Reverse Overseas Purchasing Model for SMEs in Garment Industry of China

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Abstract. In recent years, e-commerce develops rapidly in China, which has established convenient platform to overseas purchasing business. Generally speaking, overseas purchasing contains two ways: one is the traditional overseas purchasing, referring to Chinese consumers buy foreign commodities through individuals who provide overseas purchasing service and internet website; another emerging way is that foreign customers buy Chinese commodities through internet website, which can be termed as reverse overseas purchasing compared to the first way. In this paper, we analyze several reverse overseas purchasing models in China. Taking garment industry as an example, this study shows how to explore global market through e-commerce platform like Taobao especially for Chinese small and medium-sized enterprises (SMEs) which are very difficult to implement international strategy by themselves.

1. Introduction

In China, the widely application of internet technology as well as the numerous e-commerce companies have provided various channels for Chinese customers to purchase any commodity they need. For example, due to the high tariff and unsatisfied food safety, recently overseas purchasing in China has become much popular, especially including luxury, cosmetics and infant milk powder. Generally speaking, overseas purchasing contains two ways: one is the traditional overseas purchasing, referring to Chinese consumers buy foreign commodities through individuals who provide overseas purchasing service and internet website; another way is that foreign customers buy Chinese commodities through internet website, which can be termed as reverse overseas purchasing compared to the first way. According to the statistical data, the scale of overseas purchasing is more than 70 billion RMB in 2013 and more than 150 billion RMB in 2014 [1].

There are many industries in China with strong international competitiveness such as garment industry which is known as excellent quality as well as comparatively low price. However, many garment SMEs are facing with fierce competition in domestic market. Since garment is a fashionable and personality industry, how to make use of their flexible advantages on design and production to enter oversea market has become a new strategy for their sustainable development. Business models have increasingly been a hot topic in management domain [2]. Teece (2010) argued that business models are strategic management tools which visualize a company’s key activities, resources, competencies, processes, and structure in a simplified manner, creates value and delivers it to customers [3]. Wirtz (2016) indicated that business model innovation describes the design process for giving birth to a new business model, which is accompanied by an adjustment of the value proposition and aims at generating or securing a sustainable competitive advantage [4]. Therefore, business model innovation (BMI) plays an important role in survival and growth of enterprises [5]. Here we suggest that reverse overseas purchasing, initially created by an overseas purchasing website named Panli in 2005, can be considered as a business model innovation for Chinese SMEs.
In this paper, firstly we discuss the current business models of Chinese garment SMEs and then develop three reverse overseas purchasing business models to show how SMEs can implement their global strategies through e-commerce platforms.

2. Business Models of SMEs in Chinese Garment Industry

In the first half of 2016, the total export of Chinese garment industry reached more than $1065 hundred million, showing a decline of 5.15% from the previous year [6]. The proportion of SMEs in foreign trade has been decreasing from 71.5% in 2011 to 67.91% in 2013 [7]. The popularity of e-commerce makes it hard to survive for some SMEs that still rely on traditional marketing strategies.

In the era of e-commerce, consumers have gradually been familiar to online shopping. By the end of 2015, the number of online shopping customers in China had reached 413 million RMB, showing an increase of 14.3% from the previous year [8]. The popularity of smart phones and other mobile devices motivates enterprises to explore new e-commerce model. The main online marketing models in Chinese garment industry contain online to offline (O2O) and business to customer (B2C).

O2O is designed to combine online and physical stores. Merchants usually use online advertising to attract consumers to visit physical stores. After visiting physical stores, consumers can purchase commodities online and receive the commodities or service at physical stores. Through this marketing strategy, merchants collect information about consumers from online platforms in order to precisely categorize consumers, better control costs and comprehensively improve marketing strategy. Providing integrated consuming experience can be seen as the core value of this marketing strategy.

B2C platforms have become a major engine of growth in Chinese garment e-commerce. These platforms act as bridges between enterprises and customers. Enterprises deliver product information and sell commodities through B2C platforms. Customers browse product information and finish payment depending on Internet and other electronic tools. Commodities are sent through express after consumers finish payment. In Chinese online shopping market, the proportion of B2C model reached 51.9% in 2015 with an increasing of 6.7% from the previous year [9].

Since the rapid development of e-commerce and limited demand of customers, SMEs of garment industry are confronted with intense competition in domestic market. The serious issues of inventory resulting from the fierce competition cause much trouble for SMEs. As of April 5, 2016, the total inventory of 32 listed enterprises of textile and garment in China from 2011 to 2015 were 18,588, 19,349, 20,259, 21,051 and 22,209 billion RMB, respectively [10]. Some SMEs are forced to conduct underselling, which exerts negative influence on brand images and reduces the profit of enterprises. Therefore, it is necessary to explore new market for SMEs to survive.

3. Reverse Overseas Purchasing Business Model

SMEs are important support to national economy due to their contributions on both employment and products variety. Compared with large firms, SMEs have used focused strategy, exploring niche market to provide differential clothes. Kim and Mauborgne (2005) pointed out that SMEs should escape from red sea and explore blue ocean [11]. Here the red ocean represents the known and saturated market where the competition is considerably fierce and the demand of customers is limited; blue ocean represents the unknown and emerging market where competition doesn’t exist [12]. The essence of this strategy is value innovation. It’s far different from the traditional development theory of SMEs and provides enterprises with new strategic perspective to get sustainable profit space.

Chinese garment industry has comparative advantages including abundant labor resource, superb processing technology and so forth. Since the reasonable price and unique cultural connotation, Chinese garments have become popular with overseas customers. However, the language barrier between Chinese sellers and foreign customers makes much trouble for transactions. In the
following section, we will analyze three reverse overseas purchasing models which focus on solving language barrier relying on some support from online shopping platforms, purchasing agency platforms and corporate websites.

3.1 Online shopping platforms

Currently, some shopping platforms in China like Aliexpress have been designed with English version. Nevertheless, there is still some communication barrier between overseas customers and sellers. A kind of language translation tool which can be embedded in online shopping platforms will perform pretty well in interpreting in real time across a number of languages. This language translation tool also supports audio translation for English, French and so on. Once foreign customers send message to Chinese sellers, the tool will instantly translate the message into Chinese. Similarly, Chinese message will be translated into other languages and deliver to foreign customers. The original meanings will be translated almost in full and native speakers can easily understand them. By embedding this translation tool, sellers can better understand foreign customers’ demand, meanwhile, foreign customers can acquire detailed information about commodities. Online shopping platforms are crucial partners as well as stakeholders of enterprises in transactions and these platforms will charge for using this language translation tool. The online shopping platform service model is designed in Fig. 1. Through applying this model, foreign customers can directly purchase Chinese garments on online shopping platforms and contact with sellers for solutions of after-sales service.

3.2 Purchasing agency platforms

The second way which can solve language barrier in transactions is to turn to purchasing agency platforms. In recent years, reverse overseas purchasing business develops rapidly in China. Some purchasing agency platforms like Panli, Skyany and Ecward are known for providing good reverse overseas purchasing service. This paper proposes purchasing agency platform service model shown in Fig. 2. Firstly, foreign customer sends the website link of desired commodities to customer service representative on purchasing agency platform which is skilled in communication with English. Customer needs to pay the price of commodities, express fee, customs clearance fee and service fee to purchasing agency platforms. Secondly, the representative purchases the commodities on online shopping platforms according to customer’s demand and website link and seller sends the commodities to purchasing agency platform. Finally the commodities will be inspected and mailed to foreign customers. After receiving the commodities, customers can contact the representative on purchasing agency platform if there is need to change or return commodities and the representative will contact with sellers for solutions of after-sales service. All these contributions of purchasing agency platforms include purchasing commodities, inspecting and mailing parcels and offering help for after-sales service which make it convenient for foreign customers to get Chinese garments.

Figure 1. Online shopping platform service model.

Figure 2. Purchasing agency platform service model.
3.3 Corporate websites

Building corporate website with English version is an effective way to solve language barrier in transactions. Through browsing corporate websites, customers can understand corporate culture and value proposition of SMEs. Foreign customers can directly purchase garments on corporate websites with the help from customer service representative which has a good command of English. Through transactions and after-sales service, SMEs can collect information about foreign customers and maintain good relationship with them. Such a large volume of customers’ information will guide production and decision-making. Therefore, building corporate website will help achieve win-win situation.

4. Conclusion

The dynamic nature and complex business environment have placed SMEs at a challenging position and how to solve the problem about SMEs’ development in China has increasingly been discussed in management research. The issues of inventory reflect the real development situation of Chinese market in recent years which is characterized by fierce competition. It is essential to explore new business models for SMEs to survive.

Compared with traditional O2O and B2C business models, this study points out feasible models for SMEs aiming to settle the language barrier between foreign customers and Chinese sellers, especially via language translation tool, purchasing agency platforms and corporate websites. We analyzed the current marketing models of SMEs and discussed the problems that Chinese garment SMEs faced with. Three reverse overseas purchasing business models were proposed for SMEs to implement their global strategies through e-commerce platforms. Hopefully, this study will guide Chinese SMEs go to overseas market and benefit from international business. We believe that through business model innovation, Chinese SMEs have ability to pave the way for sustainable development through all possible and available ways at the era of e-commerce.

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References


