC, and to build it into a “national landmark” e-commerce platform of textiles, which can perform such functions as: publish industrial indexes, provide product information, facilitate online transaction, help with financing, and provide logistic services.

The government commissioned the development of e-business logistics system, which lay a foundation for the nodes and branches of the e-business logistics. Some logistics service products were particularly developed, which aimed at helping e-business companies; and the coverage of e-business logistics was continuously expanded. Companies in Keqiao, both foreign and domestic, were encouraged to venture in new business models, such as third party logistics and fourth party logistics.

Efforts were also made in building a supporting system of e-business financial service. Along with the wide usage of Alipay (a Web payment processing service

founded by Alibaba Group, a Chinese e-commerce company who specializes in business-to-business trades), the usages of other various online payment tools, such as bank card, online banking, cell-phone banking, were all explored. Efforts were made to solve the problem of cross-boarder online payment. It is hoped that a e-business payment system suitable for the special characteristics of local industries in Keqiao would be formed. The government also tried to further perfect the standard system of e-commerce, with the emphases on promoting the establishment and development of the standard system related to textile products, so as to overcome the difficulties in e-commerce of textile products, especially those which are not the end-uses.

The government established specific programs and supporting policies to promote the dynamic virtuous interaction between the tangible markets and the virtual markets. Within the market, the government tried to make the standardization and classification of the traded products more detailed and refined, so it would be easier to monitor and regulate the e-commerce. The government even hoped that by 2015 online sales would account for 50% of the total sales of CTC, which was evidently too optimistic.

The government had several projects related to e-commerce, such as Taoshihui e-commerce platform (“Getting something economical”, which is an e-commerce platform targeting the market which serves the rural population), Lexiaoifei big data project (“Happy to consume”, which is a project aiming at building big data related to consumption), Alibaba Keqiao Textile Industry Belt (which is a project to connect companies with Alibaba, the world largest online trading platform), and

Yangxunqiao hangings-goods-chain e-commerce project (which is a project particularly for the hangings products mostly manufactured in Yangxunqiao Town). It was not that the government would conduct these projects by itself; rather, these were the projects which the government auctioned and invited companies to bid, both local, domestic, and foreign. As e-commerce and “internet+” was promoted by the central government, the general environment was quite favorable for these projects to take off. Besides, the government also tried to attract large and promising e-commerce projects related to textile marketing and manufacturing to be located in Keqiao.

The government promotes e-commerce among the enterprises in the cluster by providing incentives. The government also provides various training programs. It was specifically stipulated that 12 short courses per year would be offered to the enterprises, some of them free.

The importance of these activities is that they lay a solid foundation for e-business to develop in Keqiao. As one interviewee, an entrepreneur put it:

We know it is important to start e-business, otherwise we would be outdated. However, individually we cannot do it, and we don't know how to do it, and collectively we cannot get together to do it. Only the government had the capability to do it, and then we can get on the wagon. Without the infrastructure built by the government, we could not do e-business, and it is very likely that we would be out of business.

#### **5.4.1.4 Logistics**

As described before, at the beginning the backward logistic industry in Keqiao constrained the growth of the cluster. It was the government which then allocated two pieces of land for the construction of logistic facilities, and since then, knowing the importance of logistics to the development of the cluster, the government has made efforts to improve the infrastructure for the logistic industry.

The government made a comprehensive plan to build a highway-railway-waterway network of Keqiao, so as to improve the logistic system. They believe that commerce can bring up logistics while logistics can promote commerce. Their goal was to make Keqiao a logistics center in Yangtze River Delta, which they call a node and a commanding height of logistics.

The government planned and built up a batch of logistic parks to support the entire cluster. Three such parks with both warehousing and transportation functions were located in north, the south, and the west, each was as large as 150 mu to 200 mu (1 mu = 1/15 hectare).

The government set high standard for the second phase of logistics center of CTC (including warehousing, transportation and full freight services), making it concentrated, specialized, information based and network oriented. This was to be a logistics demonstration base in China and a large international logistic center with strong competitive power.



With the supports of the government, a CTC distribution company was established, and the website of logistic information was set up, so that online, real-time, entire-process supports and services can be provided between the enterprises of CTC and their customers, both domestic and abroad, and between enterprises of CTC and enterprises of other specialized markets in China. Measures were also taken to promote the adoption of international logistics standards.

There were very detailed plans to accomplish the above. For example, an overpass was to be built at a specific spot, so as to solve the mess of traffic flow; a building of sky parking was to be set up at specific point; some roads were to be widened and renovated; some specific facilities at some points were to be built so that docking would be optimized; and so on. All of these decisions were made through a process of argumentation.

During the interview, one participant who is a government official pointed:

When the central government decided to build high-speed railway which cuts across Keqiao, only the government was able to build warehouses, parking lots, and eating places in that area; only the government was able to make the overall reconstruction of the west market of the south zone, and the vertical face-lift of the north market and the large Tianhui Square. No individual companies in Keqiao would be able to do this. This is the responsibility of the government after all.

## **5.4.2 Growth Poles**

In China there is a term called “Make it bigger and stronger”. They believe that size matters. A large and strong cluster will make fame, and this helps the cluster as a brand. The two wings of the Keqiao cluster, CTC as an aggregation of trading firms and the aggregation of manufacturing of primarily textile products, each has thousands of firms. In terms of value added, however, collectively neither has high profit margin. Thus, it is important to develop new industries, which are closely related to the industrial chain in Keqiao but which can help upgrade the cluster. In recent years, the government has made considerable efforts in this direction and had significant achievements. Each of the industries is called a growth pole for the cluster.

Over the years, the government has tried to cultivate a few industries as growth poles. Some have been described in early chapters; in this section the emphasis is the way the efforts were being made by the government.

### **5.4.2.1 The Creative Industry**

As discussed in last chapter, the creative industry is a broad concept, which includes fashion design, fabric design, textile products design, research, performance, and so on. The government believes that the growth of such a sector is not only important to upgrade the cluster, but also critical to promote the Keqiao brand, and thus has made efforts and take measures to cultivate the industry. Just recently, the government launched a project called “Keqiao plus Fashion and Creativity”. The aim of the project is to expedite the emergence and development of the fashion and creative industry, so that textile products would

become personalized, branded, and of high end of the market, and to promote the assembly of creative talents and creative factors in Keqiao, so that creative transaction and creative value-added would be fulfilled in Keqiao.

Five years ago, the government allocated a piece of land, about 100 mu (7 hectare) in size, to build the Creative Park. Favorable policies were made to attract and support firms of the creative industry to settle there. As a result, some creative workshops, design studios and research institutions of textiles and apparel came. The government also set up two funds, one for creative designs, and one for creative marketing concepts. These two funds were used to support programs in these two aspects, and to award those who had made significant achievements.

Recently, the government has initiated some new projects to further develop the creative industry. One is to build a few functional platforms, named “Cloud synergy”, “Commercial Magic Cube”, “Textile Valley”, and “Fashionable Home” respectively. “Cloud Synergy” is a data platform, which provides services to textile companies for their creative design. A Textile Cloud Experience plaza was developed in the Creative Park, which serves as an outcome exhibition site, called “Industrial Cloud Platform” for the fashion and textile products made in Keqiao. “Commercial Magic Cube” was a commercial operation model, applying the internet mindset in original design, R&D, and transaction. “Textile Valley” is a sub-cluster, where functions like creative design, commercialization of research outcomes, synergetic manufacturing, commercial exhibition, high level forum and so on will be concentrated in one area which gathers all the creative factors. In the area there are trading markets and commercial buildings, but more importantly,

there The National Fabric Library, Fashion Color Society, Functional Fabrics Exhibition Center are located. “Fashionable Home” is functional location where facilities are provided for fashion designers to communicate and interact, so that more creative ideas are incubated.

The government also planned and built a Creative Base in Keqiao, which has two major projects, one is International Fashion Center, and the other is Fashion Town. These are still in progress. The center and the town would possess multiple functions such as R&D, design, high tech manufacturing, marketing, exhibition and tourism. Meanwhile, adjustment and improvement were made to the existing Creative Building in terms of the functional layout of the building, so that its emphasis in fashion, creative and design would be more outstanding. Measures were taken to support the development of a sub-cluster of creative parks, The Creative Park of China Textile City, and Textile CBD as the backbone. The towns and streets and enterprises of Keqiao were encouraged to make uses of the old factory buildings and old market places and reconstruct them into facilities with a fashion and creativity emphasis. Some hired renowned design firms to make an overall restructuring of entire towns and streets, and theme towns and streets such as Regimen Town, Cloth Art Street, and Calligraphy Park had emerged, with more to come.

Another measure to promote the creative industry is to cultivate fashion and creative talents and enterprises in Keqiao. Great efforts are made to cooperate with some universities, and to cultivate and attract design firms into the area. The goal is to have above 500 innovative and creative enterprises, and above 300

R&D and design oriented firms in the area. Measures are taken to cultivate local designers. Favorable conditions have been established to attract R&D and design firms of America, Europe, Japan and Korea to set branches in Keqiao; to attract some well known designers to set offices in Keqiao. Designers who have won national prizes (such as the “Top Ten”, “Golden Scissors”) are particularly welcome, and so are emerging designers with potential. It has been planned that by 2020 a high end R&D and design center would be formed, which would primarily composed of overseas Chinese or those Chinese who have studied abroad. It has been targeted that by 2000 there would be as many as 8000 people working in the creative industrial parks. A fashion and creativity incubator base is being built. In the local colleges (Zhijiang College and Shuren University) design and creativity related programs and subjects have been developed, and the possibility of setting up a Fashion Institute of China Textile City in Keqiao, either independently or with cooperation with others is being actively explored. Also, measures are taken to encourage fresh graduates, of either local schools or from other places, to create their own businesses in Keqiao.

To help promote the growing creative industry in Keqiao, the government organized delegation to participate in World Textile Conferences, World Fashion Expos, World Apparel Conferences, and Asian Fashion Expos, and so on, and also bid to host such activities. Rich and colorful activities related to fashion and creativity have been hosted in Keqiao, including high levels of fashion design competitions, fashion trend news conferences, creativity and innovation forums. Keqiao Textile Indexes News Conferences are held regularly and frequently. A fashion model team is established, which hold fashion shows regularly in various

fashion centers and tourism hotels. Various theme videos focusing on fashion and creativity activities have been made, shown, and published frequently; some of them are presented in all kinds of electronic billboards, including those on the vertical surfaces of some large buildings, and in various media such as Keqiao Radio and TV stations. These are also shown in other electronic networks. Also, it is being actively explored to establish Keqiao Fashion Index and publicize it regularly.

It can be seen clearly that all of these aim at cultivating the creative industry, but also have very strong promotional implications for Keqiao as a brand. Indeed these have increased the awareness and image of Keqiao, and hence the brand equity of Keqiao.

#### **5.4.2.2 Convention and Exhibition**

The government views the convention and exhibition (C&E) sector as an important growth pole, and believes that this sector can play important roles. It is a display window for the cluster, and can increase the awareness of the cluster and improve its image, and thus becomes a significant element in the branding efforts. It can also help increase total sales. They have made great efforts to cultivate this sector.

Since the government started the Textile Expo in 1998, the Expo has been held every year and now it has become twice a year. Promotion is made to attract influential participants, which was described earlier. In addition to this major event, there are other various kinds of exhibitions related to fashion, and the

objective is to organize “exhibitions every week, and large ones every month”.

As discussed earlier, an independent Convention and Exhibition Company was established, which runs the convention and exhibition activities in Keqiao. This company is put under the control of the CTC Committee. In order to strengthen the company, its quota of staff was increased. Specific policy was established for the company, so it can offer incentives to attract and introduce talented personnel who have the training and experiences in this industry. The government gave financial support to the company, so that state of the art facilities and equipment could be purchased. This helped upgrade the level of the conferences and exhibitions held here.

Now the government is taking measures to support the local leading C&E companies to grow, and strengthen their capability and profitability. They also make efforts to cultivate some intermediary agencies which serve the C&E sector. As more C&E activities are held in Keqiao, now the government is trying to explore and create a new mode of operation, in which the government will play a leading role, but the activities will be organized by the enterprises. The organization of the C&E activities will become multi-laterally participating, rather than dominated by the C&E Company alone.

#### **5.4.2.3 The Headquarters Economy**

If a relatively large number of companies are willing to settle or even move their headquarters into Keqiao, it would significantly enhance the reputation of the place, and like anchors, help stabilize the local economy and attract more companies to come. This strategy is called “headquarters economy”, and is

viewed as another growth pole.

It is important to create an agreeable environment and provide amenities, and then it is possible to attract the companies to settle their headquarters in Keqiao. Within a few years a group of high rising buildings were built, which can serve as commercial centers, top quality apartments, star rated hotels and restaurants. These were well planned with high standards. These form the CBD of Keqiao. Not like the CTC whose buildings were built by the government, the government itself did not invest to build the buildings, but it is important that government make the plan, expropriate the land, and decide policy and provide incentives.

The government has a “one by one” policy in dealing with the buildings, which means that the terms, arrangements, and incentives can be tailor made for each of the buildings, so that they can fully meet the special requirements of the large companies which are to settle in the buildings. Though the government is not the owner of the buildings, but it can leverage the process.

The government set up a special office to be responsible for attracting companies to settle their headquarters in Keqiao. The office works closely with the owners of the buildings. Special policies have been made to encourage local companies to move their management, sales department and research centers into the CBD of Keqiao. This concentration is mutually beneficial both for the company and the cluster. With these measures by 2015 about 200 textiles and apparel enterprises which are relatively large and well-known in China have moved their headquarters or their important functional departments such as finance and



marketing into the CBD of Keqiao.

### **5.4.3 Attracting Talents**

The government knows that talented people are the most important assets of the cluster and the driving force for creativity and growth. Efforts have been made in two directions: attracting external talents to settle in Keqiao and cultivating existing personnel to grow in Keqiao. They believe that the talented can be the most important secondary associations to enhance the brand equity of Keqiao.

The government has implemented the “Gathering Talents” program and has adopted flexible policies to attract talented people to settle in Keqiao. In this regard, the words of one interviewee are particularly impressive. The individual is a designer, who said:

The government invests heavily on the talented, such as people in dyeing and printing, and in fabric design. Some real actions are taken, for example, a delegation was sent abroad to attract the students who study overseas. Each year some talent fairs are organized.

Keqiao is a good place. The price of housing is “People first”, even new comers to Keqiao can afford it. The problem is better solved for those who have children to go to schools. Medical care and various kinds of insurances are all solved. Not like before, not like some other places, migrants are discriminated against. I feel that Keqiao is my home town, and I am a Keqiao person. Every time I go to meetings with the government, I feel the young

leaders of Keqiao are not like the others.

Now I feel compassionate for Keqiao. Some try to get me to Shenzhen or Shanghai, but I decline. I will go nowhere and will stay. I will grow with the city. I will further develop my own brand. My success has been a role model for others.

I also try to attract others to come to Keqiao. For example, a men's wear designer, a very good one, used to work in one of the largest studios in China. I talked to him. I said, come to me, we set up a studio of our own, and I'll give you 40 percent of the shares. You design, I do the others. We are still talking. If the case succeeds, I'll copy it to other deals.

For those who have track record (such as winning prizes and awards) and are deemed valuable to the growth of Keqiao, favorable terms are offered. For example, top level designers can have studios of certain size which are rent free. The aforementioned designer received RMB 50,000 for establishing a studio when he first came. One of the incentives to attract the talents was to build apartments particularly for the settled talents. These apartments will be provided to these people either rent free or at prices much lower than the market prevailing ones. These would be open to the talented people in various fields such as fashion design, textile design, creative design, research and development, fashion marketing, and capital operation. The talents introduced by the government and the ones introduced by the enterprises are treated equally. It is hoped that the talented people would be "excited to come, happy to stay", and their potentials

would be fully utilized. Several prizes and awards have been created, and ceremonies are held yearly with broad participation of enterprises. A number of role models have been promoted.

#### **5.4.4 Provision of Services**

“To serve the people” has always been a slogan in China, both for governments and for officials. But it is only in recent years that some officials of government have changed their mindset, from thinking that the government’s responsibility was to govern and regulate to realizing that it is also very important to serve. Many of the areas discussed previously can also be regarded as services to the enterprises of the cluster. For example, the provision of infrastructure, the attraction of talented people, these can all be viewed as services of the government. However, some particular services provided or supported by the government are the emphasis of this section.

The government tries to provide useful information to the business community in a timely manner. This is done in several ways. The common media is certainly the most direct way. Other than that, the government and its various branches often call meetings to brief different circles of relevant enterprises. Many times this is done through the trade associations. When there are critical situations, such as that of the financial crisis in 2008 and 2009, various seminars and forums are organized and speakers with relevant expertise are invited to deliver information of value to the enterprises. These may not be organized by government itself but with its supports. Keqiao indexes have been created, and one of the purposes to do that is to give the business some guidance on the general climate of macro and

micro environment.

The government has discovered that one difficulty encountered by the enterprises is to recruit suitable and qualified employees. There are headhunters, and there are advertisements, but these seem to primarily work for the higher end of the labor market, whereas for the raw or semi-experienced laborers it is difficult for the employers and the laborers to match. To solve this problem the government set up a labor market. It designates a particular time and a particular space, much like a job fair but held regularly, so the employers and the laborers can get together. This has helped both sides.

The government sponsored to provide various training programs to the personnel of enterprises in Keqiao. These include 6 to 8 short courses per year which aims at enhancing the overall quality of the entrepreneurs and business owners, and courses such as specialized English, e-commerce, modern merchandising, and international businesses. Seminars and forums are frequently organized for briefing the business people on the trends of fashion, technology, and business concepts. Also programs are offered to cultivate and strengthen the senses of creation, branding, cooperation and global view. In particular, to help the creative industry to grow, various training programs for designers are organized. The government provides support for such programs, and well-known designers from all over the world are invited to hold workshops or seminars.

In addition to the initiatives of government itself, it also tries to build up public service platforms. For example, three testing and inspection institutions have been

introduced, which provide related services in the fields of fabrics, dyes and auxiliaries, and textile equipment. Favorite conditions are given to lure such institutions to come. Also, with the cooperation with China Textile Academy, Donghua University, Zhejiang Polytechnic University and others, a base of pilot scale production has been established, which provides supports to a variety of research projects. These projects are not pure research oriented, but rather they are oriented towards solving practical problems encountered by the enterprises. These are all welcomed by the companies in the cluster.

#### **5.4.5 Branding Efforts**

The government is conscious, not only to make CTC a strong brand, but also to make Keqiao a “Textile and Fashion Center” in the world. For this, special efforts have been made to enhance the awareness and the image of CTC and Keqiao so as to increase the brand equity of the entire cluster.

Branding efforts are given special priority, and branding is made an important public project. CTC Management Committee is charged with this task, and is responsible for the overall planning, brand positioning, image designing, and strategy implementation and operation. A fund of RMB 40 million per year is set up particularly for branding efforts. It was decided that the short-term objective was to enhance the awareness of CTC and Keqiao; the mid-term objective was to develop favorable culture and environment and to enhance the reputation of CTC and Keqiao; while the long-term objective was to build and sustain the brand equity of CTC and Keqiao. This is indeed in accordance with the textbook principles.

It has to be noticed that branding efforts in Keqiao are broad. Many measures and achievements are attributed branding meanings. Especially nowadays, as the branding efforts have become conscious, the overall efforts to better Keqiao are viewed as efforts to enhance the brand equity. The new slogan is “Fashion Keqiao, Happy Keqiao, and Impression Keqiao”, which carries the message that Keqiao is a beautiful place, an agreeable place, and a fashionable place. For this goal the general improvement of infrastructure, the growth of a dynamic creative industry, the development of conventions and exhibitions held in Keqiao, the attraction of talented people to settle in Keqiao, these are all parts of the overall efforts to make Keqiao a famous brand in the world.

During the investigation of the project, when the question of branding efforts was asked, repeatedly people mentioned events such as the Textile Expo. The same is true also of the Keqiao Textile Indexes. Efforts are made to promote the Expo in the world, and to perfect the data gathering and compiling of the indexes and to improve the credibility of the indexes. Then the Indexes are used as a tool to promote the image of Keqiao and the brand. The indexes are periodically published in the professional media of the US, France, Italy, Japan and Korea. It is believed that these can increase the awareness and improve the image of Keqiao, at least among professionals and people related to the fashion business.

CTC and Keqiao are promoted as a brand, making uses of various events such as international fashion festival, various exhibitions, trade fairs, and branding activities. These are done locally in Keqiao during the events such as Textile Expo, but also nationally and internationally. Various media such as television,

broadcasting, newspapers and magazines and others such as billboards are also used.

To directly promote Keqiao as a brand internationally, it was planned to organize promotional events and activities outside China up to 50 times in 5 years (2011-15) on CTC, EXPO and Keqiao; to cooperate with 5 reputable textile media abroad to promote CTC in up to 10 textile clusters in other countries, so as to enhance the awareness and the image of CTC and Keqiao and to attract firms in those countries to do business with Keqiao and to attend the Expo; and to establish 8 offices in world fashion centers such as Paris, London, New York, Milan, Tokyo and Daego (of Korea), whose major function was to promote the brand of CTC and Keqiao.

The “Fabric Museum” has been built. While the museum serves as a fabric library for professionals, particularly for designers, it has been made part of tourism attraction. Various kinds of tourism souvenirs related to fashion and fabrics are designed and developed. The purpose is not to make money, but rather to promote the fashion image of Keqiao. Attempt has been made to make Keqiao a five stars shopping and tourism spot in China.

The government believes that promotion of the creative industry in Keqiao with PR activities on various media not only can make the sector more influential, but also helps promote Keqiao as a cluster and as a place in general. Thus government gives support to hold news conferences for creative fabrics and creative home textile products, and hold various events such as fashion trend forecast, fabric

design competitions, accessory design competitions and summit forums. Well-known figures are invited to participate in these activities. Influential firms and studios are invited to collaborate as well.

The government has been implementing brand extension strategy. Efforts have been made to extend the CTC brand to other brands affiliated with CTC and Keqiao, such as the logistics, exhibition, and creativity; and to leverage the brand awareness of CTC to promote the growth of brands located in Keqiao.

It is not just for CTC and Keqiao as a whole; policies specifically for brand cultivation and enhancement have been established and implemented. The government knows clearly that there must be strong and famous individual brands in Keqiao, otherwise Keqiao as a whole cannot be strong and famous. Thus, efforts have been made to create local prestigious brands both in textiles and apparel. Such efforts include the selection of a few well-known local brands to form a delegation to attend fashion fairs in international fashion centers. International and domestic famous brands, if stationed in CTC and Keqiao, would be offered incentives, such as waive and reduction of rentals, fees and taxes.

## **5.5 Management of CTC**

### **5.5.1 Framework of CTC Management**

As said earlier, the term China Textile City (CTC) has two layers of meanings. One is the aggregation of some 24,000 small firms and large companies which operate in CTC, and the other is all the buildings in which these firms and



companies are located. While the firms and companies are separate entities, and each is the owner of its business, the buildings are owned by CTC Company, which is now a public corporation but controlled by the government, since the latter owns 35 percent of the total shares. The firms and companies operating in CTC are tenants of CTC. They rent the spaces from CTC directly, or they may rent through re-lease.

The government controls CTC through a committee, called CTC Development and Management Committee (CTC DMC). The committee nominates the top officers of CTC Company, such as the director of the boards, the CEO, and the general manager. While the officers of CTC are more concerned with the business operations and profit making, the CTC DMC is more concerned with the rules and regulations of firms within CTC. Currently, in addition to managing the real estates of CTC, the CTC Company has also expanded into other businesses, such as investments in financial market and logistics. Thus, both the CTC Company and CTC DMC make efforts to enhance the brand equity of CTC.

In recent years, as the convention and exhibition sector has been growing and the government set up the Convention and Exhibition Company, the company has also been put under CTC DMC. This is reasonable, since the C&E sector is so closely related to CTC, and such integrated management is conducive to a united effort to promote the Keqiao brand.

### **5.5.2 Regulating CTC**

The government views CTC as a public resource, and feels that it is important to

regulate and control its management and operation. The goal is to create a market environment of equity, order, and good faith. Over the years in more than three decades, many rules and regulations have been issued and many changed according to situations. Here only some examples are discussed to illustrate.

At the beginning of CTC, the space was rented out without much planning and regulation. Thus, a firm could rent a trading room and then carry any products, so long as that was textiles. The result was that the marketplace was like a salad bowl with anything in it. It was alright when CTC was very small, but as CTC grew, it became messy and very inconvenient for the buyers, who had to walk around to find the specific products they were looking for. Then the government established and enforced a policy named “allocating the space of markets according to category”, that is, each of the markets would be divided into departments, and firms dealing with products of the same category would be concentrated together into one department. All textile products carried in CTC were divided into 12 large categories: textile materials, woolen fabrics, knitted fabrics, woven fabrics, gray fabrics, scarves, curtains, accessories, home textiles, industrial textiles, top quality textiles, and imported textiles. Later on, some new categories were added, such as silk. The concentration was implemented and enforced during the renewal and transfer of the spaces rented, and accomplished in a gradual manner but a deadline was set. This had several advantages. First it is more convenient for the customers, as they can just go to the department and find the products they look for. Second, the markets become more orderly, and competition and cooperation are created. Third, for the market as a whole, it is easier for management.

This has not totally accomplished yet, so a plan called “Cluster within cluster” is still being carried out and has been a continual process. For each of the CTC buildings, only a major category or a few categories of products would be traded. Within a building, the spaces and trading rooms are further partitioned into several areas for specific kinds of businesses, such as low-carbon fabrics, imports-exports of fabrics and so on. Such relative concentration of business and products has created an orderly market.

In recent years, some more rules and regulations have been established to better manage the market. For example, measures are taken to improve the way the business spaces are managed and supplied. A special area was set up in related website (such as Online CTC) for information on renting business spaces. Regulations were established, implemented and enforced on the transfer and re-lease of business spaces. Economic and administrative measures were taken so that the rental would fluctuate within a reasonable range. By doing this, uncertainty would be lowered, business costs would be controlled, and business environment would be more stable.

The government emphasizes the importance of good faith, and cultivates a culture of credit, legality, equity and order in the market place. They have established a credit system, which includes the evaluation criteria of credits and the credit records of all firms, enterprises, and clients, both domestic and international. Credit of everyone doing business in CTC would be more carefully monitored, and those with poor credits would be penalized.

They have taken measures to enforce the protection to intellectual property, and particularly crack down on infringement on pattern design of fabrics. They have established and tried to perfect the market of intellectual property trading, which stimulates the incentives for creativity. Previously, many firms, though sensitive to market trends, are satisfied with copying the prevailing styles. Whoever creates a new pattern which becomes popular would be copied. This is very detrimental to the creation of new design and new products. With the IP protection, firms try to create their own designs.

Also, the government promotes mergers and acquisitions and other reconstruction measures to integrate the market resources. It is learnt during the investigation that this effort has reduced the number of business owners by 30 percent, which has created some larger firms and significantly strengthened the ability of the government to manage and coordinate in the marketplace.

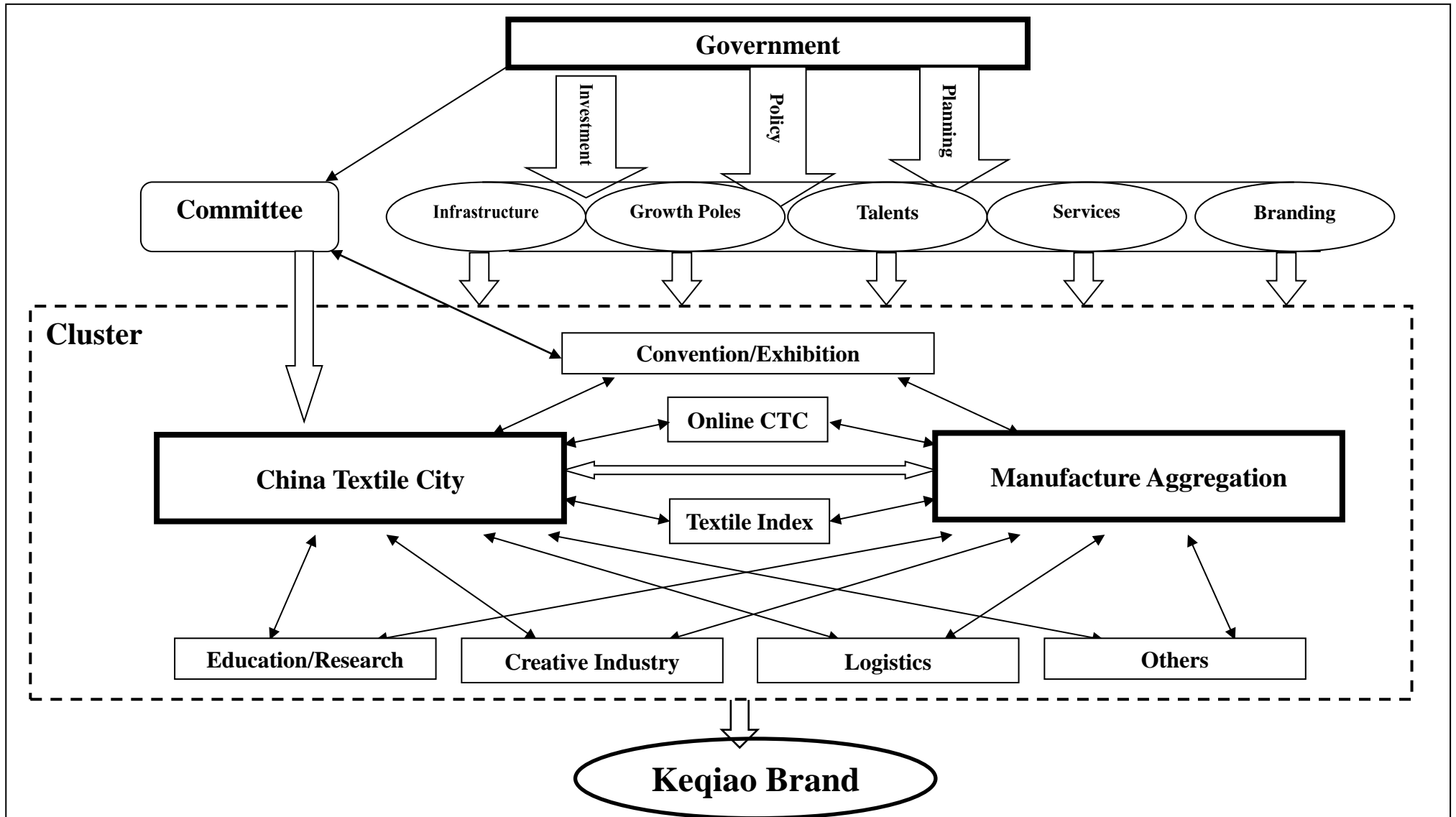
## **5.6 Concluding Remarks**

The above discussions and the discussions in last chapter analyzed the roles of the players in promoting the growth of the cluster and the Keqiao brand. Thus, figure 4-1 and figure 5-1 can be combined together, which is figure 5-2. This can be regarded as the Keqiao model. That is, Keqiao as a cluster and a brand has several components, and the driving forces of the cluster and brand growth are the government with its ways of impacts and the aspects it influences on, and the components, and the interrelationship among them.

The relationship between the cluster as a whole and its constituent brands is a

dynamic one. The existence of the firms lays a foundation for the cluster to be formed. As the firms grow and as the number of firms increases, eventually the cluster takes its initial shape. Government then takes actions to promote the growth of the cluster, with the three ways and in the five aspects as described above. Some firms grow fast and more firms come either from inside or from other places. The cluster becomes more famous, and the growth enables the government to do more things to promote the cluster and the brand. Thus a virtuous cycle is formed. This may reach a peak due to various constraints, such as the demand change or macro-environment changes, which may prompt a transformation and upgrading of the cluster. It has been learnt that that is what the government is doing, but that is beyond this study.

**Figure 5-2 The Keqiao Model**



## **CHAPTER 6 THE COMPANY PERSPECTIVE**

The investigation of the cluster as a whole has offered rich information about the growth of Keqiao. However, it is also important to investigate individual companies, which would provide a different perspective and enrich the understanding of the cluster growth and the branding efforts in the cluster. In this study, two companies were investigated. The two companies were approached with the help of the government. One of them, Company G, is highly integrated, engaged in manufacturing from yarns to apparel and in retailing as well, though the product line was very limited; another one, Company F, is a wholesaler of fabrics. They are representative in a sense, since one is from each of the two wings of Keqiao cluster, one primarily in manufacturing and one in trading. But on the other hand, with such a small sample, it can hardly be said that any can be fully representative. Nevertheless, the investigation provided insights to the growth of the cluster and the branding effort of the companies.

The growth histories of the two companies were investigated, so as to find some patterns. The branding efforts of the companies were studied, and their relationship with the cluster and Keqiao brand were examined. As these are relatively straightforward, direct quotes from the interviewees are used more frequently in this chapter.

### **6.1 The Case of Company G**

Company G is a type of conglomerate of new technology in the soft-goods chain. G was founded by its current CEO, Mr J. Mr J used to work for others, and then with a small amount of money he saved, he started a small company with cotton

trading and storage. After years of growth, now in addition to its original cotton business, it is primarily a manufacturer of textiles and apparel.

### **6.1.1 Growing History of Company G as a Brand**

According to Mr J, the growth of Company G can be divided into 4 stages. They can be roughly called cotton trading and storage, cotton spinning, hemp production, and apparel and home textiles.

#### **6.1.1.1 Cotton Trading and Storage**

The first stage was cotton trading and storage. It was successful, and Mr J attributes the success to two reasons:

First, the economy in Keqiao was booming. Companies were mushrooming, and new companies were formed daily. Everyone was weaving and knitting, and everyone needed yarns, and in return, everyone eventually needed cotton and other fibers. So there was strong demand for cotton.

Second, probably more important, I was honest in doing business. For example, I was not trying to put water or even sand to the cotton to increase the weight so as to make more money, and I would not mix a few bales of cotton of lower grade into the ones of higher grade. In the competitive market, there were some who did this. With good customers, I won't easily increase the price. When they had difficulty, I tried to help them to solve the problem. I view my customers as my partners, and they do the same with



me. We establish very good relationship.

#### **6.1.1.2 Cotton Spinning**

Soon Mr J discovered that the profit margin of cotton trading was relatively low, and sometimes there was fluctuation in demand, so he decided to expand forward into cotton spinning. At first the scale was not big, and the intention was primarily to help absorb some extra supply of cotton as a bumper. But as the market demand for yarns grew and the profit margin was higher, Mr J decided to further expand the spinning business. This was the second stage of the company. During this stage, the company invested RMB 150 millions, and bought a piece of land as large as 150mu (10 hectare), and total construction reached 70,000 square meters. Talking about the expansion, Mr J said:

The expansion seemed a natural step. I saw the opportunity, so I just moved ahead to catch it.

Mr J is very sensitive to the market. He was always trying to find better opportunities. Soon he saw that there was intense competition in cotton yarns, but there was less competition in rayon yarns, and particularly he found that there was a demand for fiber-dyed-yarns, which was really a market niche. So the company made a detour and began to focus on the production of such yarns, and developed its unique R30s fiber-dyed-yarns. The company perfected its technology in the production of such yarns. Though called fiber-dyed, the fibers are not dyed; the fibers are rayon, and color is added in the process of rayon manufacturing and the fibers are colored in the man-made fiber production stage and no-pollution occurs

later. Thus it is an environmentally friendly process. The colored rayon fibers are then thoroughly and evenly blended, mostly black and white, but also other colors and white. After spinning, the yarns then have a unique and special effect. The color is particularly rich and gives a three-dimensional perception of spaciousness. Fabrics made of the yarns thus also have a unique and special effect, leaving an impression of fogginess and naturalness. Such a style is welcomed by consumers who pursue uniqueness and specialty. This kind of yarns was awarded “Excellent Product Trusted by Customers” by the provincial authorities.

Mr J said about this product:

This is our major products. Since we started doing fiber-dyed-yarns we clearly realized that we must make unique products to meet the demand of the market. We sensed the demand increase in rayon fiber-dyed-yarns, so we made efforts in product development in that direction. Our products are unique, our quality is good and stable, and we deliver products on time, so we lay a good foundation for our customers in their production of fabrics using our yarns. Thus our market share increases and our profit margin improves.

Production of the fiber-dyed-yarns was viewed by the company as the second stage of its growth, which gave Mr J two important lessons. The first was the value of innovation. The success of the stage much relied on the efforts in innovation. To use the words of Mr J,

Without innovation, and without the gut to invest in innovation, there would be no success at that time; since then, innovation has been the most

important element in the culture of our company.

And the second one was quality. The company pays attention to the quality of its products, which also contributes to the success of the first stage. Even though its products are welcome by its customers, this does not diminish the attention paid by the company to the quality of its products. Mr J said,

From the beginning we knew that quality was our lifeline. Without stable quality you can't sell your products, and you can't hold your customers. We always pay attention to the quality of our products. We always try to be better than our competitors.

### **6.1.1.3 Hemp Production**

Mr J is never satisfied, and always looks for new opportunities. He got some information about hemp, and became excited about it. Hemp fiber comes from the skin of the plant. The fiber has some advantages, such as good absorbency, good ventilation, but it has relatively high rigidity and low flexibility, and mostly it is extremely difficult to spin. There is large supply of hemp, as the plants are mostly used to make into cheap cords. Seeing the trend for favoring natural fibers and environment friendliness, the company decided to develop hemp fiber yarns. The company started conducting research on hemp fibers, and made some breakthrough. This marks the third stage of the company.

First, the company developed a unique pre-spinning process, which includes some key steps such as degumming the fibers and application of softeners and lubricants. The secrets are the kinds of the ingredients, the amounts, the time, temperature, methods and so on. With these, the spinning of the fiber increases

substantially. Second, it is also important to develop the blending technique. Different grades of hemp are to be used according to the thickness of the yarns and the quality of different marks of the hemp has to be tested and controlled. The company takes extra miles to investigate the special properties of hemp produced in different places, and developed method to blend the hemp accordingly. It also developed special technical route to process the blends of cotton and hemp, which is roughly “hemp processing + cotton” and then go through blending, opening and cleaning, carding, combing, slivering, and finally spinning. The company has developed a full set of route and parameters.

Realizing the importance of research and development, the company set up a R&D center in 2008, and increases its research budget each year. As the company feels that it lacks the capability to conduct the research to its expectation, it cooperates with several universities and their labs. Within its R&D center, it also set up an special academician station in 2013 for a member of the prestigious The Chinese Academy of Engineering, who regularly comes to direct the research work. Now the center has been an exemplary unit for enterprise, university, and institution cooperation.

With concerted efforts, many problems have been overcome. For example, it is very easy for hemp fabrics to become fluffy, and one would feel itchy when wearing hemp garments. Besides, both color evenness and fastness are big problems. The research team overcame these problems one by one. During the process, the company invested more than RMB10 million on research. Several patents were registered.

Mr J is very proud of the efforts. He said:

“We have been in the forefront of autonomous research and creation, and we are very willing to spend in R&D. We have made some remarkable progress in this area. Now our products are very special and unique. We are able to provide products to our customers which are very different from those of our competitors, and with our yarns our customers can also make very unique fabrics and garments. That is why our products are welcomed.”

During this stage, the company further grew. The company invested RMB 100 millions, and has the capacity of processing 6000 tons of hemp yarns. The factory expanded by another 22,000 square meters. Because of the environment friendly nature of the hemp project, which is in accordance with the low carbon policy of the country, the project is listed as one of the key investment projects to be supported by the governments, and can enjoy some favorable treatment. The company received subsidy in the amount of RMB 5.4 million from the government. The company received award as a “Trustworthy Company” of Zhejiang province, and was listed as one of the leading companies in Shaoxing. Its hemp products were marketed both domestically and to other countries.

From the third stage, two important implications can be drawn. First, a company must be willing to invest in R&D, then it can have new products and develop its unique competitiveness. And it is important that a company continues to do this, so that new market can be found and new products can be developed. As Company G has been doing, it does not stop at fiber-dyed yarns, but moved on to the hemp yarns. Second, Many times a company lacks the capability to conduct

relatively large scale project, it is both necessary and possible to have the collaboration between the company, university and institutions. The company is responsible for the marketing aspects, while the university and the institution provide their expertise and make uses of their facilities. It is cost-effective for the companies, and it is beneficial for the entire society.

#### **6.1.1.4 Apparel and Home Textiles**

Since 2011, Company G has entered its fourth stage in development, as the company entered the apparel and home textiles business, and also licensed the brand name of a Portuguese company. This time, however, the model of development was quite different from the earlier stages. The company did not invest in the physical assets such as building plants as it did before; it is more of brand strategy and of capital operation.

The Portuguese company (Company P) is a family business and has been in the hemp business for many years. The company is a very solid one, has technology and know-how in apparel primarily made of hemp. It is not a very big company, but as it has a long history it has developed its brand name, and is relatively well known in Europe. The company has a network of customers in Europe. Company G made contact with it, and after negotiation the two reached a license agreement. Major terms of the agreement include the following: After paying a certain amount of licensing fee, Company G could use the name P in non-European countries and regions for a certain number of years; marketing strategies and brand usages in general terms need the approval from P; P would provide expertise to G, such as market trends and design ideas. G can also be a supplier

for P. Thus, the two companies become strategic allies, with their interests tied together. This arrangement has also given Company G total freedom to expand in China and other non-European countries, and allows the possibility of entering Europe in the form of exports. The biggest benefit for Company G from this cooperation is that it can get access to the technology and expertise of Company P, and can also use the brand name.

Mr J believes that for further growth it must vertically integrate still forward. On one hand the company has already had good foundation, with its technology and expertise in the production of hemp yarns. At the same time, the company has good understanding of the hemp market. If the company has vertical integration of the whole supply chain, it can better control the market and less rely on its customers and suppliers. On the other hand, now the licensing arrangement gave the company much larger room for expansion into apparel and home textiles. With the brand name, a full line of products can be offered and marketed. Instead of investing to manufacturing the products by itself, Mr J decided that the company would contract out the production. In this way, the expansion of this fourth stage took very different form from before. A subsidiary was established, which functions much like many merchandising companies today. The subsidiary is responsible for design of various products, including both apparel and home textile products, with the general guidelines received from the Portuguese company, and then contract out the production. The company has already established a range of contractors. Some of the contractors are in weaving and knitting to produce fabrics, and some produce home textiles, such as various bedding products and towels, all using the hemp yarns produced by Company G.

Some manufacture apparel, using the hemp fabrics supplied from the contractor weavers and knitters. The subsidiary of Company G coordinates the activities among these contractors. This is possible because the existence of the cluster. It is easy for Company G to identify the contractors which have the most suitable technology and equipment, the best trained workers, the most stable quality, and the best cost-effectiveness. Then the subsidiary does the marketing. The Company G has established its customer base, with several chain stores in major cities such as Beijing, Shanghai, and Hangzhou. Now it has opened several retailing outlets by itself in some other cities, and plans to open more.

Mr J talked about the strategic step. He said:

I felt that we must take this step. We have been in hemp for a while, and we have accumulated some knowledge. We think we know the market better than the others. If we don't take the step to move forward to make apparel and home textiles, it is a huge waste of our resources.

In talking about the take-over of the European company, he said:

We had been looking forward to going into international market directly. We had been looking for opportunities to do that. I felt that this is the opportunity knocking at our door. We have to be a little bold. We have not done that yet, but this is the first step. Licensing with the Portuguese company gives us several advantages: we can learn the things we don't know about technology from them, we can use the name both domestically now and abroad in the future which is valuable, and also it will make it easier to market our products. As the brand is a foreign name for Chinese, it



gives the Chinese consumers the impression that it is modern and it is superior in quality.

In talking about the different mode of the expansion in the fourth stage, Mr J said:

We had been very successful in the earlier stages of development. However, we cannot continue in that same mode of expansion. We do not have the ability to do everything. I feel that our strength is our hemp yarns. We can do our yarns much better than anyone else, and we have mastered some skills the others cannot learn. However, we are not expert in making fabrics, or in making apparel, or in making home textiles such as sheets and towels. But we can use the services of others who are in that business. It is good that we are in Keqiao, because we don't have to go far and we can find them to work for us. I personally know some of them. Also, with the license, with the help of the Portuguese company, we can design the right things. This cooperation has made our expansion much easier.

## **6.1.2 Branding Efforts of Company G**

### **6.1.2.1 Branding Efforts during the Four Stages**

During the four stages of development of Company G, it has also gone through a process of ever higher understanding and practice in its branding efforts.

At the first stage when the company was only in the business of cotton trading and storage, it was not conscious about branding. However, some core value of the company can already be seen in its practice. The most remarkable one was its honesty, as described below, which has been maintained later on.

At the second stage when the company began to engage in fiber-dyed-yarn manufacturing, it was not conscious about branding either. This was not unusual in China then, as most companies did not know much about branding. However, it can be seen that some important components of branding began to emerge in its practices. For example, the company clearly knew the importance to meet the demand of the market, and make efforts to build the core competitiveness, which is innovation and quality of products.

At the third stage, the company started hemp product production, and further enriched its practices in terms of branding. The company began to have some understanding of the important principles of branding, though it still did not have a well developed branding strategy. While keeping the core values as it did in the previous stages, it made branding efforts in a more conscious way.

At the fourth stage when the company extended and expanded into the apparel and home textile business, and has become nearly fully vertically integrated, and has had the cooperation with the Portuguese company, it also making full scale efforts in branding. The attention paid to branding can be indicated by several facts: one vice president is designated to be responsible for brand development; the company has hired consultancy company to help develop branding strategy; the company has consultancy agreement with a major university to further improve its brand equity.

#### **6.1.2.2 Market STP**

The company now has a clear market position. The general target consumer

profile is like this: the upper middle level class of the society, not the top; the people who can afford a relatively high price but do not pursue luxury; the people who are concerned about the environment and who pursue quality of life, and comfort is important to them; the people who are mostly in their late young ages and enter middle age, that is, about 25 to 40, who have good education and thus enjoy a relaxed life style. The company has conducted market research, and concluded that a quite large segment of the population is in the range, and so long as the company has the appropriate marketing strategy to target them, there is a solid market for the products.

Actually this is also the original ideal and brand positioning of the Portuguese company, which is the reason the two companies can cooperate in the first place. Based on this analysis, the company names its positioning as “Healthy and Comfortable, Low-profiled and Luxurious”. This has now become the logo of the company, and has been made into signs in its leaflets and its own retail outlets.

One indication that the company has a clear understanding on positioning is that Mr J published an article on the relationship between brand positioning and the competitive power of a company. The article emphasizes the relationship from three perspectives: the importance of correct positioning; the way to cultivate the right value; and the method to increase brand equity. Mr J believes that these are all closely related to the core competitive power of a company.

### **6.1.2.3 Implementing the Marketing Plan**

Following its mission in the targeted market segment, Company G makes efforts

in the 4 Ps to implement its marketing plan. In terms of product, while following the general guideline on product style, the design team makes sure that the designs are truly low-profiled but also luxurious. The company has to pay attention to the consistency of product style in all of its product lines, both apparel and home textiles. As these are hemp products, they have to make sure that not only can the products best take advantages of the properties of the natural fiber, but also can best present these advantages to the consumers. The company keeps its core value in quality, and has stringent standards for its products. For this, the company has to constantly work with its contractors and collaborate with them to solve technical problems. Mr J said, “From time to time we may encounter problems with our contractors; however, we don’t just blame them, we work with them to solve the problems.”

As for price, while the products are generally priced at middle to high level in accordance with its market positioning, the company has a policy not to put products on sales, except occasionally at the end of a season. Mr J said, “If you rank all the prices in the market, I would say ours is at the 80 percent level. Definitely not at the top. However, we don’t want people to think us as cheap, and we don’t want to behave like that. We don’t easily put our products on sales easily.”

As the company is not very large, now it has limited distributions. Products are sold at a few chain stores in major cities in China. In the chain stores there are designated areas and counters for the company. Besides, it also established a few retail outlets in other cities and has plan to open more. According to Mr J, “The

current distribution channel is sufficient for our products. We don't have the ability to flood the market with our products, and we don't want to do that. We want to expand our market share step by step. We feel that solid progress is more important than expansion.”

As for market communication and promotion, the company has made efforts from the top and has spent a substantial proportion of its total sales in such activities. Various forms of advertisements have been used. For example, in Keqiao very large billboards are put on the market walls. Electronic billboards at the most prominent corner of the city regularly broadcast the ads of the company. These advertisements are played at all of its retail outlets. Various leaflets are produced and displayed in the outlets as well. Advertisements are also placed on appropriate magazines. Even though without sales, various promotional programs are designed. For example, VIP cards with certain amount of purchase are distributed, coupons are given, and so on. The company pays attention to the consistency of its messages, and always emphasizes its “healthy and Comfortable, Low-profiled and Luxurious” image.

#### **6.1.2.4 Leveraging the Secondary Association**

Leveraging secondary associations has been regarded as a very important and effective method to enhance the brand awareness and brand image. Specifically, the following measures have been taken:

- a) Since the hemp products are natural and green, Company G tries to project an image of environmentally responsible company. It has been actively

participating in various green activities. It has been one of the sponsors for annual Marathon race in a city a couple times, and makes the theme of the race “Green and Healthy”. It donated a piece of brightly colored A-shirt to each runner. As the race is a major event in the city and broadcast by the local TV station, this has helped promote the company significantly.

- b) The company becomes one sponsor of the women’s volleyball team of China. Volleyball is quite popular in China, and there are a large number of people, especially the young, who participate in the sports. Women’s volleyball team of China is a famous sports team in China, which was once the champion in the world for a few years in the 1980s and greatly stimulated the excitements and patriotism in the entire nation. Even today, the team is still one of the top teams in the world, and one of the best loved sports teams in China. Many of the team members are well known. In 2011, the team participated in a competition held in Shaoxing (Keqiao is one of its districts), the company invited the entire team to the headquarters and signed the sponsorship agreement. The hemp apparel has been designated as the official wear of the team. This has greatly increased the exposure of the company and its brand.
- c) As the company now has the licensing arrangement with the Portuguese company, and the brand name is taken from company P, and company P has a long history and relatively well known in Europe, Company G also promotes this story and this history.
- d) As hemp is the core element of the brand, and hemp is relatively less known to

the public, Company G makes great efforts to publicize the knowledge about hemp. For most of its products, the package includes a small piece of paper with information about hemp, particularly the advantages of hemp fiber. The company has set up a showroom, the focus of which is not the products of the company, but rather hemp. There are various forms of presentations to describe hemp. The showroom is very much like a museum, and is open to the public. The company believes that the more the public knows about hemp, the more they will like the products and subsequently the brand.

### **6.1.3 How the Cluster Helps the Company Grow**

During the investigation of this project it was found that there is a virtuous relationship between the company and the cluster.

The birth and growth of the company can be attributed to the cluster. Mr J has a deep understanding of this. Talking about his experiences, he said,

The existence of my company to a large degree is due to the cluster. Why could I found my cotton trading company? Because the textile industry was booming at that time in our area. Without that condition, I would not have my first job, and I would not have the idea to form the company. Later, each stage of my company is roughly parallel to the growth of the cluster.

Mr J feels that he benefits from the cluster significantly. His experiences are totally in agreement with what has been widely recognized in the literature. For example, production costs can be lowered. Also, because both suppliers and customers are nearby, transportation costs can be greatly reduced. At the cluster, it

is much easier to get laborer, even experienced ones. Nowadays, it has become harder to get employees with desired quality, but Mr J said,

That is big environment. There is shortage of labor everywhere. But our difficulty is different from other places. If you are willing to spend a little more money, you can get someone to work for you. In other places, you simply cannot get laborer who knows how to work. You have to train them from the scratch.

During the four stages of growth, from the cotton trading company to fiber-dyed-yarn production, then to hemp yarn production, then to the integrated operation, each step is inspired by the growth of the cluster. As there is close interaction among the entrepreneurs and businessmen, it is easy to receive various kinds of information, and it is easy to detect any gap in the supply. For the mindful entrepreneur, the information becomes business opportunity. Mr J said,

How do I know the information? Because I am with the people. I talk to them, and I keep the useful information in mind. Or how can I know hemp is good?

The cluster has created a good environment to spread various kinds of information. There are various seminars, symposiums, expos, exhibitions; the government periodically publishes information; the Keqiao indexes function like barometers. According to Mr J,

It is hard even not to get the information. Every day we are overwhelmed with things like big data, internet plus, and so on. Actually, I feel that I only need to go to China Textile City in Keqiao once or twice, I don't have to do



anything, then I have pretty good sense how the business is. Similarly, to drink once or twice with my business friends, I can smell how the business is.

The government sponsors various programs to help the companies. These include various training programs. For Company G, once a person was sent to learn how to operate on the internet.

A big help is the Expo. Company G has attended the expo each year for at least 5 years. The expo plays a two-side role for the company. On one hand, the Expo provides an exposure to the company to contact its customers and get to know potential customers, and on the other hand, the Expo provides another information source for the company to learn the market trend and the technology development. By interacting with the numerous visitors who come to the Expo, Company G gets a lot of information what the customers or potential customers want, which otherwise is difficult to gather. Mr J said,

The Expo is a big party for our business. Here you meet people. You have to pay for the entrance, but it pays. We attend the Expo each year, and each year we get one or two new customers, and each year we learn one or two something new. This helps us make progress.

Keqiao government organizes a few local companies to form a delegation to participate in trade fairs and exhibitions in world fashion centers and other places. Mr J believes that this is a very good way to promote both Keqiao and the individual companies.

If you go out by yourself, you are overwhelmed by every other exhibitors and it is very hard for the visitors to notice you. However, we go out as a team, as a legion, we can make very loud voice and can shine very brightly. The visitors will definitely notice us and be attracted to us. Besides, each one of us is different, so they know that Keqiao is powerful. They notice Keqiao and they notice each one of us.

Only selected companies with special strength can join the delegation, thus it can leave particular strong impressions. In this way, both Keqiao and the companies are promoted.

Company G also gets specific assistances from the government, which has helped the company significantly. The company has won various awards and prizes from the state and the province. These are very helpful in promoting the brand. While the company deserves the honors, without the help from the local government, it is difficult to win. These include various advices and gathering related information and materials. It is also with the help of the government that the company was able to make contact with its licensing partner in Portugal, and make contact with the women's volleyball team of China.

#### **6.1.4 How the Company Helps the Cluster Grow**

When the question was posted to Mr J, he seemed very puzzled. Without being able to answer the question immediately, it took him a while to start:

How did I help Keqiao? I never thought that I was helping Keqiao. I am helping my family. I think I am helping my people, the people who work in Company G. If I am smart and doing the right things, my company will

grow, and then we'll make money. I will make money, and my people will have a raise, and get more bonuses. But for Keqiao, I can't do anything to help it grow. I pay taxes, that helps it. ...I don't think I have to do anything to help it grow. If I abide by the laws, and don't make any trouble for the government, that is already a big help. ...The biggest help I can offer for the cluster is to do my business well, and make my own company grow. If every company grows, the entire cluster grows. If I do well here, that is a good example for others, no matter if they are already here, or if they want to come. That helps the cluster grow.

## **6.2 The Case of Company F**

Company F was founded by Mr H. Mr H used to be a public servant, and then in the 1993 he resigned and began his own business. In 1994 he went to Beijing, where he was engaged in international trade of fabrics for three years. Lacking the experience, he failed. But in this process he learnt a great deal about the market and the business. In 1997 he learnt about the booming Keqiao and the prosperous China Textile City, so he came to Keqiao and created a new company, Company F. The meaning of the Chinese name is phoenix, as he wanted his venture would be like the legend phoenix, which was reborn in fire. Company F was a small wholesaler of fabrics, and like many other firms, he set up the booth in CTC. This was the time when Company F began to take off.

Since then Company F has been growing rapidly, and now it has become one of the largest fabric dealers in Keqiao. It has about 150 employees and the annual sales reached nearly RMB 2 billion. It has several brands, and the company name

itself has also become a well-known brand in the business.

### **6.2.1 Growing History of Company F as a Brand**

Looking back, the development of the company can be divided into four stages, which can be named “Make it bigger”, “Make it better”, “Make it a brand”, and “Create a new business model”. These are described below.

#### **6.2.1.1 Make It Bigger**

After the company was formed in 1993, it had to compete with thousands of firms of its kind, thus Mr H had to figure out how to make the company outstanding. As he had no competitive advantage, the only thing he could do was to work harder. He started with only a couple of employees, and dealt with any kinds of products which could sell. On one hand, he was not greedy, and managed to charge a lower price for his products than the other firm did; and when receiving an order, he always tried to fulfill it, even if with very low profit margin and some times with no profit at all. And he was credible, always treating customers and suppliers with honesty. He said,

I always holdup a principle, that is, one has to be honest in doing business. If your only goal is to make money, and for that goal you can sacrifice anything, in the long run you fail. Just imagine everyone tries to deceive everyone else, and how can that work! I have a long term goal, to make my company big, but the foundation has to be solid, and the foundation is honesty. I don't make “quick money”, I make “long money” (meaning that “I don't compromise principle to make money”).

In this way, he made tremendous efforts to expand his customer base and his supplier base. So even though his profit margin might be lower than the others, he got more orders and many times he got larger deals. Also, he was fortunate because those were the years the economy was booming, so the company was growing fast. Reflecting on this period of time, Mr H said,

It's important to have a vision. At that time, my vision was to make my company bigger, however, not by the easy way, but by the hard way. It seems that I made less money as I had lower profit margin, but my strategy won me customers and suppliers. A company does not grow like a straight line; at certain points your customers come to you with extremely large orders, just because of the solid foundation you have laid. Just a few such opportunities, and you jump, and jump, and you are much bigger. Where am I, and where are they now? Many of them were long gone.

With such strategy and such efforts, Company F built up a solid customer base and accumulated capital, and beat many of its competitors and became much larger.

#### **6.2.1.2 Make It Better**

Mr H was very clear that his strategy, though successful at that time, was risky and could not be sustainable. The reason was that, as the competition in the marketplace became more intense, more firms seemed to take the same strategy, and some times there were even price wars. As the overcapacity became a serious problem in China in the early 2000s, price competition became severe. Besides, there was limitation to how far the price could be lowered. As Company F by then

was stronger, Mr H felt that he should and have the ability to shift the strategy. The most important strategy had three emphases, one was to guarantee good quality, one was to improve services, and one was to create new and unique product. And a very important measure to fulfill these was to have some caliber employees.

In 2001 Company F announced a guaranteed return policy, that is, anyone who bought products from Company F could return the products within one month, if any defects were discovered or even if the products could not sell well. With such policy the sales value surged. As a wholesaler, Company F was able to guarantee this because it had measures behind the policy. It had become very selective, and only those with good reputation in quality could become its suppliers. Also, it had hired some employees with experiences, and some with a degree in textiles. Thus, it would implement quality control measures with its suppliers. Besides, it began to conduct marketing research, and was very sensitive to market changes. With this, it was able to detect what products would be popular. The company tried to improve its services to its customers and even suppliers in various aspects. In addition to the return policy, they also provided services such logistics in transportation and warehousing, quality inspection, and even finances some times. Particularly, they paid attention to delivery, and made enormous efforts trying to deliver the products according to the need of their customers. Besides, the company had already had a small team of researchers, and came up with the new products called “Four-dimensional elasticity”. The fabric was woven with nylon yarns as the warp and cotton yarns as the weft, and both kinds of yarns were a blend with spandex. Thus the fabric had very good elasticity in all dimensions,

and had wide applications, particularly for tight pants for women. Actually, Company F was not the first company to produce the fabric; it was a Korean company which had the monopoly on the technology and the market. But Company F was willing to invest in R&D, and not only commanded the know-how, but came up with yarns of better property. Company F then commissioned yarn and fabric suppliers to manufacture the fabric. The product immediately became a market hit, and Company F was since known as a “pant fabric supplier”.

Reflecting on these experiences, Mr H said,

Some strategies you should always hold, for example, you should always try to provide good services to your customer, which you can't change. Once you lose that, you lose your customers, and you are doomed to fail. Some strategies may work for a while, but may not always work. Our low price strategy, in my experience, only worked in the early years of my company. It is not sustainable. I saw that clearly at that time when I saw the competition. I am very glad I made the changes.

He also said,

It is very important to do the right things at the right time. When we were small and weak, it was right to keep the low price so that we could be competitive. When the market has changed, we must change. Without the new strategies, we may not be able to survive. We changed, and came to a new level, and became much better, and bigger and stronger as well.

### **6.2.1.3 Make It a Brand**

Originally Company F only wholesaled the fabrics it bought from its suppliers. Then Mr H felt that without its own brand, the company could not grow further. Then since 2007 it started its branding strategy. Mr H tried to make Company F a famous brand, so a logo was designed, which takes an abstract form of a flying phoenix. It also has its slogan, which says “Hard work for success, Bright future like a phoenix”. Also it began to establish its own brands of fabrics. Now Company F has had several brands, and with each one it has a clear market positioning.

The first brand has a Chinese name meaning “phantom”, which target the high end of women’s wear. For this, the company made efforts in two directions, one was quality, and the other was fashion. The customers of this brand were primarily apparel manufacturers who produce high fashion apparel, and the suppliers were the fabric manufacturers who had the capacity to make high quality products. As the products are fashionable, many times the orders were short runs and small runs, thus Company F had to be very sensitive to market trend, and to pay close attention to supply chain management. It had to have the ability to organize production of relatively small quantity in short time and good quality, and can deliver fast. Mr H said,

Phantom is a tremendous test to my company in many ways. It put tremendous pressure on me and my people. We have to work very hard and really pay attention to detail. Style, hand feeling, color, everything. We have to be very sensitive to fashion, and many times we recommend the fabrics to our customers. We have to manage the entire supply chain, until we can



deliver on time. But in this process we have also learnt a great deal. Phantom is now a very good brand, and we are doing much better. We are not a “pant fabric supplier” any more, and I think we can do better.

The company has another brand the name of which in Chinese means “Heavenly Fashion”. This brand was established not long ago, and has been positioned as fabrics of natural fibers and environmental friendliness. This was to meet the demand for environment protection. They have conducted some market research and found that the people who are most conscious and sensitive to environment protection are those who are young, relatively well educated, and with above average income. These people happen to be the ones who are relatively trendy and thus do not mind paying a little more for what they buy. Thus, they have a better understanding of their target market. As only natural fibers are used, the company emphasizes comfort of the fabrics, such as moisture absorbency, and they do make efforts to improve the comfort properties. Their requirements are that not only the products have to be environment friendly, thus only natural fibers are to be used in the fabrics, but also the production process has to be environment friendly as well. To use their slogan, this is “Green product, Green production”. They require the suppliers to provide certificates to verify that both the products and production process meet the requirements such as ISO14000. To meet the demand of this particular market, they also need relatively trendy fabrics. So in this way, they know well how to position the products. Not only do they promote the fabrics to apparel manufacturers, they also try to promote the brand “Heavenly Fashion” directly to consumers. This is not easy, since usually consumers do not pay much attention to the brand of fabrics. Mr H said,

I know the story of Tencel, which was a great success. However, that was Lenzing. Lenzing was big and powerful, and they had the ability to promote their product and their brand not only to manufacturers but also to consumers. I am not nearly as big, but I can learn something from them, and I believe that you have to be good and you have to let people know that you are good, and if you are truly good, eventually people will know you are good. So I cooperate with apparel retailers to promote “Heavenly Fashion” fabrics. How do I do it? I ask them to add one hangtag on the clothes. On the hangtag I provide the information. So far, it has been doing fine.

Talking about the branding efforts of Company F, Mr H said,

As we are a fabric wholesaler, not sellers of final products to the consumers, some people say that branding is meaningless. I don't agree. I believe that branding is important for the growth of my company. With my brands, I will have a much clear image to my customers. Brands are my flags, with my flags they know me better. Brands are my wings, with the wings I can fly.

#### **6.2.1.4 Create A New Business Model**

Mr H said,

I have such a characteristic that I am never satisfied and always look for new ways of doing things.

So even though Company F had been quite successful, Mr H felt that he had to create a new model of doing business so that the company could be unique and could grow faster. For this he approached Mr W. Mr W graduated from a well known Taiwan university with a degree in fashion. He came to mainland China

and had been working in different fashion companies, mostly in charge of apparel manufacturing. He had rich experiences in the fashion business. In the interview with Mr W, he said,

Mr H wanted a transformation of his company and wanted to create a new business model. Even though he already had some 10,000 customers, and some were large, he felt that most of his customers relied on quantity (meaning low price) but few of them were doing brands. He felt that his customers must be branded as well. In 2012 he came to me and told me his idea and his concept. He said “I gave you 2,000 square meters and you help me to establish a design division”. I said I didn’t need 2,000 meters and 150 would be enough, and he said that wasn’t what he wanted. His concept was a “fabric supermarket”.

The concept of fabric supermarket is based on a few cornerstones. It would be a spacious showroom, also serving as a trading place. There would be a large variety of fabrics, all branded and of high quality. Many of the fabrics would be made into sample apparel, which would be exhibited in the showroom also and give the customers (the apparel manufacturers) some idea and inspiration on the final products. This supermarket is not open to everyone; it is much like a club and only members are allowed to visit. Company F has criteria to select the members, such as that a member must have reached a certain scale in terms of total output, it must be branded, and it must have good reputation and credit, and so on.

Mr H and Mr W felt that it was very important to have a capable design team.

Now they have established a design team comprising more than 50 designers with talents in different categories of fashion products, such as men's wear, women's wear, casual wear, sports wear and so on. The design division under Mr W also has sample makers and others, and each year they can put out about 10,000 designs, using the fabrics the company carries. This is about as strong as a design division of a relatively large fashion company.

In 2013 the first fabric supermarket was open in China Textile City of Keqiao. The Keqiao government supported the exploration and creation of this new business model, and specially allocated a space of some 2,000 square meters to Company F. It has been a great success. Now not only in Keqiao, but in Guangzhou, Shanghai, Beijing and other cities where there are famous fashion companies Company F has already opened 7 such fabric supermarkets. It has about 4,000 members, and it has quality fabrics from both Chinese and foreign fabric manufacturers.

Mr H said,

Our model has been a success. Now the number of our customers has been much reduced, from 10,000 to only about 4,000, but the quality of our customers is much better and our sales value has been increasing. It used to be buyers who came to us, but now very often it is the chief designers who take their designers to come and visit us. Now we can manage our relationship with our customers much better. In fact, we are going to establish a VIP division which will only deal with a small number of the most important customers, and we will designate individual sales managers to deal with individual customers on a one-to-one basis. In this way we can provide

better services to our best customers, and I am sure our business will further grow.

### **6.2.2 Other Branding Efforts**

In the discussion above on the development history of Company F, already it can be seen the many efforts made to enhance the brand equity. In addition to that, there are also others which are worth being mentioned briefly.

Like any good company, Company F also views its employees as its most valuable assets, and has made efforts to recruit caliber employees. Now of its 400 employees, about 80 percent have a bachelor degree. The company tries to enhance the sense of belonging, so it takes various measures. For example, it has already established its library and gym, and gives subsidy to various hobby clubs of the employees, such as ping pong and yoga. On traditional holidays the company organizes activities, and invites the employees to bring their families to participate. The company has motivation programs, so that those who perform well will get awards and bonuses. In particular, the company organizes training programs to enhance the abilities and skills. Mr H said,

I am not afraid of their leaving my company. I would be happy if somebody leaves, creates his own company, and succeeds. I am not afraid of competition. My company grows up from fierce competition. If someone leaves and works for others, that is fine also, as I train people for the benefit of the entire society. However, this is not a problem at all, as we have very low turnover rate. In fact, I feel that the better a company treats its employees, the better they work for you. All of my investments in my employees pay back well for

my brands.

Besides, Company F is sincere and serious about charity. They call this “Hope activity” as the country has a “Hope project” to help the poor children in the remote countryside. They set up a “Hope fund”, the money of which comes from the donation of the employees. Over the years it has been an unwritten tradition that voluntarily the last digit of each one’s salary and 10 percent of the CEO’s salary, plus 5 percent of everyone’s bonuses are donated to the Hope fund. So is 5 percent of the profit of the company. The money of the fund goes to the poor children, helping them pay the various costs. Each year the company organizes employees to go to the remote areas to visit the poor children there. The number of children who get this kind of help has been increasing each year. The company views these as its social responsibility, but this also helps project a good image of the company and the brands, as these frequently reported by the media.

### **6.2.3 The Relationship with the Cluster and the Government**

During the interviews (Mr H was interviewed twice), Mr H gave very positive opinion to Keqiao and the local government. He said,

I came from Sichuan province and was welcomed here. People who have migrated here from other places are not bullied or discriminated here. It’s fair competition here. The government has a vision for development, you see so early they built so wide roads. It is a serving, caring, and highly efficient government. They organize us (the entrepreneurs) to be trained in such prestigious universities, Beida (Peking University) and Tsinghua (University). They also organized us to go abroad to visit businesses there. These have

broadened our horizons.

Talking about the help Company F got from the cluster and the government, Mr H said,

We benefit from Keqiao as a cluster, and that was why I chose to come to Keqiao to start my business, because I knew that there would be more opportunities than other places. I might not have come this far in other places as I have done here. We did get some help from the government, such as lower rent, but that is not very important. The most important help is those which are informative and directional. For example, the government encourages us to corporatize, and to go public when conditions mature, and now to create new business models. I went to see the Party Secretary of the district, explaining to him my plan of my model, and he gave me a lot of encouragement. The government allocated me a space of more than 2,000 square meters to open the first fashion supermarket.

Mr H could not think of anything he did consciously for the cluster, but he said,

Keqiao lacks high caliber talents. It is difficult to attract such talents to come. But now I am doing what I can; I try to create better conditions for the talented people to work and live. I hope that the others do the same.

This can be interpreted as that every entrepreneur does his part to help create a better environment so that Keqiao as a cluster will grow and Keqiao brand will be enhanced. Along the same line, he also said,

“Let our fabric cover the whole earth” is the dream of the government, and we are trying to fulfill it. However, we can’t cover the earth with low quality

fabrics, so we can't just compete with low prices. We have to develop our brands and let the world know and like our brands.

This also indicates that, like many other entrepreneurs, Mr H believes that to develop his own brands is the best contribution he can make to help the cluster brand.

### **6.3 Concluding Remarks**

Based on the experiences of Company G and Company F, it can be seen that there are some common patterns. Both companies take the advantages of both the favorable macro environment and the Keqiao cluster, and both companies grow in stages. The founders of the companies have a vision for their companies, and can take bold strategic actions at the critical moments of growth. In this way they can take the opportunity and grow.

Both companies are branded, and have been making efforts in brand development. Both have a clear market position, and try to enhance their brand equity by improving their brand awareness and brand image. They implement plans in various aspects of marketing and branding, such as the 4 Ps, and they pay special attention to leverage different kinds of secondary brand associations. Both have been quite successful in their branding efforts.

As for their relationships with the cluster and the Keqiao brand, both companies benefit from Keqiao not only in broad terms but also specifically from policies of the government. On the other hand, activities and successes of the companies also help enhance brand equity of Keqiao.



## **CHAPTER 7      DISCUSSION ON THE QUESTIONNAIRE SURVEY**

Altogether 180 questionnaires were received. Not all of them have all the questions answered; however, so long as all the questions in the second part were answered, the questionnaire is deemed useable. With such a criterion, all the questionnaires were used. In this section, the questionnaires are analyzed, and the results are frequently compared with the information collected from the interviews.

### **7.1    Background Information**

The first question asked for the major business the respondent was engaged in the 180 questionnaires, 21 did not answer, for the rest, 130 were in both manufacturing and marketing, 25 were only in sales, while the other 4 were in neither but in business such as design. For the 130 in both manufacturing and marketing, absolute majority of them (98) were in apparel, followed by fabrication (33), textile products (19), dyeing and finishing (9) and yarn spinning (3). There were so many apparel manufacturers because The Apparel Association helped with part of the survey; while the others generally reflected the proportion of the firms in Keqiao, as it is known that weavers and knitters have the largest proportion and are relatively small firms, while dyeing and finishing are more capital and technology intensive and relatively larger. For the 25 firms which were only engaged in sales, 20 of them were in fabrics, which also reflected the reality in Keqiao, as CTC is primarily a fabric market.

More than 60 percent of the manufacturers are exports oriented. There are two explanations for this. First, many large companies have the capacity to target

international market. Second, many companies are still at OEM (original equipment manufacturing) stage, thus even though their products are sold at the international market, the firms may only provide a service. This is in contrast with the sales only firms, as for the latter, only a quarter of them are exports oriented, but nearly 60 percent are primarily engaged in domestic sales. One reason for this is that many sales-only firms are small ones, and they have not developed the capability to involve in international business, which has much higher requirements in various aspects.

Similar contrast can also be found in branding efforts. 60.5 percent of the manufacturers have established their brands, but only one third of the sales-only firms have their own brands. To a large degree this may reflect the different sizes and the different mindsets of the two kinds of business. Manufacturers are relatively large and pay more attention to branding, whereas the sales-only firms are smaller and only try to get their supplies without realizing that the mindset is detrimental to their business growth.

For total sales value, the firms were categorized according to the standard of the government. For the manufacturing companies, 44 percent were in the range of RMB 3 to 20 million, while 45 percent were in RMB 20 to 40 million. For the sales firms, while 52 percent had a total sales value between RMB 5 to 200 million (which is relatively wide), 32 percent were between RMB 1 to 5 million. Altogether, 90 of the firms had total sales value between RMB 10 to 50 million. In other words, all of the firms were SMEs, which is also the real situation in Keqiao, that is, there is a lack of large companies.

It can be inferred that about two thirds of the firms were actually formed in Keqiao. The others were formed somewhere else and then either moved to Keqiao or settled a branch in Keqiao. More than 90 percent of them headquartered in Keqiao. About half of them had owners of Keqiao local.

More than half of the firms (55.6 percent) already had their own brands. For the rest, more than two thirds were planning to establish their own brands. This indicates that the firms realized the importance of branding, and that branding seemed to be an important strategic direction to move.

## **7.2 Belief and Attitude**

As discussed in Chapter 3 “Methodology”, the second part of the questionnaire which are of Likert scale questions consists of three sections: the situations of being in the cluster, the roles of the government, and branding. The results of the analyses of this part are presented in the Table 7-1. Examining the answers to these questions, that is, the degree to which the respondents agree on the statements, it can be easily noticed that the average scores of these questions are all above 3.0, actually the lowest score is 3.49, and most of the scores are towards 4.0. Of the 43 scores, 24 are above 4.0. The specific meaning of this will be discussed for each section respectively. For convenience of discussion, the sequence of these statements has been changed in the table. The actual sequence in the questionnaire was different but that is of no consequence.

**Table 7-1 Result of Likert Scale Questions**

No.	Statement	Average Score
1	It is easier for firms located in Keqiao get trust from customers.	4.03
2	It is easier for firms located in Keqiao to get customers.	4.07
3	Firms located in Keqiao have a lot of cooperation with each other.	4.12
4	We often have opportunities to exchange information with others in the same business.	4.08
5	Most of my company's suppliers are located in Keqiao.	3.86
6	In Keqiao it is easier to learn the market trend.	4.08
7	In Keqiao it is easier to learn what products are popular.	4.02
8	In Keqiao it is easier to learn the emerging new technology.	3.97
9	It is easier for companies located in Keqiao to get loans.	3.53
10	In Keqiao it is easier to recruit qualified employees.	3.49
11	The logistic costs are lower for companies doing business in Keqiao.	3.71
12	It is easier to arrange transportation in Keqiao.	3.89
13	It is easier to arrange warehousing in Keqiao.	3.96
14	Doing business in Keqiao, it is convenient to connect with suppliers and customers.	4.02
15	China Textile City as a brand is helpful for firms in Keqiao to do business.	4.22
16	During the years in Keqiao my company has been growing rapidly.	4.11
17	If not in Keqiao my company might have grown slower.	3.94
18	We pay attention to Keqiao Textile Indexes published by CTC.	3.88
19	There is fierce competition among the firms in Keqiao.	4.18
20	The costs of doing business in Keqiao are very high.	4.06
21	When encountering difficulties in business we would like to reflect those to the government.	3.89
22	In Keqiao companies have channels to reflect their difficulties and needs to the government.	3.79
23	When the macro environment is not favorable, Keqiao government would take measures to help enterprises overcome the difficulties.	3.76
24	Keqiao government promotes CTC both at home and abroad, which is helpful for the business of enterprises.	4.01
25	Keqiao government tries to improve the business environment of Keqiao.	3.98
26	Keqiao government listens to the opinions of companies.	3.80

**Table 7-1(Continued)**

27	Keqiao government tries to provide a better “hardware” environment for local companies.	4.05
28	Keqiao government provides information to the local companies.	4.04
29	Keqiao government tries to help local companies overcome difficulties in finance.	3.77
30	The policy environment is favorable for firms to do business.	3.99
31	Keqiao government tries to cultivate brands of local enterprises.	4.08
32	There would be no today’s Keqiao if there were no the measures and efforts of Keqiao government over the years.	4.18
33	Keqiao government has done a great deal to help the local enterprises.	4.06
34	The various conventions and exhibitions held in Keqiao are helpful for local firms to grow their business.	4.15
35	As a company in Keqiao we have received help from the government.	4.04
36	My company emphasizes the importance of brand development.	4.31
37	My company has clear positioning for our brands.	4.23
38	My company has established strategies for brand development.	4.18
39	My company has designated personnel to be responsible for brand development and management.	4.03
40	My company takes measures to promote our brands.	4.04
41	Progress of branding building of my company has been smooth.	3.88
42	The brands of my company enjoy relatively high awareness in China.	3.57
43	To be in Keqiao is helpful for brand development of my company.	3.99

### 7.2.1 Situations of Being in the Cluster

The first 20 statements concern the different aspects of situations of being in the cluster. These are presented according to the findings in the literature. Of the 20 statements, the first 17 concern the various supposedly advantages of being in the cluster, such as easier to get customers, closer to customers and suppliers, easier to get various information, easier to get cooperation, and so on, as presented in the table. The general responses are positive, indicating that the enterprises in the

cluster do get such advantages. Of the 17 statements, 9 have scores above 4.0, meaning that on average respondents agreed with the stated advantages. These are all in accordance with the findings in the literature. The highest score (4.22) is for question 17 (CTC as a brand helps the companies in Keqiao do business), indicating the general brand effect of CTC and Keqiao. This is followed by question 3 (There is a lot of cooperation between companies in Keqiao), which has a score of 4.12, indicating the cooperative relationship of the firms. Question 10 (It is easier to get qualified workers in Keqiao) gets the lowest score in this group, 3.49. While this is in general agrees with the findings in the literature, the relatively low score is believed to reflect the current shortage of labor in China, particularly in Yangtze River delta region. Statements 16 and 17 summarized the advantages from different perspectives, and respondents agreed with them. Especially statement 16 has a relatively high score of 4.11, indicating that enterprises mostly experienced rapid growth in Keqiao in the past few years.

Question 18 concerns Keqiao indexes, which gets an average score of 3.88, indicating that companies in Keqiao pay attention to the indexes. Thus the data collecting and index compiling are truly worthwhile, giving the enterprises some concise barometer to know the general climate of the business environment. Question 19 concerns competition in Keqiao, with an average score of 4.18, indicating respondents agree that the competition is intense, as expected. This may not be a negative thing, so long as the competition is not vicious, as healthy competition can promote innovation and cluster growth. Question 20 concerns the costs of doing business in Keqiao, and respondents generally feel that the costs are high in Keqiao. This does not necessarily mean that the costs here in Keqiao are

higher than other places; as it is afterwards learnt in interviews, the biggest concern which contributes to the mood is that the rents are high.

These statements were not directly phrased in branding terms, either in the cluster side or in company side, but they all had a branding implication. Thus, all the answers which indicate a positive relationship between the cluster and the company also indicate a positive relationship between the Keqiao brand and the branded companies.

### **7.2.2 The Roles of the Government**

The next section, altogether 15 questions, concerns the roles of the government. The making of these statements was also based on the literature. Some of the statements present specific aspects of the government roles, such as information provision, loans, and so on, some others concern the general way the government plays its roles. Once again, all the average scores are relatively high, with the lowest one being 3.76, indicating that respondents appreciate the contributions of the government and the roles it has been playing. Several points have to be made. First, question 32 (Without the efforts of Keqiao government there would be no today's Keqiao) gets the highest score in this section, 4.18, which indicates that respondents positively recognize the efforts of the government. Question 34 (The various exhibitions are very helpful for the companies to further develop their businesses) also gets high score, 4.15, indicating that the development of the conference and exhibition sector has a very favorable impact on the companies. On the other hand, 4 questions have relatively low scores. One concerns the government's efforts to help enterprises get loans, which has a low score of 3.77.

It is difficult for SMEs to get loans, particularly in the past few years. While the firms want the government to help, it may not be realistic to believe that local governments have the power or capacity. Questions 21 and 22 concern the communication between the business community and the government. The two also have relatively low scores, 3.89 and 3.79, indicating that there is still room for improvement in this regard. Question 23 concerns the mood of enterprises about the attitude of the government (When the macro environment is not favorable the government would take measures to help enterprises overcome the difficulties). This question also has a relatively low score, 3.66, indicating that respondents believe that government should do more to help the enterprises. This may be a common mindset, particularly in China, that is, there is a higher level of reliance on the government to solve problems. Related to this, question 35 (As a Keqiao company, we have received help from the government) has a score of 4.05, which indicates that most firms recognize the help they received from the government.

### **7.2.3 Company Branding Efforts**

Questions in this section were only answered by those companies which had already started their brands. The answers to the first three questions (36: My company gives branding high priority; 37: My company has a clear market position; 38: My company has established its branding strategy) are very promising, as the scores are all high. Actually question 36 has the highest score (4.31) of all questions in the survey, indicating that companies in Keqiao realize the importance of branding and are making efforts to develop their brands. Answers to the next two questions (39: My company has designated special



personnel for brand development; 40: My company is taking measures to promote our brand) also get scores higher than 4.0, showing that specific measures are taken to enhance brand equity. However, scores of the next two questions (41: Brand development of my company is progressing smoothly; 42: The brand of my company is well known in the domestic market) are not as high, particularly question 42 which has the lowest score (3.57) in this section, indicating that there is still long way to go to truly establish the reputation for the brand. The last question (43: To be located in Keqiao helps my brand to grow) gets a score of 3.99, once again proving that the place brand helps the individual brands to develop.

### **7.3 Open-Ended Questions**

The third part of the questionnaire had nine open-ended questions, which concern the various aspects of business in the cluster, such as SWOT (strengths, weaknesses, opportunities, and threats), government roles and so on. Answers to these questions provide some valuable information. However, as these questions are open-ended, though it was requested that only a few words or phrases be used to answer each question, and generally it was the case, yet there is too much variation to the answers. Thus careful examination and analyses had to be undertaken. Some keywords had to be extracted from the answers, and occasionally synonyms were combined together and one meaning was adopted.

#### **7.3.1 Biggest Advantages of Doing Business in Keqiao**

Answers to this question were diversified, evidently because the situation of each

company differs and the experiences are different. After some clustering, there were 15 kinds of answers. Generally these were all related to the advantages of cluster, discussed in the literature. Two answers account for the largest percentage. The first one is “Easy to build a customer base”, which accounts for 25.0 percent of the answers, and the second one is “Easy to get fabric supply”, which accounts for 20.9 percent. Thus, the biggest advantages of doing business in Keqiao, or a cluster in general, are the relative easiness to get customers and suppliers. The third one is related to easiness of getting information. These are all in accordance with the literature. Government support accounts for nearly 9 percent, once again indicating the importance of government roles.

### **7.3.2 The Largest Supports of Government to Enterprises**

It has to be recognized that answers to this question are either broad or ambiguous. Three answers are most popular. The answer mostly given is “Policy support”. This is very broad, but in China’s language situation, many times “policy” really means “freedom”. As often said in China, “Giving me policy is much better than giving me money”, which means “breaking up many policy constraints”. In consequent interviews the more specific meaning of “policy support” was further clarified. Thus, the enterprises feel that the largest support they can get from the government is really the hand-off policy of government. The second popular answer is “Financial supports and tax reductions”, which is quite understandable. The third one is “Guidance and help to solve practical difficulties”. So during economic difficulties, like the current so called “New Normality” (the economic slow-down), many enterprises feel bewildered and thus need the guidance of the government and also specific help to solve their problems. Other mentioned items

also include regulation of the market (to avoid excessive competition) and promote the brand of CTC (so that firms of Keqiao would benefit from the place brand).

### **7.3.3 Things Government Should Do to Help Local Brands**

These are rather the suggestions to the government on helping local brands grow. Though there are many suggestions, four of them each accounts for more than 10 percent of the total and as a whole they account for half of the all. The first one is “Promotion both at home and abroad”, which accounts for nearly 15 percent, followed by “Policy support” (14.3 percent) and “financial support such as tax reduction” (13.7 percent). The second and third ones are like the answers to the last question, indicating that enterprises want the government continue what is being done. The next one is to cultivate local brands, i.e., giving support to the promising but young local brands.

### **7.3.4 The SWOT of Keqiao**

#### **7.3.4.1 The Strengths**

Four answers are relatively concentrated, each accounting for more than 10 percent. The first one is “The clustering effect”, that is, once again the agglomerate effect is recognized; as people in China often described “1+1>2”. This is the advantages of cluster expressed in a broad way. The second one is “The orderly market”, which means that a full set of regulations have been established, which is beneficial to each individual firm. The third is “Sufficient supply in large variety”, which is a specific advantage of the agglomerate effect.

And the fourth one is “The reputation of CTC”, in other words, the awareness and image of CTC as a brand.

The implications of these are relatively straightforward. The most important indication which can be extracted is that the Keqiao cluster and the brand need to be continuously strengthened, particularly in today’s competitive market. With a prosperous cluster and a strong brand, every firm in it will benefit. The result also indicates that management and regulation of the market is necessary.

#### **7.3.4.2 The Weaknesses**

Once again four answers are more focused. The first one is “Low quality and lower end of the market”, which accounts for 21 percent, indicating that many people realize the importance of this problem. Indeed this is a problem widely admitted by both government and the business community, and is a problem efforts are being made to solve. There are profound reasons for this, such as the lack of high tech, talents, and other conditions, and it may take a long time and enormous efforts to overcome. The second one is “High costs and low profitability”. This is a complicated problem. While clustering can lower costs, in recent years costs have been increasing in China, particularly in regions such as the Yangtze River delta, which erodes the competitiveness and also lowers the profit margin, since it is hard to bargain with customers on price. That is one of the reasons many Chinese firms are moving away to other low cost places, including Southeastern Asian countries. Related to this one is the third, “Labor shortage”. The fourth one, “Lack of famous brand”, is interesting, as it is also one of the widely recognized weaknesses of Keqiao, and efforts are being made to

cultivate local brands.

These certainly have more implications for the further growth of Keqiao. Generally, Keqiao as a cluster needs to be upgraded and as a brand needs to be enhanced. Keqiao needs to transform towards the higher end of the market, providing high quality of products, and thus having higher value added and higher profit margin. One important direction is to cultivate strong brands, which are dynamic, creative, and able to continuously come up with unique products. This will need long and consistent efforts.

#### **7.3.4.3 Opportunities**

The largest one is e-commerce, accounting for nearly 30 percent. On one hand, e-commerce does provide an opportunity for firms to grow, but on the other hand, this is also because the central government is forcefully promoting the “Internet+” program, which aims at combining internet with innovation to create new competitiveness. The second one is “Transformation and upgrading”, and the third is “Innovation and R&D”, each accounting for more than 20 percent. These are buzzwords in China nowadays, but they do indicate the determination of the government and are the direction for the firms to go.

Now there is heated discussion on e-commerce and Internet+ in China. As this is a big initiative of the central government, it does provide an good opportunity for Keqiao. Now Keqiao government is eager to ride on this wave and has already done a lot, as discussed in earlier chapters. However, it is important to know that down-to-earth work has to be done so that it will not be a slogan. Only with

thoughtful investigation and sensitive knowledge of technology can decision be properly made, so that e-commerce and Internet+ can truly help with the transformation and upgrading of the cluster and the creation of innovations.

#### **7.3.4.4 Threats**

Many threats are listed by the respondents, and the first four are “Deteriorating export market”, “Labor shortage”, “High costs and low profitability”, and “Environmental regulations”. The second and the third ones clearly related to discussions above.

Currently exports account for a big proportion of sales for Keqiao’s enterprises, thus the weakness of demand in international market is a big problem for them. This is actually a national problem as well. The strategies suggested include diversifying the international markets and exploring the less tapped markets such as South America and Africa, rather than relying on the developed world, and also making reforms in the supplying side by making products which better meet the demand of the domestic market, particularly the rural market. As for labor shortage, it is going to be a long term problem, since the supply in labor market has started declining as a result of the one child policy of China. Various measures have been suggested and used to deal with this, including ways to increase productivity, such as investment in robotics. High costs and low profitability are viewed as both weaknesses and threats. To solve this problem needs to strengthen the competitiveness of the individual companies with various kinds of efforts. Environmental regulations have been reinforced by the government, which substantially increase the costs, and may drive some companies out of business.

While this is good for the country and for the long run, it is a problem no company can avoid. To look at these threats from a different perspective, they are threats for every company, and thus will reshuffle the industry, and only the fittest will survive. Thus, each company has to be adaptive to the changing environment, and the result will be some stronger enterprises and a stronger industrial cluster.

### **7.3.5 The Biggest Difficulties**

The next question asks the respondents to list the biggest difficulties they are faced with. The reason to ask this question is to see, with the difficulties of the enterprises, what policies can be made to help enterprises overcome the difficulties. The most frequently mentioned difficulties are five: Insufficient funds and long receivables; High costs and low profitability; Labor shortage and high labor turnover; Unpromising macro environment; Shortage of talents. As the fourth one is a macro difficulty, It has to be admitted that many times there is little a locality can do to solve the problem, and in most cases the enterprises have to endure and some times contract. Other than this one, the others have been discussed above, and the government is making efforts to help. For example, the government encourages banks to loan to SMEs and even to give some favorable treatment. And the government is taking measures to attract more talented people to work in Keqiao, as discussed before.

### **7.3.6 The Government Branch to Get Help From**

The last question asks the respondents to check the government branches from which they get the most help. It turns out that the CTC Committee is the one from

which they get the most helps. The respondents mentioned that from CTC Committee they get information about policies and resources, and also the committee manages the market which creates a more orderly environment. Also they believed that the committee worked hard to promote the market as a whole, which is helpful to very one. The committee also has programs to support various projects of the firms, such as online marketing.

#### **7.4 Some Influencing Factors**

Statistical analyses were undertaken to find out if some factors, such as the nature of the firms (manufacturers versus traders), have significant impacts on the above mentioned beliefs, attitudes and other answers to the questions. It has been found that some of factors examined do have some impacts.

##### **7.4.1 Local Ownership of Business**

The owners of some of the firms (manufacturing enterprises or trading firms in CTC) are Keqiao local, while others are from other places and come to Keqiao to start and run their business. A t-test was conducted to find if there were any significant differences between the two groups. The test results indicate that there are significant differences in only six of the questions referring to Table 7-2. However, these do have implications.



**Table 7-2 Responses of Local and Nonlocal Business Owners**

No.	Statement	Local	Nonlocal	t-test
9	It is easier for companies located in Keqiao to get loans.	3.69	3.36	2.837
10	In Keqiao it is easier to recruit qualified employees.	3.63	3.33	2.286
21	When encountering difficulties in business we would like to reflect those to the government.	4.05	3.74	2.526
22	In Keqiao companies have channels to reflect their difficulties and needs to the government.	3.93	3.65	2.162
23	When the macro environment is not favorable, Keqiao government would take measures to help enterprises overcome the difficulties.	3.92	3.58	2.767
29	Keqiao government tries to help local companies overcome difficulties in finance.	4.04	3.96	2.474

The answers to questions 9 and 10 indicate that local owners more tend to feel than the non-local owners that it is relatively easier to get loans in Keqiao and to recruit qualified employees in Keqiao, while the answers to questions 21, 22, 23 and 29 indicate that the local owners more tend to reflect their difficulties to the government, to feel that they have the channels to reflect their difficulties, to feel that the government will take measures to help them overcome the difficulties when the macro environment is not favorable, and to feel that the government tries to help the enterprises get loans.

It is unknown to what degree this is true, very likely it is true. Indeed, this is in accordance with the theories in the literature, such as the embeddedness (Granovetter, 1985) discussed in chapter 2. It is very likely that the local owners have deeper and broader social networks and thus are more able to benefit from the cluster. Also, because many of the government officials are the local people, and hence there exist more connections between the local owners and the

government, which may not be illegitimate. On the other hand, this also verifies the criticism and the recommendation of scholars in China that the formation of industrial clusters should not be relied on the attraction of enterprises from other places, but that new enterprises should form from within the cluster (Sheng, 2009; Wang, 2001; Wu et. al. 2009; Zhou, 2011). The local enterprises are better embedded and have better social networks, and can take the advantage of the cluster better than the others.

#### **7.4.2 Manufacturing versus Trading**

The respondents can be divided into two groups, namely manufacturers and traders, or those who have to do manufacturing and marketing and those who only sell textiles in CTC. A t-test was conducted and it was found that for questions 1, 2, 5, 7, 8, 10, 16, 18, 26, 28, 29, 30, 31, 32, 33, 34, and 35 there were significant differences in their answers between these two groups. Rather than discuss these questions individually, a general pattern can be described. These questions fall in two categories as aforementioned, broadly speaking, benefits from the cluster and supports from the government. It can be seen clearly that in both cases the attitudes of manufacturers are more positive than those of the traders. In other words, manufacturers more tend to feel that they benefit from the cluster and Keqiao brand than the traders, and also they more tend to feel that they get supports from the Keqiao government.

**Table 7-3 Responses of Manufacturers and Trading Firms**

No.	Statement	Manu.	Trading	t-test
1	It is easier for firms located in Keqiao get trust from customers.	4.08	3.67	2.219*
2	It is easier for firms located in Keqiao to get customers.	4.17	3.67	2.459*
5	Most of my company's suppliers are located in Keqiao.	3.93	3.38	2.765**
7	In Keqiao it is easier to learn what products are popular.	4.09	3.67	2.701**
8	In Keqiao it is easier to learn the emerging new technology.	4.10	3.58	2.958**
10	In Keqiao it is easier to recruit qualified employees.	3.64	3.17	2.603*
16	During the years in Keqiao my company has been growing rapidly.	4.17	3.83	2.039*
18	We pay attention to Keqiao Textile Indexes published by CTC.	3.96	3.54	2.334*
26	Keqiao government listens to the opinions of companies.	3.86	3.46	2.275*
28	Keqiao government provides information to the local companies.	4.12	3.71	2.168*
30	The policy environment is favorable for firms to do business.	4.04	3.71	1.972*
31	Keqiao government tries to cultivate brands of local enterprises.	4.14	3.71	2.378*
32	There would be no today's Keqiao if there were no the measures and efforts of Keqiao government over the years.	4.24	3.88	2.381*
33	Keqiao government has done a great deal to help the local enterprises.	4.13	3.67	2.771**
34	The various conventions and exhibitions held in Keqiao are helpful for local firms to grow their business.	4.21	3.83	2.373*
35	As a company in Keqiao we have received helps from the government.	4.16	3.75	2.246*

The reason for the difference is unknown. However, based on the differences between the two groups of firms it is speculated that maybe manufacturers naturally benefit from the cluster effects for some reason, or maybe larger firms benefit from the cluster effects more than smaller ones as manufacturing enterprises are larger than trading firms on average. Also, larger firms may get

more attention from the government. In any case, this is worth further studying in the future.

### **7.4.3 Branding**

Also t-test was conducted for the branded and non-branded companies, and the results indicate that there are significant differences between the two groups for some of the questions. There are significant differences for questions 11, 16, 17, 22, 23, 24, 25, 26, 29, 32, 33, 34, and 35 referring to Table 7-4. Other than question 11 which concerns the benefits from the cluster (in this case it is lower logistic costs), all other questions concern supports received from the government. It can be seen clearly that the branded companies feel more positively about these.

**Table 7-4 Responses of Branded and Non-branded Companies**

No.	Statement	Brand	Non-branded	t-test
11	The logistic costs are lower for companies doing business in Keqiao.	3.85	3.56	2.543
16	During the years in Keqiao my company has been growing rapidly.	4.28	3.91	3.348
17	If not in Keqiao my company might have grown slower.	4.10	3.73	3.287
22	In Keqiao companies have channels to reflect their difficulties and needs to the government.	3.93	3.64	2.311
23	When the macro environment is not favorable, Keqiao government would take measures to help enterprises overcome the difficulties.	3.90	3.61	2.321
24	Keqiao government promotes CTC both at home and abroad, which is helpful for the business of enterprises.	4.10	3.88	2.156
25	Keqiao government tries to improve the business environment of Keqiao.	4.09	3.85	2.106
26	Keqiao government listens to the opinions of companies.	3.94	3.65	2.342
29	Keqiao government tries to help local companies overcome difficulties in finance.	3.91	3.62	2.415
32	There would be no today's Keqiao if there were no the measures and efforts of Keqiao government over the years.	4.29	4.05	2.184
33	Keqiao government has done a great deal to help the local enterprises.	4.21	3.88	2.907
34	The various conventions and exhibitions held in Keqiao are helpful for local firms to grow their business.	4.26	3.71	2.177
35	As a company in Keqiao we have received helps from the government.	4.20	3.86	2.778

Once again, it is speculated that branded companies tend to be larger, and that branded companies tend to be able to attract the attention of the government as well as from the media. Thus, it is more likely to communicate with the government easily and get some supports from the government. In any case this issue is worthy of more studying as well.

## **7.5 Concluding Remarks**

The questionnaire survey is a meaningful supplement to the qualitative analyses, as it does provide some interesting information. The results clearly indicate that firms in Keqiao benefit from the cluster, and that they believe that government has played a critical role in promoting the growth of the cluster. The results also indicate that there are already some companies which have been branded and more have the intention to develop their brands. SWOT analyses also give useful information.

The statistical analyses indicate that there are some factors which have significant impacts on the attitudes of firms towards the cluster and government. In particular, local owners more tend to believe that they benefit from the cluster than non-local owners, and the same is true of manufacturers versus trade only firms, and branded companies versus non-branded companies. While the mechanism behind these differences is unknown, which is worth further studying in the future, the result also indicates that there is more room for local government to do their jobs.

## CHAPTER 8 CONCLUSIONS

### 8.1 Summary of the Study

This project sets out to study the growth of the industrial cluster Keqiao, its branding efforts and the relationship between the cluster brand and its constituent brands.

Literature review is an integral part of the study, which help orient the project. Literature in three areas are reviewed and analyzed, including studies on cluster and clustering, studies on brand and branding, and the integration of both, studies on place branding. In addition, studies on industrial clusters of China are also reviewed. Particular attention is given to the roles of government policies. These studies help lay a solid foundation for the project, and the review indicates that a thorough and systematic investigation on a typical cluster in China is necessary to verify the theories and models, that the driving force for China's industrial cluster is to be empirically examined, and also that the relationship between the cluster and the individual brands in the cluster is a virgin land yet to be explored.

This project selects Keqiao as the object of study. Keqiao, a district of Shaoxing City, Zhejiang Province in China, hosts the largest textile products market not only in China but probably in the world as well. Used to be a countryside town, it is now a typical industrial cluster in China, a well-known model for fast economic growth, and a famous brand as a place of fabric supply. Thus, the investigation is not only meaningful for Keqiao as a cluster and a brand, but would have universal implication for clusters in China for their growth and their branding efforts.

This is an exploratory research. It is a primarily qualitative research, but supplemented by quantitative analyses. While a wide range of secondary materials are used, such as various reports, articles, and government documents, the analyses are mainly based on primary data collected during the investigation. Different methods are used to gather data, namely interviews, focus group discussions, and questionnaire survey, all conducted in Keqiao. Among these, interviews turn out to be the most useful method, providing a great deal of insight and rich information. Both interviews and focus group discussions are semi-structured. Altogether there are 13 interviews conducted, and 5 focus group discussions held. Participants include government officials of different levels and branches, and entrepreneurs in different links of the soft-goods chain, including both manufacturing and distribution. While the participants are selected in a convenience way, they are rather representative. The questionnaire survey is undertaken with 180 respondents, all of them business people with managerial positions in Keqiao. Sampling of the survey is a combination of convenience and probability. With the huge amount of qualitative data, grounded theory method is employed to analyze so that a model can be structured.

The current situation of the Keqiao cluster as a brand is described in detail. Keqiao is a typical cluster in its complete form. While the focus products are textiles, particularly textile fabrics, there are two wings of the cluster: the market called China Textile City (CTC), which is primarily a wholesale market of various textile products with around 24,000 firms located in several large buildings, dealing with customers from both China and abroad; and a manufacturing aggregation of 9,000 plants, which are engaged in production of textile products



of every link of nearly the entire soft-goods chain, but primarily chemical fibers, fabrics, dyeing and printing, and apparel. In addition, there is the logistic industry which serves the two wings. There are also the emerging industries closely related to the two wings, namely the convention and exhibition sector and the creative industry, such as design studios. There are also educational institutions and research institutions serving the cluster. Besides, there are the Online CTC and the activities related to compiling and publishing the Keqiao Textile Indexes. There are also other sectors which help make the cluster grow and function, but the mentioned ones are the major components of Keqiao as an industrial cluster and as a brand. These have formed a complex network, with closely relationship with each other. Some component itself may be a brand, such as CTC, and some may contain many well- known brands. Each of them plays an important role in promoting the Keqiao brand. A model was built to illustrate the cluster and the brand.

With the grounded theory method, with careful analyses of the materials collected, particularly the interviews, a model is constructed to describe the forces which promoted the growth of the cluster. Within the cluster, there are China Textile City as the market and the manufacturing aggregation, and also the other related industries or sectors. The major players of the model are the government, and the two wings of the cluster. The most important player is the government, which is the driving force of the cluster and brand growth. Though it manages the CTC through one of its branches, it promotes the growth of the cluster in three ways and five aspects. The three ways are investment, planning, and policies. The five aspects are infrastructure, growth poles, talents, services, and branding efforts.

With these tools and efforts in these aspects, the cluster has been growing steadily, and the brand equity has been enhanced. There are also interactions among the other players. Based on these, the two models are combined to form a Keqiao model.

Two individual companies were also investigated, and their growth path and their branding efforts were examined. Both companies have gone through stages to grow and develop their brands. They generally follow the principles of branding, such as implementing the marketing programs, paying attention to brand elements, and leveraging secondary associations. They get boost from the growth of the cluster brand, and their developments also help enhance the brand equity of the cluster.

Analyses of questionnaire survey also reveal some interesting patterns. Firms benefit from the cluster in various aspects, including sharing of information, cooperation among the firms, and others. These are in accordance with the findings in the literature. These also imply that the Kerqiao brand helps these constituent brands. The survey results also indicate that the government has been playing a critical role in the growth of the cluster and has rendered various kinds of help to the enterprises, including the improvement of infrastructure, the provision of information, and others. From the results it can be seen that a big percentage of the firms in the cluster has already established their own brands, and those which have not also have the intention to develop their brands. Firms pay attention to branding efforts, and have a clear position in the marketplace. However, there is a lack of strong brands in Keqiao. In terms of SWOT (strengths,

weaknesses, opportunities, threats) analyses, some valuable information is also obtained. Statistical analyses demonstrate that local owners of firms tend to benefit more from the cluster than non-local owners and feel more strongly about government supports, and that the same is also true between manufacturing firms versus trading only firms, and between branded companies versus non-branded companies.

## **8.2 Implications and Recommendations**

These results have implications not only to Keqiao but to other clusters as well. They indicate that industrial clusters do have strong advantages and firms in the clusters enjoy many benefits. Results of this study confirm the conclusions of previous studies in the literature. In particular, the Keqiao model can serve as a guide to decision makers of governments and managers of industrial clusters. For Keqiao itself, the three ways to promote the growth of the cluster have been effective, and other industrial clusters should adopt similar ways. That is, the government should be able to smartly invest when necessary, which can significantly promote the growth of the cluster; should have clearly defined plans, not only short-term, but also mid-term and long-term plans, which are ambitious and realistic, and thus give the enterprises in the cluster a clear direction and motivation; the government should establish various policies and regulations to encourage development in some areas and constrain activities in other areas. The five effort aspects help enhance the brand equity of the cluster. Efforts should be made to improve the infrastructure, both specific for a particular area, such as CTC in Keqiao's case, and also the general environment, such as the general living amenity. Efforts should also be made in finding and cultivating new growth

poles, which should be supplementary and supportive to the functions of the cluster, such as the conference and exhibition sector and the creative industry in Keqiao's case. Measures should be taken to attract talents to settle in the cluster, as talented people are the most valuable assets of a cluster, and conditions should be created for them to exploit their potentials. The government should also provide needed services to the firms in the cluster, such as information provision, training and so forth, and efforts should be made to create public service platforms. And also government should take measures to promote the brand of the cluster so as to enhance the awareness and the image. These findings have universal implications.

### **8.3 Limitations of the Study**

As this is an exploratory study, though efforts were made in various aspects, there are still limitations.

First, even though the study tries to combine qualitative and quantitative methods, it is primarily based on qualitative analyses, as the quantitative analysis, the questionnaire survey, is not sufficient to build a quantitative model. In this sense, the validity of the Keqiao model still needs quantitative proof and verification.

Second, the connection between the qualitative analyses and the quantitative ones is not close. While the quantitative analyses provide supports to the qualitative ones, they are not intimately connected from the same model.

Third, even though efforts were made to approach the interviewees with different

backgrounds to have a full picture of the Keqiao cluster, there is a lot of constraints to this. As the interviewees could only be approached through government branches, they can be biased in many ways, such as the economic performance (those with better performance tend to be selected), economic characteristics (the very small ones, which are the majority of the firms in the cluster, tend to be neglected), attitude (those which have close ties with the government tend to be selected), and so on. Thus, the sampling may not be entirely representative and therefore limit the totality of the study.

Fourth, as government roles and functions are one major topic of the study, which is still quite sensitive in many ways, the opinions expressed may be distorted due to various concerns.

Fifth, related to the above, the sampling of the questionnaire survey is not totally probabilistic, and thus cannot be totally representative either, even though the sample size is reasonable. The distribution of the questionnaires could only be done through the trade association and thus was not entirely under control. Besides, though some influencing factors have been identified, such as local ownership versus non-local ones, manufacturing firms versus trade only ones, and branded companies versus non-branded ones, the profound mechanism which causes the influences were not found.

#### **8.4 Suggestions for Future Research**

Industrial clusters are important economic phenomena, which have significant advantages and make enormous contributions to economic development of the

countries. Industrial clusters of the textile industry in China are an important characteristic of the industry in China, and have become one of important sources of the competitive advantage of China's textile industry in the international market. While the road of individual clusters may be up and down, as a whole industrial clusters in China will grow both in quantity and quality. Many of them, such as Keqiao, will definitely go through the process of transformation and upgrading.

With such background, the objectives of the study are worthy ones and the study will have both academic and practical implications. Some suggestions can be made for future studies when they take similar approaches to this one.

First, it would be better for both the quantitative analyses and qualitative analyses to be conducted under a synergic model. The model should guide the collection of data in both kinds of analyses. In this way the two kinds of analyses can be truly supportive and supplementary to each other.

Second, even though the relationships were examined and described between the various components, these were not quantified. In particular, in the brand model the functions of the government and the impacts of its various activities and measures, such as investment as a measure and infrastructure as an aspect, these were not quantified either. In the future, efforts should be made to design methodology which can measure and quantify all of these.

Third, some factors which cause the differences in attitudes of the respondents, such as local ownership and so on, are worth being further pursued, and the mechanism which causes the differences should be examined, and policy implications should be analyzed.

Fourth, efforts should be made to collect statistical data for the entire cluster over the years and appropriate analyses on these data should be conducted. These data and analyses should be related to the model.

## APPENDIXES

### Appendix 1

#### Questions about Keqiao as a Brand 关于柯桥作为品牌的一些问题（政府用）

The purpose of the interview is to analyze the experiences of Keqiao as a brand so as to promote its further growth. In answer to all of the questions it would be ideal to have some numbers (the more precise, the better), cases and stories.

此次访谈的目的是总结柯桥作为品牌的经验，促进其进一步发展。在探讨这些问题时最好有数字（越精确越好），案例和故事。

#### I. About Interviewee 关于被访者

1. Self-introduction: name, position, experience 是否介意简单的自我介绍：名字，职务，经历

#### II. The Keqiao Experience 柯桥经验

1. How has Keqiao grow, what are the milestones 柯桥是怎样成长的，有哪些里程碑式的事件
2. What conditions help Keqiao grow 有哪些条件帮助柯桥成长
3. In what aspects does the government play a role 政府在哪些方面发挥作用
4. In what critical moments has the government made important decisions, what are the situations and the decisions 政府在哪些重要时刻做出重要决定，当时什么情况，做出何种决定
5. Have there been any decisions which should be made differently 是否有好的决策，回头看可以做得更好些
6. What is the role of the market 市场发挥了什么样的作用

#### III. Efforts for Developing Keqiao as a Brand 为柯桥品牌所做的努力

1. Who is making efforts to develop Keqiao as a brand (management, government, any particular office or personnel) 谁在为柯桥作为一个品牌而努力（管理部门，政府，具体机关，个人）
2. What efforts have been made to develop Keqiao as a brand 为发展柯桥品牌做了什么样的努力
3. Various aspects of branding (name registration, logo, slogan, spokesperson, secondary association, etc.) 品牌元素（名称注册，logo，口号，代言人，次级联系等）
4. What plan is there to further develop Keqiao as a brand 有什么进一步发展柯桥品牌的计划

#### IV. Keqiao and Its Constituents 柯桥和它的成员品牌

1. How has Keqiao helped its constituent brands grow 柯桥如何帮助它的成员品牌发展



2. In what aspects has Keqiao helped its constituent brands 柯桥在哪些方面帮助了它的成员品牌
3. How have the constituents helped Keqiao grow 柯桥的成员品牌如何帮助柯桥发展
4. What are the ways Keqiao and its constituents are connected 柯桥和它的成员品牌怎样联系
5. What plan is there to seek mutual growth of Keqiao and its constituents 有什么促进柯桥和它的成员品牌共同发展的计划

#### **V. SWOT Analysis SWOT 分析**

1. Strengths 优势
2. Weaknesses 弱势
3. Opportunities 机会
4. Threats 威胁
5. How to deal with the SWOT 如何强化优势，消除弱势，利用机会，避免威胁

#### **VI. Others 其它**

1. Can I come back to you for more questions 如果我有其它问题，可以再回来麻烦您吗
2. Would you recommend someone else who is knowledgeable about these and whom I can talk to 您能否帮我推荐其他了解这些情况的人
3. Would you suggest some relevant sources of information, such as articles, books, documents, etc. 您能否推荐一些相关的信息来源，譬如文章，书籍，文件等。

**Thank you so much! 十分感谢!**

### Questions about Keqiao as a Brand 关于柯桥作为品牌的一些问题（公司用）

The purpose of the interview is to analyze the experiences of Keqiao as a brand so as to promote its further growth. In answer to all of the questions it would be ideal to have some numbers (the more precise, the better), cases and stories.

此次访谈的目的是总结柯桥作为品牌的经验，促进其进一步发展。在探讨这些问题时最好有数字（越精确越好），案例和故事。

#### I. About Interviewee 关于被访者

1. Self-introduction: name, position, experience 是否介意简单的自我介绍：名字，职务，经历
2. Brief introduction of your company: products, rough output, employees 公司简介：产品，大概产值，大概人数

#### II. The Keqiao Experience 柯桥经验

1. How has Keqiao grow, what are the milestones 柯桥是怎样成长的，有哪些里程碑式的事件
2. What conditions help Keqiao grow 有哪些条件帮助柯桥成长
3. In what aspects does the government play a role 政府在哪些方面发挥作用
4. In what critical moments has the government made important decisions, what are the situations and the decisions 政府在哪些重要时刻做出重要决定，当时什么情况，做出何种决定
5. Have there been any decisions which should be made differently 是否有好的决策，回头看可以做得更好些
6. What is the role of the market 市场发挥了什么样的作用

#### III. Keqiao and Its Constituents 柯桥和它的成员品牌

1. How has Keqiao helped your brands grow 柯桥如何帮助贵公司品牌发展
2. In what aspects has Keqiao helped your brands 柯桥在哪些方面帮助了贵公司品牌
3. How has your brand helped Keqiao grow 贵公司品牌如何帮助柯桥发展
4. What are the ways Keqiao and your brand are connected 柯桥和贵公司品牌怎样联系
5. What do you want the most from Keqiao (government) 贵公司最希望柯桥政府的是什么

#### **IV. SWOT Analysis SWOT 分析**

1. Strengths 柯桥的优势
2. Weaknesses 柯桥的弱势
3. Opportunities 柯桥的机会
4. Threats 对柯桥的威胁
5. How to deal with the SWOT 柯桥如何强化优势, 消除弱势, 利用机会, 避免威胁

#### **V. Others 其它**

1. Can I come back to you for more questions 如果我有其它问题, 可以再回来麻烦您吗
2. Would you recommend someone else who is knowledgeable about these and whom I can talk to 您能否帮我推荐其他了解这些情况的人
3. Would you suggest some relevant sources of information, such as articles, books, documents, etc. 您能否推荐一些相关的信息来源, 譬如文章, 书籍, 文件等。

**Thank you so much! 十分感谢!**

## 关于柯桥品牌的调研

香港理工大学纺织及制衣学系（ITC）进行的此次调研，目的是总结柯桥作为品牌的经验，促进其进一步发展。请您尽量完成此份问卷的所有问题（正反两面），争取在2015年12月31日前交回于本地指定机构或负责人，或者扫描后发送至 [nicy.luo@](mailto:nicy.luo@)。此问卷所收集的信息仅用于科研，所有信息将被严格保密。谢谢！

## I. 关于贵公司

1. 贵公司的主业是（请画圈，可选多项）
  - 生产与销售：a.纱线      b.面料      c.纺织品      d.印染      e.服装
  - 只从事销售：a.纱线      b.面料      c.纺织品      d.服装
2. 贵公司去年的总销售额是人民币 \_\_\_\_\_ 万元。
3. 贵公司的总雇工是 \_\_\_\_\_ 人。
4. 贵公司的产品从销售额来说，大约有 \_\_\_\_\_ % 为内销，\_\_\_\_\_ % 为出口。
5. 贵公司成立于 \_\_\_\_\_ 年，于 \_\_\_\_\_ 年入驻柯桥。
6. 贵公司总部是否位于柯桥（请写是或否）：\_\_\_\_\_。
7. 公司老板是否柯桥本地人（请写是或否）：\_\_\_\_\_。
8. 贵公司是否拥有自己的品牌（请写是或否）：\_\_\_\_\_；如果没有，是否准备尽快创建自己的品牌（请写是或否）：\_\_\_\_\_。

## II. 表示你对下面这些句子同意或者不同意的程度，请在合适的方格打钩：

（1：非常不同意； 2：不同意； 3：中立； 4：同意； 5：非常同意）

		1	2	3	4	5
1	作为柯桥的商家比较容易得到客户的信任。					
2	公司处在柯桥比较容易得到客户。					
3	柯桥的厂商之间彼此有很多合作。					
4	在柯桥，我们经常有机会和同业们交流信息。					
5	我公司的多数供货商都在柯桥。					
6	在柯桥比较容易知道市场趋势。					
7	在柯桥比较容易知道什么产品比较流行。					
8	在柯桥比较容易知道正在兴起的新技术。					
9	公司处在柯桥相对比较容易得到贷款。					
10	在柯桥比较容易招到合格的员工。					
11	在柯桥做生意，物流成本相对较低。					
12	在柯桥安排运输比较容易。					
13	在柯桥安排仓储比较方便。					
14	在柯桥做生意，与上游（即供货商）和下游（即客户）联系比较方便。					
15	中国轻纺城作为一个品牌，有助于柯桥的企业做生意。					
16	在柯桥的这些年，我公司有比较快的发展。					
17	如果不是在柯桥，我公司的发展可能会慢一些。					

18	我们比较关注轻纺城发布的柯桥纺织指数。					
19	柯桥的厂商之间竞争非常激烈。					
20	在柯桥做生意，营业成本太高。					
21	遇到经营方面的困难，我们愿意向政府有关部门反映。					
22	在柯桥，公司有渠道向政府部门反映自己的困难和需求。					
23	在大环境不利的时候，柯桥政府会采取措施，帮助厂商解决困难。					
24	柯桥政府在国内和国外的城市宣传推广轻纺城，对厂商的生意很有帮助。					
25	柯桥政府努力改善柯桥的营商环境。					
26	柯桥政府注重听取厂商的意见。					
27	柯桥政府为当地的厂商提供了较好的硬件环境。					
28	柯桥政府为当地的厂商提供信息。					
29	柯桥政府设法为当地的厂商解决贷款的困难。					
30	在柯桥，有比较有利于厂商做生意的政策环境。					
31	柯桥政府注重培育当地的企业品牌。					
32	没有柯桥政府多年来的举措和努力，就没有柯桥的今天。					
33	柯桥政府做了很多工作，帮助当地厂商做生意。					
34	在柯桥举办的各种展会对开拓厂商的业务很有帮助。					
35	作为柯桥的厂商，我公司得到来自政府方面的帮助。					
<b>注意：如果贵公司有自己的品牌，请如上回答以下问题；如果没有自己的品牌，则不需要回答</b>						
36	我公司十分重视品牌建设。					
37	我公司对自己品牌有比较明确的定位。					
38	我公司制定了品牌发展的战略。					
39	我公司有专人负责品牌的建设和管理。					
40	我公司采取措施推广自己的品牌。					
41	我公司的品牌建设进展比较顺利。					
42	我公司的品牌在国内有较高的知名度。					
43	柯桥的地利有助于我公司品牌的发展。					

### III. 请用几个字简单回答下述问题：

1. 你认为贵司落户柯桥做生意最大的好处是什么：

\_\_\_\_\_

2. 你认为柯桥政府对本地厂商最大的帮助在于：

\_\_\_\_\_

3. 你觉得柯桥政府应该做什么事情，最可以帮助本地品牌发展：

\_\_\_\_\_

4. 你感到柯桥最大的优势是：

\_\_\_\_\_

5. 你感到柯桥最大的弱势是：

\_\_\_\_\_

6. 你觉得柯桥目前最该抓住的机会是：

\_\_\_\_\_

7. 你觉得对柯桥目前最大的威胁是:

\_\_\_\_\_

8. 贵公司感到当前在经营方面最大的困难是:

\_\_\_\_\_

9. 柯桥各政府部门中对贵司帮助最大的是哪个部门(请画圈,可多选或是填写),并写出在哪方面:

a) 轻纺城管委会

b) 财政局

c) 科技局

d) 人社局

e) 经信局

f) 其它部门,请写出\_\_\_\_\_

在哪方面: \_\_\_\_\_

\*\*\* 结束,谢谢! \*\*\*

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