

Study on the Strategic Development of Foreign Manufacturing Industry Under the Chinese Fad

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ABSTRACT

After the trade war between China and America and the covid-19, there is a Chinese fad rise in China's economy. The rise of fad is because the trade war and covid-19 build strong confidence of Chinese people. Chinese people begin to buy the goods produced by their own countries. This makes it a foreign company harder to survive in the Chinese market. This paper analyses the strategy of the company in the foreign manufacturing industry by using 3 company Apple, Nike and HM as representees. This paper uses the SWOT model to analyse the data from the company's financial report and the Authoritative data library on the internet and finds out the effect of Chinese fad on the foreign manufacturing companies' strategy, and follow the changes in their company strategies, it also gives out the references to other companies on how to face the Chinese fad condition and affect their company strategies. This paper aims to provide suggestions of the future strategy development to the foreign manufacturing company as well as provide reference for other company's strategic change.

Keywords: manufacturing, Chinese-fad, strategic, SWOT analysis

1. INTRODUCTION

During the year 2021, after the coronavirus, due to the nervous relationship between America and China, and the sequence of the event like Xinjiang cotton banned, there is a strong confidence of Chinese people in their own country. Therefore, there is a Chinese fad rise. Chinese people began to focus on their own countries' products and services. This increases the difficulties of foreign manufacturing to survive in-country and affects their operating model. This paper is based on the historical data of the leading company of the industry such as Nike, Apple, and H&M to analyze the changes in strategic development of foreign industry under the Chinese fad. The paper is to provide an reference for other company's strategic change.

Chinese fad means the Chinese people become less willing to buy foreign service goods, instead, they are willing to buy the goods and services that are produced or manufactured from their own country. The rise of the Chinese fad is because the spending power of Chinese people continues to rise, and the enhancement of cultural confidence after the coronavirus and the deteriorate relationship between China and America.

Chen Fei, School of Politics and Public Administration, Soochow University used the swot analysis to analyse the operating strategy of a foreign sporting Goods Company in China [1]. In this paper, the swot analysis is used to analyze the strategic changes of three foreign manufacturing companies (Apple, H&M, and Nike) after the Chinese fad.

Nike is an shoes and apparel company, they focus on design and developed a variety of sports products for children, women, and men. 60% of the company's sales are outside their host country—the USA. Their retail store is more than 1090 worldwide. They receive 40% of the total revenue from North America. Apple is the company that manufacturing product and service which includes iPhone, Mac book, iPad, apple store, and so on. They have their own IOS system. About 55% of apple's income does not come from its host country USA. China contributes 15% of apple's revenue. Most of their major product is directly provided to the consumer. And their total sales increased 6% in 2019 [1]. H&M is a recognizable brand in the fashion industry. It has more than 4,000 stores worldwide and plans for 7,000 to 8,000 stores in the future. Their main product is cloth, shoe bags, and so on which designed for children, women, and men. Their revenue for 2019 is 232,755 million which increased 10.6% compared to 2018 [2].

2. SWOT ANALYSIS OF THE COMPANIES

2.1. SWOT analysis of Nike company

2.1.1. Strengths

Nike has a huge market; they have millions of customers all around the world and very loyal to Nike. It is a huge company so they can produce goods with low manufacturing cost.

Nike is one of the world-famous shoemakers and one of the world's largest suppliers of athletics and sporting goods, Nike possesses 31% of the global athletic market. Their designed various for different types of sport's Sporting goods. The company is keen to support a sustainable economy. The CEO of Nike has paid lots of attention at protect the environment. Nike did lots of charity, for example, it recently made a charity project called "just forward" which helped lots of Children. They have made a good relationship with famous athletic---Michael Jordan and designed the first shoes for him. The company has Superior Marketing Capabilities and also sells goods on social media. Nike is good at making the highest-level sponsorship for major international events which lets them only need to spend little money to propaganda its products.

2.1.2. Weakness

Some people deem Nike paid little money to the laborers they hire and let them work in bad conditions and use child labor. And paid more to men for the same work. Almost 60-70% of Nike's stocks are held directly by retailers, which made Nike highly relied on retailers. The company still has lots of debt. 42% of Nike's sales come from the USA which means they highly depend on the American market.

2.1.3. Opportunities

Nike can get more opportunities in foreign countries like China, India, Brazil, those kinds of countries begin to flourish. Also, Nike could have a better relationship with the global market or huge global sailing companies like Walmart. They can design more new types of products, for example, combined technology with their product. They have enough capacity to develop this thing. Or they even can develop different kinds of products such as sunglasses, jewelry for sports, etc. Nike's supply of products depends on independent manufactory, they can combine those things and make their production more profitable. Nike can develop its business more with the online market, or make a better relationship with Taobao, eBay.

2.1.4. Threats

There are more and more counterfeit products in the world which are cheaper and almost looks same as Nike, Those kinds of the product take over the customer of Nike, or there are lots of low-quality product that have the sigh of Nike, those products may cheat the customer and make the customer think the Nike has bad quality There are more and more emerging athletics brands that have a more interesting design idea and threats Nike. Other athletics brand like Adidas or puma spends more money on advertising their brand, which let the customer know their brand more. The USA economy is not so stable and the currency foreign exchange rate also very fluctuate, they also have a quite huge market from other countries as well as have lots of factory outside the country, so its revenue is influenced by other currency very much.

2.2. SWOT analysis of Apple company

2.2.1. Strengths

Apple's product has a unique design, and Apple has created an Apple ecosystem. They have developed a variety of products and services which satisfied the use of different people. The company developing the hardware, software, and service by themselves, so they are self-sufficient. They created a brand image; people deem Apple's product as a luxury good. So, people are willing to buy it even when its price is higher because they believe Apple represents wealth. Because they have brand recognition, they could attract new customers easily and building brand loyalty. The company also has a strong financial position, in 2019, it generates a revenue between \$85.5 billion and \$89.5 billion.

2.2.2. Weakness

Apple's products are too expensive, people have to pay a lot for their log, this may push lots of people off. Apple's product and software are also exclusivities, this also makes customer feels bad by apple's product, and stop using it. Apple's product also lacks innovation, their design looks almost the same sense it being developed. It also has an unstable phone sale; the net sale of Apple dropped a bit from the year 2018 to 2019. Apple is already selling lots of products, like iPhone, iPad, watch and so on, it is really hard for them to sell beyond those products. There are a lot many consumers worried about the tracking function in apple's product which let means apple could track the location that consumers have been.

2.2.3. Opportunities

Apple is a leading company in the phone industry because it has strong technology, and a traditional and trustworthy reputation, they make them could keep a steady growth of customers. Due to the digital revolution,

more and more people demand electronic devices which bring them more customers. Because the globalization, apple could sell their product to the world which increased their market's size. They are also developing artificial technology and self-drive technology which might increase their revenue for the future. They did not use green technology to developing their product, so it might be helpful for future development.

2.2.4. Threats

There are so many companies in the world that developing the smartphone with high innovation and low price. This might affect the amount of customer apple have. The unstable currency exchange rate might also threaten the multinational company Apple. It will be hard for Apple to penetrate the market as the company Huawei and Samsung has developed the lasted product. Apple only has 26.46% of the market share by the data from Statcounter, but Samsung got 28% of the market share. As the governed regulation on the technology industry

become more and more Stricker, apple may affect by those regulations in the future.

2.3. SWOT ANALYSIS OF HM COMPANY

2.3.1. Strengths

HM has a great range of products, they sell cloth, shoes, candle to woman, men and children, these means they could bear the risk easily. They also have a greater range of stores worldwide. In the year 2020, they already have 4,492 shops in 74 markets 6 continents worldwide. They also sell their product at a competitive price, and often offer discounts. They also create a strong brand identity, and they have a variety of brands that target a variety of customers. They also have a strong online system that could sell their product worldwide through the internet. They produce their product with a high-efficiency supply chain and connect to the consumer effectively. They also have a growing financial situation with growing revenue.

Table1. Market share of the competitor of HM [9]

BRAND	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2019	NUMBER OF MARKETS WITH STORES	NUMBER OF MARKETS WITH ONLINE
H&M	59	4,492	74	51
COS	21	291	44	22*
WEEKDAY	16	54	14	19*
MONKI	3	130	19	19*
H&M HOME **	3	11	51	42
<i>& other Stories</i>	1	71	20	22*
ARKET	4	20	7	19*
AFOUND	2	7	1	2

* Global selling: since the end of 2019 customers in around 70 new markets are able to shop online at COS, Weekday, Monki, & Other Stories and ARKET. The exact number of markets per brand that have this new service varies.

** Concept stores. H&M HOME is also included with shop-in-shop in 383 H&M stores.

This list of the Table 1 shows the increasing number of stores of HM group. It can be seen that the number of stores of HM group has increased 109 in year 2019. And HM group has a total 5076 store in 2019. They have total of 230 markets with stores. And they have 177 markets with on-line store. H&M has the highest market shares of HM group.

2.3.2. Weakness

HM is over depend on outsourcing, over 25% of HM's product is coming from out sourcing, which makes the quality of their product hard to control. As they have lots of competition, it might affect their profit if there is another factor like deflation and the fluctuation of currency as it is a worldwide business. In the past 5 years, although the sales increase, the profit is decreasing.

Some people concern that HM's ideas come from other big fashion brands, and they believe it is unethical.

Table 2. Operation of HM [10]

FINANCIAL YEAR	2019	2018	2017	2016	2015
Net sales, SEK m	232,755	210,400	200,004	192,267	180,861
Operating profit, SEK m	17,346	15,493	20,569	23,823	26,942
Operating margin, %	7.5	7.4	10.3	12.4	14.9
Operating cash flow per share, SEK	1751	12.86	13.04	14.36	14.54
Return on equity, %	23.3	21.4	26.8	31.2	38.1
Equity/assets ratio, %	47.4	49.3	56.0	62.1	67.6
Average number of employees	126,376	123,283	120,191	114,586	104,634

From Table 2, the net sales of HM keeps increasing

since year 2015. In 2019 it has the net sales of 232,755 million dollars. It has a quite fluctuate operating profit, operating margin, operating cash flow return on equity, and it might depends on variety of factor. However, as its average number of employee keeps increasing, this could also shows that it has an increasing number of employees.

2.3.3. Opportunities

An increase in globalization helps HM to sell their product worldwide, they could sell their product to other countries with different climates and cultural styles. And there is also a lot of emerging market for them to sell product and increase their customer and profit. The brand also used mergers and strategic alliances to create a larger barrier to market entry. Because they are big, they could access raw material easily. HM has a growing market sales as they said in their annual report. The growth of the trend of online shopping could make them sell their product on the internet much easier. They also respect consumer rights as they always offer the consumer a reasonable price with reasonable qualities.

2.3.4. Threats

HM face and strong growth rate of competitors like Zara and Gap, and there is an increase in counterfeit in the market globally, this might decrease their net sales a little bit. Due to the development, there is an increase in the cost of production like the cost of raw material and labor cost.

The unstable currency and inflation rate worldwide will also increase their risk of revenue receives. There is also an increasing rate of fashion changing, so it will be much harder for them to catch the fashion trend.

3. STRATEGIC CHANGES SINCE THE CHINESE FAD

After the Chinese fad, as more and more people in China decide to stop buying foreign products, Chinese people begin to have a negative attitude on foreign products. This deteriorates the company's brand image that they previously they create. The Chinese government also begin to increase the restriction of imports and tariffs and make them sell their product in the Chinese market harder.

3.1. Nike's strategic changes

6208 million dollars of Nike revenue is coming from china, and a sudden decrease in demand of the market will lead to a sudden decrease in the sales of the company. In the short run, it does not affect Nike's revenue a lot, but this would be a threat to Nike company. As the Chinese fad begins, it is more difficult for Nike to sell their product on the Chinese internet—Taobao, and this will affect their internet selling revenue. As the company still has lots of debt, the Chinese fad might be a threat to the company's finances.

Table 3. Operation of Nike [11]

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES ⁽¹⁾	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES ⁽¹⁾
North America	\$ 14,484	\$ 15,902	-9 %	-9 %	\$ 14,855	7 %	7 %
Europe, Middle East & Africa	9,347	9,812	-5 %	-1 %	9,242	6 %	11 %
Greater China	6,679	6,208	8 %	11 %	5,134	21 %	24 %
Asia Pacific & Latin America	5,028	5,254	-4 %	1 %	5,166	2 %	13 %
Global Brand Divisions ⁽²⁾	30	42	-29 %	-26 %	88	-52 %	-53 %
TOTAL NIKE BRAND	35,568	37,218	-4 %	-2 %	34,485	8 %	11 %
Converse	1,846	1,906	-3 %	-1 %	1,886	1 %	3 %
Corporate ⁽³⁾	(11)	(7)	—	—	26	—	—
TOTAL NIKE, INC. REVENUES	\$ 37,403	\$ 39,117	-4 %	-2 %	\$ 36,397	7 %	11 %

Table 3 shows that the profit from North America and Europe decreases from 2019 to 2020. However, the dollar Nike gained from China keeps increasing, this shows that the Nike group might originally want to gain more profit from China. What's more, because of the revenue that Nike gained from America and Europe is decreased, their total revenue is also decreased from 2019 to 2020. So if they want to increase their revenue, it might be really important for them to enlarge the market share of China, which shows that developing Chinese market is really important for them. However, as Chinese fad begin to increase, a decrease market share of Chinese market will definitely be a threat for them.

3.2. Apple company's strategic changes

Apple's revenues drop from 51,942 to 40,308 after the Chinese fad. The Chinese fad break their brand status and decreased their product's value as the value create by their brand reputation decreased. People begin to buy the phone of another brand because apple's product is not worth as much as before. Chinese fad makes their business in the greater china area harder, and it might be harder for them to sell their product through Chinese platforms.

Table 4. Apple's 2020 financial report [12]

	2020	2019	2018
Americas:			
Net sales	\$ 124,556	\$ 116,914	\$ 112,093
Operating income	\$ 37,722	\$ 35,099	\$ 34,864
Europe:			
Net sales	\$ 68,640	\$ 60,288	\$ 62,420
Operating income	\$ 22,170	\$ 19,195	\$ 19,955
Greater China:			
Net sales	\$ 40,308	\$ 43,678	\$ 51,942
Operating income	\$ 15,261	\$ 16,232	\$ 19,742

Table 4 shows that the net share of America and Europe market keeps increasing. However, the market share of China's market is decreasing. However, as they predict, the increase of Chinese people's purchasing power would increase the net sales of Greater China's. Because the new sales decrease, the market might not performed well as they predict, this might be an threat for them.

As most of HM's production comes from Asia--China, the Chinese fad makes them sell their product on their production place harder, and this might increase their transportation cost and affect their revenue. The following is its 2020 revenue report, 5.2% of its total sales is coming from China, it is also one of the large scales of the company's product. After the Chinese fad, the net sale decreased from 12,059million to 9748million, this also affects their total revenues also.

3.3. HM company's strategic changes

Table 5. Apple's 2019 financial report [13]

MARKET	NET SALES 2019 (SEK M)	NET SALES 2018 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2019	MARKET	NET SALES 2019 (SEK M)	NET SALES 2018 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2019
China*	12,059	10,743	-10	520	Georgia	120	102	1	3
Hong Kong*	1,448	1,502	-1	26	Ukraine	224	57	1	3
Japan*	4,987	4,573	14	105	Uruguay	332	64	2	3
Russia*	6,852	5,737	8	147	Bosnia-Herzegovina	32		1	1
South Korea*	2,213	1,957	7	53	Belarus	15		2	2
Turkey*	2,797	2,852	-2	66	Franchise** and other	5,711	5,620	17	272
Romania*	2,642	2,299	1	57	Total	232,755	210,400	108	5,076

Table 5 shows the different sales of the market of Apple. As the table shows China has the net sales of

12,059 million dollars in 2019. The Hong Kong market shares decreased from 1502 million to 1448 million, which occupied a huge part of Apple's market share.

Table 6. 2020 annual report [14]

MARKET	NET SALES 2020 (SEK M)	NET SALES 2019 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2020	MARKET	NET SALES 2020 (SEK M)	NET SALES 2019 (SEK M)	NEW STORES (NET) DURING THE YEAR	NUMBER OF STORES 30 NOV 2020
China*	9,748	12,059	-15	505	Georgia	98	120		3
Hong Kong*	933	1,448	-2	24	Ukraine	235	224	2	5
Japan*	4,333	4,987	10	115	Uruguay	261	332		3
Russia*	6,226	6,852	8	155	Bosnia-Herzegovina	32	32		1
South Korea*	2,091	2,213	2	55	Belarus	73	15	1	3
Turkey*	1,925	2,797	-7	59	Franchise and other**	4,833	5,711	-3	269
Romania*	2,116	2,642		57	Totalt	187,031	232,755	-58	5,018

This diagram in Table 6 shows that the Apple has a decreased number of China mainland's market share from 12059 in 2019 to 9748 in 2020. The Hong Kong market has decreased from 1448 in 2019 to 933 in 2020. 15 stores decreased in mainland China and 2 stores decreased in Hong Kong. This shows the Chinese fad has affected Apple a lot.

4. SUGGESTIONS ON BUSINESS LAYOUT IN NEW SITUATIONS

Chinese fad affect the foreign manufacturing industry a lot, if the foreign company wants to deal with those new threats and weaknesses caused by Chinese fad, they have to reconstruct their brand image and positioning, they may also need to cut the price and be more innovative and elevate their product's quality.

Reconstruct the brand image as a culture respect brand. With the new culture respect image of the company, people will think the company respects their countries' culture. Under the Chinese fad condition, people are more willing to buy the brand related to their country. The foreign brand's image will change to a culture respect's brand image, then the fad will lead people to buy the company's product because it is culture respect.

Concentrate to sell the products to the people who are not in Chinese fad. The company should change their product positioning, they could sell their product to the people that still like to buy the foreign product. Those people still believe the foreign product is worth a lot, and they may feel worthy to buy the product when the original product has a little discount or innovation. Those customers will also become their loyal customers in long term.

Try to produce the goods at lower cost. Because they are transnational cooperation, they are more likely to

achieve economies of scale, so they could produce their goods and service at a lower cost. This could maintain some of their advantages in the Chinese market under the Chinese fad.

Try to differentiate the products. If they could differentiate their product with the product that Chinese companies innovate, they are more likely to decrease the effect of the Chinese fad. Because, once they differentiate their product, they are non-substitutable, the consumer will still buy their product because they can not find the Chinese product to substitute it. Then they will not suffer a lot from it.

The quality of the products should be increased. If their product's qualities have higher than the product's quality Chinese brand has, people will stop immerse in Chinese fad, and begin to buy the high-quality product, and this could also increase the rate to the ending of Chinese fad.

5. CONCLUSION

When the decision-maker of the company making the decision, it is better if they could use their strengths and opportunities to offset their weakness and threat. Those companies could innovate their product to make it has better quality and more special and reconstruct their brand image, and change customer group. They have to attract potential customers in the Chinese market. They even could cooperate together to construct the special brand image and maximize their revenue. other foreign manufacturing company could also refer to the strategy development of the industry and improve their strategy. However, this paper did not use abundant resources to support the statement, and lack of practice, it will be much better if both of them are down.

AUTHORS' CONTRIBUTIONS

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