THE CHINESE BUILDING CERAMICS INDUSTRY: A "FASHION" COMPETITIVE STRATEGY

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ABSTRACT

This article applies knowledge of economic theory, management, sales and marketing theory. It takes a retrospective look and analyzes the development of China's building ceramics industry, and changes in consumer trends. It then offers some thoughts on the question of a competitive strategy of "fashion" in the industry.

1. INTRODUCTION

Since the 1980s, the Chinese building ceramics industry has grown from its elementary development stages into a major player in a highly competitive global market. During past twenty years, the Chinese economy has developed steadily and rapidly, and kept pace internationally, thanks to the government's policies of opening and reform.

On one hand, the growth of our domestic economy and expansion of our international markets has created a need to respond to market realities. This has brought about the phenomenal growth of the Chinese building ceramics industry in just twenty years. Our annual output of floor and wall tile increased from some hundreds of thousands to 3 billion square meters. Today it represents 60% of world output.

On the other hand, the transformation of life styles and consumption patterns, and stronger domestic and international competition, have all had a major impact on the development and operating strategies of our industry.

The rapid expansion of the sector was somewhat disorderly and confused. Several troubling phenomena emerged:

- Investment surged and fell periodically.
- There was endless copying of products, with the problem of product homogeneity becoming more and more serious.
- Prices continued to drop.
- Excessive branding became the mainstream, while at the same time brand similarity increased.
- There was monopolization by more and more big shops and big showrooms.

So, where is this industry headed, and what kind of marketing strategy should companies choose?

In the year 2000, out of a desire to lead the Chinese building ceramics industry toward healthier development, I put forward an idea that I call the "fashion" consumer trend. As a result of my experience and research, I have concluded that we can gradually improve ourselves and develop a successful "fashion" competition strategy."

In this presentation I will look at the above-mentioned questions, which are of deep concern to all the people in our industry. Using some knowledge of economic theory, management, and sales and marketing, I will try to bring together the past and present of the Chinese building ceramics sector. I will then propose a needed strategy, a competition strategy based on the appreciation of "fashion". Finally, I will offer an analysis of the Chinese marketing character and consumer behavior.

2. HISTORY OF THE CHINESE BUILDING CERAMICS INDUSTRY

A retrospect of the development of the Chinese building ceramics industry over twenty years covers four distinct stages.

2.1. STARTUP STAGE: THE MID TO LATE 1980s

Ceramics have many centuries of history in China. They have played an important role in the development of our civilization. However, the production of floor and wall tile, used in contemporary construction, was imported from the west. And though the start of our building ceramics industry can be traced back to the Xishan Glazed Tile Factory, in Wenzhou, Zhejiang, which started in 1946, the output and scale were so small that this cannot be considered a real industry.

The origin of a true Chinese building ceramics industry was the Lihua Company in Foshan. Lihua imported China's first automatic hydraulic press and fast firing roller kiln. This was our country's first fully automatic floor and wall tile production line.

Because of the great development of ceramics products, market demand expanded rapidly. Soon a few more manufacturers entered this market and earned high profits. But owing to the long construction cycle, large investment, and high technical threshold, there were limitations to growth. This meant that the demand for building ceramics products exceeded the supply, creating a shortfall economy.

The prices of products rose rapidly when the supply couldn't be increased, bringing further high profits. At the end of the 1980s, the Guangdong Fotao Group seized the moment. With a favorable location and popular support, they extended the scope of their investment and accelerated the development of the market. The scale of the Chinese building ceramics industry finally started to grow.

2.2. GROWTH STAGE: THE EARLY TO MID-1990s

At the beginning of the 1990s, even though ball mills and spray dryers were being produced in China, a lot of equipment still needed to be imported. The scale of investment was still very large. Product prices were still very high, but the added value was low. The ratio of investment to output was less than 1:1. Excessive profits attracted lots of investors, and the industry grew rapidly. But there were still some problems with the development of building ceramics, especially the following:

1. The pattern of competition underwent a lot of changes. At a time, when state-ownership made up the largest part of the industry, private enterprises started entering.
2. Government business approval procedures were simplified. More preferential policies were adopted. Import duties on equipment were dropped. Many bona fide and false joint ventures appeared.
3. Technology still faced obstacles, especially in inland enterprises. There were serious shortages of technicians. Standards of management were low. Costs increased. The new township and village enterprises (TVEs), depending on technicians from state-owned enterprises, quickly mastered production techniques and technology.

In addition, at this stage, the product structure was adjusting constantly. Crystalline tiles began appearing. Product specifications inclined to larger sizes. Investment decreased along with the amount of equipment made in China. Supply and demand equalized. The market grew sluggish.

2.3. DEVELOPMENT STAGE: THE MID TO LATE 1990s

By the mid-1990s, market patterns underwent many more changes. Some enterprises began to quit the market. The first of these was the group whose costs were too high. They suffered from poor management, stockpiles of unwanted products, and obsolete technology. Even the Fotao Group began to face both crisis and atrophy at the same time. However, those TVEs that had flexible systems and low investment became the leaders. Private investment in the industry continued to grow. The technical and financial limitations gradually disappeared.

First, the technology for common products was very mature. The quantity of technicians was increasing. The speed of production was faster. Second, along with the advancement of technology, the product cycle became shorter and costs were decreased. More equipment was being produced domestically. The cost of investment quickly decreased to 30% of what it had been before. So, more investors were attracted to the market.

There were also more product differences introduced by the new incomers, such as:

1. More varieties: polished tiles, rustic tiles, and glazed tiles.
2. More range of sizes: 300, 400, 500, 600, 800 and 1000 mm.
3. Cheaper products: resulting from a steady lowering of costs.

By the end of the 1990s, private enterprises had grown rapidly and took on a leading role in the industry. The market economy became increasingly freer.

After a period of rapid development, the Chinese building ceramics industry entered a rational and moderate growth phase. This marked the beginning of the maturing of the industry.

2.4. MATURING STAGE: BEGINNING OF THE 21ST CENTURY

China's building ceramics industry began to face true market competition and started to mature in this period. The following characteristics emerged:

1. The gap between strong and weak companies became evident. Owners reduced product costs and introduced new equipment. A few powerful enterprises led this trend.
2. Under the pressure of competition, traditional ways of doing business, and traditional management methods started to change. The changes made by some of the more influential managers received a lot of attention.
3. The Chinese market underwent further fragmentation. Prices continued dropping. The competition in the engineering market became the watershed. Would the industry succeed? The supermarket for building materials grew quickly. The export market became the new hotspot.
4. The similarity and homogeneity of products became greater. Product development tended to become a mix of technical measures. Design and color

became the mainstream. Differences in technology and quality became fewer and smaller. Microcrystalline products began to appear.

5. The traditional interweave among the enterprises gradually became immaterial. More ranges of product lines developed. Competition became fiercer than ever.
6. Cooperation between manufacturers became more fragile. Many brands were combined. Different products were mated. Spiraling price increases were the response of most makers' to market changes. New marketing and sales methods and new forms of cooperation sprang up.
7. With lower costs, multiple branding strategies became the leading competitive maneuver among companies. Product homogeneity became more serious than ever.
8. More strategic partnerships were formed throughout the industry. As well, alliances were established between building ceramics makers and interior design and decorating companies, real estate companies, and other related industries.

Period >	Mid to late 1980s	Early 1990s	Mid to late 1990s	Early 21st Century
Market Feature	Development and learning	Growth period	Development period	Maturing period
Entry Limitations	Technology Financing Equipment	Technology Financing Equipment	None	Government restraints
Supply / demand	Market driven	Supply < demand	Supply & demand rose	Supply > demand
Enterprise Characteristics	Mainly state -owned (SOEs)	a. Mostly SOEs b. TVE development c. Little private ownership	a. Decline of SOEs b. Mainly TVEs c. Development of private firms	a. SOEs dissolve b. Evolution of TVEs c. Mainly private d. Foreign-invested
Scale of Investment (1.5 million m^2)	100 – 120 million CNY	70 – 80 million CNY	50 – 60 million CNY	30 – 40 million CNY
Product Variety	Mainly glazed ceramic	Milled tile	Polished and microcrystalline	Polished and rustic
Dominant Sizes (mm)	300×300	400×400	500×500 600×600	600×600 800×800
Gross market (m^2)	Millions – tens of million	Tens of millions – over 100 million	Several 100 million – more than 2 billion	2 – 3 billion

Table 1. China Building Ceramics Industry Course of Development.

3. ANALYSIS OF CONSUMER TRENDS IN THE CHINESE BUILDING CERAMICS MARKET

With social development, rising consumer expectations, and a greater desire for improvements in standards of living, at home, at work, and in public places, people want better choices in decorative building ceramics. This has led to a gradual metamorphosis of the industry's products from the practical to the sensual. Moreover, the move up to fads in color and variety has given rise to consumer demand for more fashionable products. This has meant more added value than ever before.

What has materialized is a consumer trend toward style and fashion, typified by demand for products that are artistic, individualized, and natural, and that enhance and enliven living and working space.

3.1. THE TREND TO ARTISTIC PRODUCTS

Building ceramics products possess several qualities that bring out consumer desire for self-expression. First, they are highly artistic, creative, and plastic. Ceramics differ from natural materials like stone and wood. They can express the ideas, the invention, and the artistic inspirations of the designer. Second, they offer an immense range of colours from the simple primary to endless flows and combinations of multiple hues and shades. Imagination and creativity also yield great varieties of shapes and textures. Consumers can choose the simplest and most practical products, or select from collections that are beautiful, fashionable, and rich in stylistic expression. Aesthetics and quality have now merged so that we can offer products with greater added value in the form of more sensual appeal to consumer emotions.

3.2. THE TREND TO INDIVIDUALIZED PRODUCTS

People come first. In this era of fashion and fashion consciousness, catering to the individual consumer's personality has become an irreversible trend in the building ceramics industry. Owing to individual consumers' different personalities, manufacturers can offer different arrangements and effects to suit different professions, interests, tastes, attitudes, and purchasing power. And all this variety can be found in the same lines of products, coming from the same factory, to be used in the same kinds of living or working space.

3.3. THE TREND TO NATURAL-LOOKING PRODUCTS

To get back to nature and to exceed nature is a sincere yearning among modern people. This has determined and led a trend in the building ceramics industry to return to nature. Ceramics products may never surpass natural materials by simple imitation, but they can blend the human spirit of creativity and culture. What is more, they can adopt, combine, and re-create phantasmagoric natural patterns and colours. Ceramic products are endowed with a particular artistic charm and longevity. At the same time, the consumer trend toward nature is also an expression of modern people's consciousness of health and environment protection. These new ceramic products evoke a sense of harmony between man and nature.

3.4. THE TREND TO SPATIAL PRODUCTS

In a given space, the design should integrate convenience and comfort, beauty and harmony. Decorative ceramic products are solids in three-dimensional space made up of planes, sides, and angles. Thus it is necessary to have suitable products for walls, floors and even corners. Moreover, it is necessary for ceramic products to blend in and contrast with assorted other objects within the same space such as furniture, curtains, lighting, etc. These all combine into a unified, harmonious living space. The variety of ceramics fixtures ranges from the simple to the complex, in a wide range of patterns. And in this arrangement, the most important factors are assortments and combinations of colors and textures that bring out the best in the space.

4. CHOICE OF COMPETITION STRATEGIES

In a highly free market environment, a business can choose a management strategy by itself, but it is mainly the mainstream current of choices made by many enterprises that determines a strategic development trend. So a discussion of the Chinese building ceramics industry's competition strategy should be based on an analysis of the general business strategy throughout the industry.

4.1. ANALYSIS OF FACTORS AFFECTING THE CHOICE OF A COMPETITION STRATEGY

4.1.1. Fragmenting of Target Groups

During the period of growth, development, and maturation of the Chinese building ceramics market, from the mid-1980s to the late 1990s, market orientations were almost the same. Enterprises had no clearly different strategic concepts. With the market grown to maturity, different consumer demands emerged day by day. Many enterprises began to engage in niche strategies. They sought subsistence and development within the cracks in the market.

4.1.2. Fierce Competition: Number of Players; Scale; and, Areas of Competition.

In a rapidly growing market, competitors face a major problem: how to come up with more products. Competition is not the only means for achieving the expected benefit. In any one market, a fierce and single method of competition hurts all of the competitors and cuts down the profit for all. At this time, the basic method to make excess profit is to fragment the market and avoid competition.

4.1.3. Competence of Companies: Superior and Inferior Positions in Resources and Technology

Superiority in resources and technology can help a company build stronger barriers in a market, or some part of a market, to prevent competitors from coming in. This can ensure a company's staying in business, according to its own strategy, and ensure it makes money. But an enterprise without the superiority of resources and technology doesn't enjoy this advantage and has to seek a market niche for itself.

4.1.4. Ability to Control and Lower Costs

Superiority can exist in any part of a company's value chain. If the company wants competitive advantages in cost, it must take sufficient cost saving measures throughout its value chain (logistics, management, marketing, etc.). Only then can satisfactory products and services be delivered to customers at the lowest cost. Cost competition can improve a company's overall development of integration, can help it find more customers, and can greatly improve competitiveness in general. However, excess and single-minded cost competition will restrict the improvement of management and weaken the company's development potential.

4.1.5. Superiority in Products or Service

During every stage of contact between a company and its customers, differences can occur. When a company has strong ability to supply different products or services, this will help it become a better competitor. Although the benefits of different ways of managing have been validated in many fields, different competitive strategies have faced many obstacles in China's building ceramics industry. The most common factor is that a company finds itself incapable of supplying different types of products and services. This problem can only be solved with development of management and overall strengthening of the company's capabilities.

4.1.6. Industry Characteristics

Distinct economies of scale are helpful to demonstrate cost superiority and provide enough investor return. They are also barriers against competition coming in. They can protect profits and encourage the implementation of a strategy of cost superiority. The building ceramics industry has no distinct economies of scale that restrict implementing a cost superiority strategy. For the whole industry, the result of pursuing such a strategy is not good because price competition becomes the main force. The result is low profits for everyone. It is a worrisome situation in our industry.

4.1.7. Price Sensitivity

According to various analyses of consumer behaviour, we know that different consumer groups, at different income levels, have distinct sensitivities to price. Comparatively speaking, low-income consumers care most about price, while higher-income consumers put much more value on product quality and service. In China's building ceramics market, low and middle-income consumers are still the mainstream, accounting for 80% of all consumers. But while the high-income group is small, nevertheless it is clearly increasing.

The choice of a target market affects the design of a competition strategy. Faced with a large low and middle-income consumer market, many enterprises choose cost superiority strategies. Now, however, with the increase of high-income consumers and the lack of competitors supplying them, a better opportunity awaits the enterprise ready to come up with and act on a different strategy.

4.1.8. The Social Environment

Property statutes and property rights protection also affect the strategic orientation of those who are active in the market, particularly if the laws impose restrictions on people who want to enter the industry.

4.1.9. Value of the Key Player

Industry leaders who are partial to cost factors sometimes look for economies of scale. To some degree, differentiation can restrict the scale of enlargement. When the environments of industry, market and enterprises are in balance, individual key player preferences determine the choice of strategy.

In the Chinese building ceramics industry, private enterprises have really been the main force, accounting for an 80% share of quantity and scale. The owners of these enterprises have complete individual authority and power. As the key decision maker for the enterprise's operating strategies, the owner always follows her/his own preferences when determining the enterprise's strategic orientation.

4.2. CHINESE BUILDING CERAMICS INDUSTRY LOW-COST COMPETITION STRATEGY CHOICES

Since the beginning of the new century, the low cost strategy adopted in running companies in China's building ceramic industry has exhibited the following features:

- To lower manufacturing costs, some companies have moved to more remote locations, taking advantage of cheaper land prices and favourable tax policies.
- Maximized operation of a single production line satisfies the main focus and basic quality requirements.
- Shortening firing times, simplifying equipment, and reducing turn-around time for production changes save on workshop costs.
- Using cheap, low quality raw material saves on input costs.
- Using cheaper fuels like heavy oil, industrial oil, or water gas further saves on input costs.
- Following market trends, producing common and low level products, and copying others' new products save on R & D costs.
- Taking price competition as the main tactic in the market, aiming for large project supplier contracts, exporting to low price markets; and selling everything to dealers or consignment agents and taking payment annually, save on sales network and marketing and promotion costs.
- Pushing a multi-brand strategy to catch different channels and resources, the number of brands is decided by the scale of production
- Simplifying management, putting practicality foremost, borrowing others' ideas or technology without really understanding and digesting them, paying short-term high salaries instead of cultivating long-term human resources; head-hunting in other companies, mean less dependence on people with real ability.
- Spending less on service and ignoring quality complaints result in little concern about after-sale consequences.

Seen from a long-term view, excessive pursuit of cost-cutting competition works against sustainable development of the industry. It makes it hard to upgrade operating standards, and has a bad effect on long-term benefits. All of this is done for the sake of short-term gains in profit and production volume.

4.3. CHINESE BUILDING CERAMICS INDUSTRY "FASHION" COMPETITION STRATEGY CHOICES

4.3.1. Consumption Characteristics of Building Ceramics Products

- Building ceramic factories face a consumer market, but their long-lasting products are not ultimately consumable.
- Artistic consumer goods enjoy great popularity
- Building ceramics products sometimes have shape or colour defects; but these are often not easily noticed by consumers when shopping. They are only noticed after installation.
- Consumer demands are highly individual. The process from design to installation is complicated and difficult to standardize. Ceramics manufacturers can't complete the whole process on their own. They need to work together with designers, interior decoration companies, and distributors.

4.3.2. The Meaning of "Fashion" Competition Strategy

4.3.2.1. The Goal of a "Fashion" Competition Strategy

Meeting consumer demand is the goal of a "fashion" competition strategy. There are two aspects to this. First, taking the market as a guide, we must pay special attention to delicate changes in consumer trends. We have to examine our company's operating behavior and adjust our strategy with a view toward consumers. At the same time, we can strengthen early analysis of fashion and fashion trends, look for underlying consumer expectations, and change from meeting consumer demands to leading consumer conversion.

Second, we can change to a design focus, away from an equipment and technology focus. For a long time, building ceramics product development has centered on production technology to improve quality. With the development of society, the sensual features of building ceramic products are emerging. Innovations in design and colour are becoming increasingly more important. Guided by the consumer trend toward more fashionable ceramics, we can develop designs that aim at improving the enjoyment of ceramic art. Raising appreciation and sensibility should be the spirit of the building ceramics industry. This implies that R & D needs to play a larger role in the development of the aesthetics. People with ability must be recruited who can cultivate product development with consideration of art technology, artistic achievement, and market awareness.

4.3.2.2. Core Meaning of "Fashion" Competition Strategy

1. Continuously analyze the market. Satisfy individual consumer demands. Create an enterprise value chain based on these two things.

   Individual demand needs individualized service. At present, many consumers generally buy ceramic products and do their own design layout and installation by themselves at home. Limited by their design and construction skills, the desired result often can't be achieved. Individual consumers need the ceramics manufacturer to build a value chain and reform the service process, which will lead the consumers' value chain (including direct consumers, wholesalers and retailers.)

2. Supply Solutions and Take Some Responsibility for the Final Decorating Result

   The core meaning of a "fashion" competition strategy is to supply solutions for consumers, and to take some of the responsibility for the final decorating outcome. Different systems can be set up to achieve this and extend the value chain.

   We need to recognize that service is an important part of the enterprise value chain. It should not be a sales promotion gimmick, nor should it demand additional payment. It is a "fashion" marketing strategy option. In fact, only a few enterprises in the industry have progressed and strengthened their responsibility for the consumers' final decorating results.

   We must supply complete service, from design planning to on-the-spot construction, i.e. full after-sale service. We must also keep up with consumer trends, adapt and adjust management thinking, change from supplying products to supplying solutions and ideas, become service dealers rather than manufacturers and tradesmen, and strive for maximum value rather than maximum capacity.

3. Brand Management: Creating Value for the Buyer

   Establishing ceramic "fashion" management is rooted in connecting with the buyer's value chain. This is decided by how the product will be used by the consumer. The supplier and the buyer have a reciprocal relationship. "Quality" is one of the fine points that make an enterprise unique; that make it different from others. It puts special attention on the product, not on wider added value that affects the buyer. Families that buy, and individual consumers within families engage in a wide range of activities at home. The products they buy will become a part of these activities. Enterprises create value for the buyer through two methods. The value is reasonable and increased:

   - Reduce the buyer's cost
   - Increase the buyer's benefit

   "Fashion" management is created when the supplier influences the buyer's value chain to create value. When the enterprise creates competition superiority with the buyer, by cutting the buyer's cost or increasing the buyer's benefit, value is created. If the supplier wants to get a return through excessive pricing, he must make sure the buyer understands it. That means the enterprise must transfer product value to the buyer through advertising or through its sales and marketing function. How to distribute the value between the enterprise (higher price) and the buyer (much more benefit or satisfaction according to the price) will show in the profit of the enterprise, and be determined by the industry structure.

4.3.2.3. Necessity for a "Fashion" Competition Strategy

China's building ceramics industry has blindly pursued its low cost competition strategy. The result is a disappearance of differences between products, services, and brands. The market is filled with same quality products, and brands that are little different and hardly distinguishable from each other.

From the standpoint of market economics, the most harm done by homogeneity is to decrease the market value of the product (including practical value and market price). Products of the same pattern can't meet the requirements of different consumers (including functional requirements and sensual requirements). So, they are not worth more money, implying that the market value of the whole industry is decreased. Lack of profitability within the whole industry is the result of market choice based only on functional requirement. This not only harms the producers, but consumers with individual demands as well.

Product homogeneity weakens industry profitability. Different ways of management are the very competition modes that can avoid homogeneity. This is the general requirement for a single enterprise, the whole industry, the consumer, and society.

The building ceramics industry exists in a highly competitive market environment. When enterprise culture and managing concepts display vivid characteristics, when products have obvious differences and can meet different consumer demands, only then can the long-term stalemate in market competition be broken. We can then enter a period of local market diversification and segmentation so that enterprises can get enough profit to keep up their development. The rate of profit throughout the whole industry will then increase. At last, the whole industry can enter a more benign cycle. With more profitability to go around, we can then enjoy long periods of sustainable growth.