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**Reasons for the transition of the processing trade industry from OEM to OBM:  
Case Study: Hangzhou Alpha Imp & Exp Co., Ltd**

Thesis

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<p>The purpose of this thesis was to explore the Reasons for the transition of the processing trade industry from OEM to OBM. The study was commissioned by Sandy Chen who is the manager of the case company is Hangzhou Alpha Imp &amp; Exp Co., Ltd. The theoretical part of the study consists of literature on strategic marketing management, brand management and value chain; most of data, information were collected in related records, news, reports, thesis, article and webpage.</p> <p>The study was conducted in form of quantitative research. The research material was gathered by interview with manager and trade assistant of case company. On account of distance limited, the interview cannot be face to face, the ways of interview were by phone and online. In addition, the interview helped to understand the ideas and business plan of case company.</p> <p>On the basis of the results it was concluded that the transition of the processing trade industry from OEM to OBM is necessary. Because industries development and global trade environmental changes, both internal and external reasons cause this transition.</p>	
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## INTRODUCTION

With the rapid development of international trade in China, various problems are surfacing. The large numbers of entrepreneurs are adjustment or transform in order to adapt the new business environment of international trade.

### 1.1 Background

China became a world's factory for many years, a large number of multinational corporations have their manufacture in Chinese factory, the business like this named Original Equipment Manufacturer (OEM). Multinational corporations take advantage of Chinese cheap labor and Chinese raw material consumption to reached high profits. From year 1996, processing trade develops fast and occupies most of the international trade business. Processing trade industry involved in most of the industry in China at present, play an active role in develop national economic, drive the development of coordinate industries; improve the industrial structure; improve skills, increase chances of employment.

Nevertheless, with the fast development of processing trade, there are more and more problems come out at the same time, e.g. low valued-added; lacking core technology and skill, rising cost of raw materials, rising labor costs, environment impact and cutthroat competition and so on. In fact those is just internal problems, international issues are also impact Chinese trading business.

International financial crisis on the Chinese industry increase since the second half 2008 (Li 2009). It is also response adverse influence on Chinese foreign trade. There will be deep analysis in hereinafter.

More than 80% Chinese trade industry are OEM (Alibaba 2009); the main reason is low costs. Nevertheless it will be eliminated during the China's industrial upgrading. China has no strength of OEM industry anymore, some of multinational corporations choose India replaced China, and in order to reduce order processing cost industrialist move their manufactory from southeast coastal area to interior areas or poor district areas.

Zhejiang province located in the southeast coast of China, it is one of the most marketwise and richest provinces in China, and one of the most successful places to do international business. Zhejiang's manufacturing is centered upon electromechanical industries, textiles,

sanitary ware...with many years rapid growth, Zhejiang has become a major province of export trade. Most of enterprises are abundant in international trade many years ago. International trade market is a changing area with economy developing society advancing and concept varying, most of enterprises have stood the test of survival of the fittest of the market, continue to maintain the momentum of development, they choose the change with whole market.

## 1.2 Research questions

### **Main question:**

- The reasons of the processing trade industries have to transition from OEM to Original Brand Manufacture (OBM)? Case of Hangzhou Alpha Exp. And Imp. Co., Ltd.

### **Sub-questions:**

- What are OEM, Original Design Manufacture (ODM) and OBM?
- What the difference between OEM and OBM?
- The reason of OBM is more preponderant at present.
- What is the current status of Zhejiang processing trade industries? Especially Alpha?
- What changes industry may face? Alpha may face?
- What challenge processing trade industry will be faced? Alpha will be faced?
- What are the defect and limited of OBM industry of processing trade industry at present, especially Alpha Company?

### 1.3 Methodology

Qualitative research method is a mainly conducts of this thesis. For the theoretical part, most of data, information were collected in related records, news, reports, thesis, article, webpage and so on. According to the thesis topic concerns Zhejiang province processing trade industry, some of reference are Chinese text. Nevertheless, most of references are English.

In the empirical part, case company is Hangzhou Alpha Imp & Exp Co., Ltd. The research was conducts in a form of interview. On account of the distance limited, the interview cannot be face to face, the ways of interview were by phone and online. The manager and trade assistant of Hangzhou Alpha were interviewed in 20<sup>th</sup> and 22<sup>nd</sup> of November 2010. A good research not only needs strong theoretical foundation, but also the support of practice, that is the major reason for choosing case study as the main research method in the empirical part (Xu 2009). As the experience of practical training in case company, with the interview investigate the case company in depth to understanding case company and research questions. The case research consist of the history of case company, the current situation of OEM mode, the reason of transition from OEM to OBM, the transition path from OEM to ODM to OBM, strategy marketing management development, and SWOT analysis of case company when they transited to OBM. The data collecting is systematically and properly. The interview is recorded by camera, write down notes, databases to categorize and reference data so that it is readily available for subsequent reinterpretation. The research results will be collected comprehensively and systematically to evidence the research questions. Due to discuss the depth of exploration and the schedule of interviewees, the interview was carried out by twice time, on 20<sup>th</sup> and 22<sup>nd</sup> of November. After all, According to the results of interview, use the result data in many interpretations in order to find linkages between interview and research questions, the theoretical knowledge and empirical part have be linked together and discussed in this part.

### 1.4 Case company

Hangzhou Alpha Imp & Exp Co., Ltd. is a company I experienced my practice training for almost six months. Alpha is a subsidiary company of Hangzhou Yongsheng Sanitary Ware



Co., Ltd., which is mainly in charge of importing and exporting sanitary ware products business, specialized in producing shower cabins, shower enclosures, massage bathtubs and shower panels for over ten years. The main products of sanitary ware products orders are produced by Yongsheng factory. The boss of the Yongsheng factory is major shareholder of Hangzhou Alpha. However, without purchase with its own factory, Alpha also purchases other products according to customers' request from other factories, but most are sanitary ware related products at present. For the long term develop, Alpha has its strategic plan for further developing, Alpha wants to expand their business area later on, step by step, not only limited in sanitary ware market, but also in some new developing market, like solar energy. Alpha is an export company; cooperate with customers from different countries, e.g. American, German, Spain, Finland, Russian, France, India, South Africa...Alpha has a great business before, however, from last year, business going not well as before. The managers have intension to change the export products and update OEM to OBM. These ideas are apply in practice from the early of this year. It is an important time of business transformation and upgrading.

## 2 EXPRESS THE CONTENTS

The theoretical part of this thesis is support how to transition of Zhejiang processing trade industry. What is about the transition and how to transition? It will refer to the strategy marketing management and OEM, ODM and OBM model have to understand. During OEM update to OBM, brand management knowledge will be referred. All of that knowledge refer to this thesis topic will be concluded in this theoretical part.

Following, there are basis understandings of theoretical knowledge support this thesis. Some of knowledge will support research part of thesis.

### 2.1 Processing trade

Processing trade refers to the business activity of importing all or part of the raw and auxiliary materials, parts and components, accessories, and packaging materials from abroad in bond, and re-exporting the finished products after processing or assembly by enterprises within the mainland. It includes processing with supplied materials and processing with imported materials. Under processing with supplied materials, the imported materials and parts are supplied by the foreign party which is also responsible for selling the finished products. (HKTDC Research Department 2004)

### 2.2 The definition of OEM, OBM and ODM

OEM is the short of Original Equipment Manufacturer; it is a way to produced by plant commissioned. Brand producer do not produce goods directly, but have the core technology, response for design and development new products, and control sales channel. The product is OEM product; the plant commissioned is OEM factory. Most enterprises have their co-operation OEM factory in developing countries, because the low cost of raw materials and labors. In Europe, early in 1960s had established the OEM industry associations, OEM trade reached to 350 billion euro in 1998, occupy more than 14% of Europe total industrial

output, OEM production has become one of the most important parts of Europe modern industrial (Baidu 2010 a).

ODM is the short of Original Design Manufacturer. It is one manufacturer designed and produced the products according to another manufacturer's request. The entrusted manufacturer has design ability and technique, manufacturing products based on contract.

OBM is the short of Original Brand Manufacturer. OBM refers to manufacturer founded own brands, produces and sales with independent brands. Briefly stated, OBM is the next step after OEM to ODM. Expand market after have its own products with intellectual property, develop own marketing channel, increase profit and freedom of management.

### 2.3 The relate and difference with OEM, ODM and OBM

An ODM manufactures products from its own designs, which are then sold under an OEM's brand name. Typically, the ODM determines what products to build and the OEM simply purchases the items as finished goods inventory. The ODM usually owns the rights to the intellectual property that goes into making the product. Whereas a contract manufacturer can engage in product assembly, engineering services, order fulfillment, product distribution, and aftermarket services usually on behalf of an OEM customer and may not likely own a part of the intellectual property used to develop the products it manufactures.

OEM is only manufacturing products and selling their products primarily to OBM manufacturer. ODM is design and manufacturing products and selling their service to OBM manufacturer. OBM manufacturer engage only in the brand management, marketing, distribution and after sales service and sell their products and services to consumers directly or through indirect channels. (See Table 2)

Table 1: Nature of business models(Web Journal of Chinese Management Review 2009)

	OEM	ODM	OBM
Strategy	Important for all firms		
Structure & system			
Recourses & network management	Focus on suppliers and major customers (OBMs).	Maintain good links with OEMs & OBMs; keep update on market & technological trends.	Maintain good links with & control over OEMs, ODMs & channel members; keep update on market & technological trends
Brand management	Maintain reputation as a reliable supplier and business partner.	Maintain reputation as a good designer of products.	<b>Primary function:</b> Maintain brand equity & product image among consumers
Innovation& continuous improvement	Focus on improving production, operational processes and technology for better product reliability & production efficiency. Small OEM firms are likely to be more dependent on their clients to provide the latest technology.	<b>Primary function for larger ODMs;</b> Technological intensive firms are more likely to focus on more radical innovation relating to product, components and processes. Market oriented firms are likely to focus on modification & fine-tuning of product features based on existing components. The importance & size of the R&D function differs significantly for the two types.	Support partners by providing information obtained through its network. More customer value added service include closely involved in buyer's marketing services to understand what new product or improvements on products can help the buyer to sell more.

Table 2: Type of business models by value activities with examples (Web Journal of Chinese Management Review 2009)

	Definition	Example
<b>OEM</b>	Firms that engage only in the manufacturing of products and selling their products primarily to OBM firms.	Foxconn (engaged in end-to-end handset manufacturing service to key customers e.g., Motorola)
<b>ODM</b>	Firms that engage only in the design of products and selling their services primarily to OBM.	Solomon Systech (engaged in design of proprietary IC products)
<b>OBM</b>	Firms that engage only in the brand management, marketing (incl. CRM), distribution and after sales service and sell their products and services to consumers directly or through indirect channels.	Wal-Mart, Marks & Spencer

#### 2.4 Value Chain with OEM, ODM and OBM

The Value Chain model analyzes specific activities through which a company can create value and competitive advantage. Porter (1985) thought that the value Chain included four support activities and five primary activities. Support activities included firm infrastructure, human resource management, technology development and procurement. Primary activities are inbound logistics, operations, outbound logistics, marketing and sales, and service. (See figure 1)

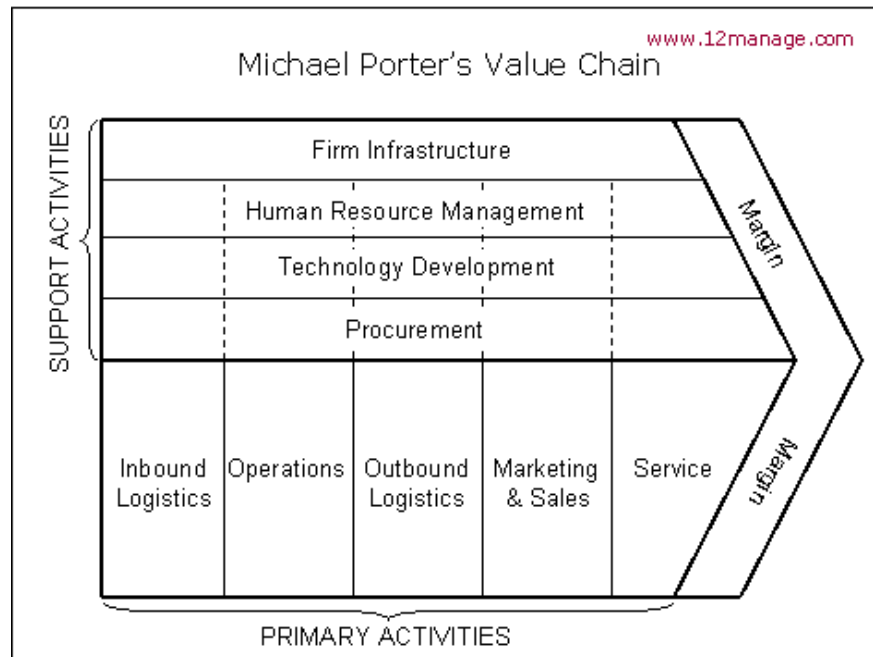


Figure 1 Michale porter's Value Chain (Porter 2010)

Competition from suppliers in developing Asia, especially the Chinese mainland, has been rising, initially in terms of price, later in quality and other aspects over time. Some choose to expand their grip along the value chain, by moving towards front- and back-end activities such as design, wholesale, retail and brand management, which usually entail higher added value. (HKTDC 2008)

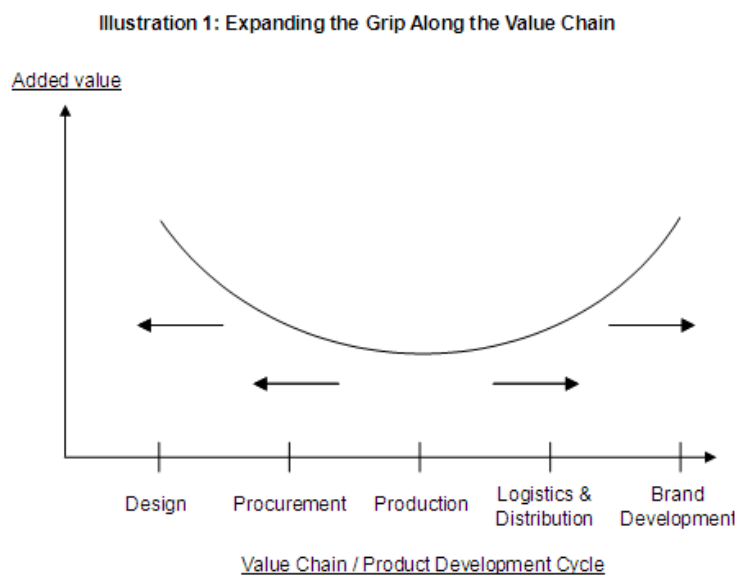


Figure 2 Expanding the Grip Along the Value Chain ( HKTDC 2008.2)

As a result, a lot of OEM companies have entered into the business of original design manufacturing (ODM), by providing enhanced design services. The proprietary design work is the guts of ODM, where overseas buyers purchase products designed and manufactured by suppliers, but which are sold under buyers' labels. Entering into ODM business may be seen as a move towards the front-end of the value chain. This expands the dimension of competition from price to quality and design capability, where Hong Kong exporters have a competitive edge. (HKTDC 2008)

OEM and ODM have one thing in common: products are sold under buyers' labels. To avoid over-reliance on buyers, to achieve product differentiation and nurture customer loyalty, some Hong Kong companies instead develop their brands and distribution networks, stepping into the back-end of the value chain. This kind of business is also known as original brand manufacturing (OBM). (HKDTC 2008)

## 2.5 Brand management

Wiley (1992) refer to Branding has been around for centuries as a means to distinguish the goods of one producer from those of another. In fact, the word brand is derived from the Old Norse word *brandr*, which means “to burn,” as brands were and still are the means by which owner of livestock mark their animals to identify them. (Keller 2008)

According to the American Marketing Association (AMA), a brand is a “ 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 completion.”(Keller 2008)

On the other hand, Brand can be the consumers' impression of products, it is intangible but important. Products produced by manufactures, brand is a kind of products consumers want to buy. Products can be competed and imitated; however, brand can be unique. Products have life cycle, nevertheless, successful brands are immortal, such as Coca-cola, P&G, Sony...brand value and potentials have a long-term influence on enterprise. In some consumers' minds, Coca-Cola Company is one of the best soft drink companies. This is brand im-

age for some of consumers, therefore, when coca-cola has Fanta and Sprite, they have a good impression for both of them at beginning into the market. Even Coca-Cola Company involves other areas, such as music, fashion... Coca-Cola has its successful brand image, compare with other company, coca-cola is easier to achieving success, and there is one Chinese proverb means on Coca-Cola, a successful brand, “half the work with double results”.

Kevin Lane Keller (2008) summarizes the different roles that brands play to both consumers and manufactures

Table 3 Role that brand play (Keller 2008, 7)

<b>The Importance Of Brand</b>	
<b>Roles that brands play</b>	
Consumers:	Manufacturers:
<ol style="list-style-type: none"> <li>1. Identification of source of product</li> <li>2. Assignment of responsibility</li> <li>3. Risk reducer</li> <li>4. Search cost reducer</li> <li>5. Promise, bond, or pact with maker of product</li> <li>6. Symbolic device</li> <li>7. Signal of quality</li> </ol>	<ol style="list-style-type: none"> <li>1. Means of identification to simplify handling or tracing</li> <li>2. Means of legally protecting unique features</li> <li>3. Signal of quality level to satisfied customers</li> <li>4. Means of endowing products with unique associations</li> <li>5. Source of competitive advantage and financial returns</li> </ol>

To consumers, brands provide important functions (Keller 2008, 6). See from table 4, the brands mean to consumer is risk reducer, assignment of responsibility to product maker, consumers find out which brands are good and which are not good from their past experiences of products and brands. Some of time, consumers buy products of specific brands, they have brand image of brands, such as by soft drink of Coca-Cola, Shampoo of P&G, Make-up of Guerlain. Sometimes, consumers are not buying products but brands.

Brands also provide a number of valuable functions to their firms (Chernatony & McWilliam 1989). For manufactures, successful brands not only earn tangible assets to them, but also intangible assets and goodwill. Consumers satisfy in one brand, and they are easier to buy relate products of that brand also. The Figure 3 shows brand values of some successful



brands, and their percentage of market capitalization. Such as Coca-Cola Company, in 2005, brand values are \$67.5 billion, market capitalization are 64%, more than half market.

Brand	Brand Values (Billions)	Percentage Of Market Capitalization
Coca-Cola	\$67.5	64%
Microsoft	59.9	22%
IBM	53.4	44%
GE	47.0	12%
Intel	35.6	21%
Nokia	26.5	34%
Disney	26.4	46%
McDonald's	26.0	71%
Toyota	24.8	19%
Marlboro	21.2	15%

Sources: Inter brand and Business Week, "Best Global Brands By Value," 2005.

Figure 3 Brand Value as a percentage of market capitalization (2005) (Keller 2008, 10 a)

However, see Figure 4, Coca-Cola's assets are US\$110 billions, net tangible assets are only 10% of total assets, most of value lies in intangibles and good will. For Coca-Cola, brand effect is obviously and preferable. As a results, brands supply intangibles assets to company.

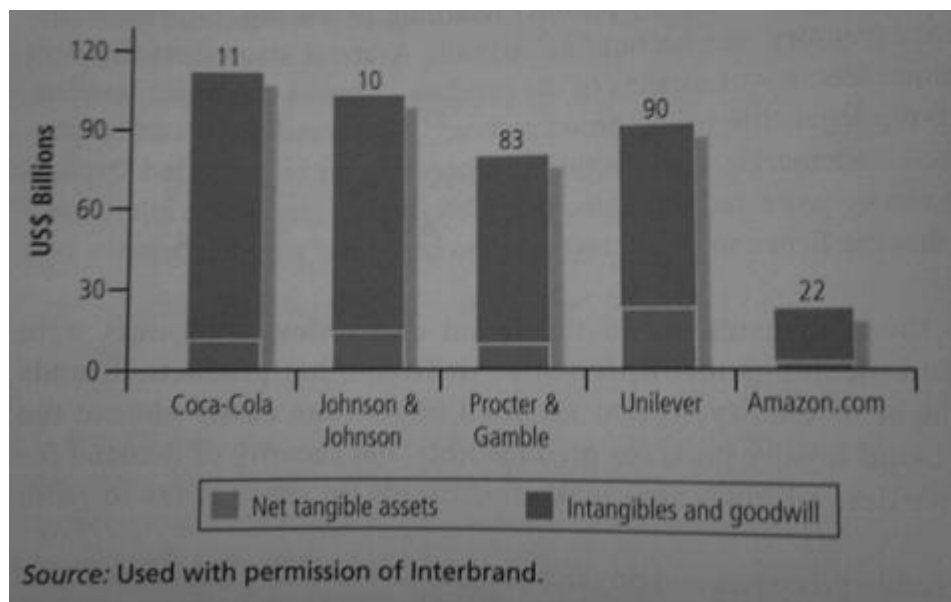


Figure 4 Brands on the balance sheet (Keller 2008, 10 b)

As the example of Coca-cola, coca-cola has OEM factory in China, not only drinks but also pack, such as aluminum pot, cola bottles...The Chinese famous drink brand named Huiyuan, they are one of the OEM manufacturer for Coca-cola in China. Zhu Xingli, the CEO of Huiyuan Juice, said that there will be 5 factories to processing for Coca-cola (Wang 2009). In fact, Coca-cola has their own factories and research& development (R&D) center in China yet. As Coca-cola, Huiyuan is one of the OEM factories. However, Coca-cola has its own brand, own design, own R&D, it can be a kind of OBM factory. From the study of Coca-cola, a successful OBM enterprise has successful brand, with own design or formulation of products, own R&D, own market channel... Coca-cola has cooperated with OEM factories or native companies. It is cooperation between OBM and OEM.

## 2.6 Strategic marketing management

Strategic market management is a system designed to help management both precipitate and make strategic decisions, as well as create strategic visions. A strategic decision involves the creation, change, or retention of a strategy. (Aaker & McLoughlin 2007, 17)

Michael Porter, a professor of Harvard Business School, mentioned in his book, an effective strategic management must have the five key points: the unique values, well-designed value chain for the customer, a clear choice, interactivity and persistence.

General, the process of strategic marketing management can be four steps: Strategic analysis, identification and selection, implementation and strategy review.

### 1) Strategic analysis

Before the strategic decisions, analysis is necessary; the great strategic analysis will provide the input to strategy development and output the set of strategic decisions. Both external and internal analysis are including in strategic analysis.

Table 4 The overview of strategic Analysis (Aaker 2007,18)

Strategic analysis	
<b>External Analysis:</b> • <b>Customer analysis:</b>	<b>Internal Analysis:</b> • <b>Performance analysis:</b>

segments, motivations, unmet needs • <b>Competitor analysis:</b> Identity, strategic groups, performance, image, objectives, strategies, weaknesses • <b>Market/submarket analysis:</b> Emerging submarkets, size, growth, profitability, entry barriers, cost structure, distribution systems, trends, key success factors • <b>Environment analysis:</b> Technological, governmental, economic, cultural, demographic, scenarios, information-need areas	Profitability, sales, shareholder value analysis, customer satisfaction, product quality, brand association, relative cost, new products, employee capability and performance, product portfolio analysis • <b>Determinants of strategic options:</b> Past and current strategies, strategic problems, organizational capabilities and constraints, financial resources and constraints, strengths, and weakness
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## 2) Strategic identification and selection

Strategic analysis was made clear about present situation of enterprise, and then the question is “what is the future of the enterprise?”

First of all, to identify the strategic alternatives, there are four dimensions of a business strategy. The first is selecting the product markets in which the firm will operate and deciding how much investment should be allocated to each; the second is determining the customer value proposition; the third is identifying the assets and competencies leading to sustainable competitive advantages; and the fourth is to develop functional area strategies (Aaker & McLoughlin 2007, 29).

In general, strategy selection should consider scenarios, ROI (return on investment) prospects, sustainable competitive advantage, the organization vision, strategy feasibility, and other firm strategies.

## 3) Strategy implementation

The implementation stage involves converting strategic alternatives into an operating plan (Aaker & McLoughlin 2007, 32). In this stage mainly involves of the following questions: How to distribute and use of existing resources within the enterprise? In order to realize the business goal, what external recourses still need to obtain and how to use? In order to realize the strategic target, which parts of enterprise’s structure need to adjust? How to handle the possible problem like benefits redistribution or enterprise culture adapting?

## 2.7 Case study research

As a research strategy, the case study is used in many situations to contribute to our knowledge of individual, group, organizational, social, political, and related phenomena. The case study has been a common research strategy in psychology, sociology, political science, social work (Gilgun 1994), business (Ghauri & Gronhaug 2001), and community planning.( Yin 2002)

The case study is the most flexible of all research designs, allowing the researcher to retain the holistic characteristics of real- life events while investigating empirical events (Schell 1992, 2).

In general, a case study is an empirical inquiry that (Yin 2002, 13):

- Investigates a contemporary phenomenon within its real-life context, especially when
- The boundaries between phenomenon and context are not clearly evident.

There are five steps when doing case study research:

The first step is designing case studies. A research design is the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of study. In addition, the development of the case study designs needs to maximize four conditions related to design quality: construct validity, internal validity (for explanatory or causal case studies only), external validity, and reliability.

The second step is preparing for data collection. The preparation for doing a case study includes the prior skills of the investigator, the raining and preparation for the specific case study, the development of a case study protocol, the screening of candidate case studies, and the conduct of a pilot case study.

The third step is collecting the evidence. The evidence for case studies can be from six sources: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts.

The fourth step is analyzing case study evidence. Data analysis consists of examining, categorizing, tabulating, testing, or otherwise recombining both quantitative and qualitative evidence to the address the initial propositions of a study.

The last step is reporting case studies. Reporting a case study means bringing its results and findings to closure. Regardless of the form of the report, similar steps underlie the case study composition: identifying the audience for the report, developing the compositional structure, and following certain procedures (such as having the report reviewed by informed persons who have been the subjects of the case study. (Yin 2002)

As the case study company of thesis research, Hangzhou Alpha IMP&EXP Co., Ltd. will be interviewed to help collecting the evidence of research. The research questions of interview are designed to focus on the company situation of transition from OEM to OBM, such as the internal and external reasons to transition. The data collect after interview, by note and video records. Through this way, data analyzing becoming easier, information cannot be missing. Interview is not the only way of case study research in this thesis, qualitative research method is the mainly conduct of thesis, most of data and information collected from books, documents, and website and so on.

### 3 THE ANALYSIS OF ZHEJIANG PROCESSING TRADE INDUSTRY

Zhejiang province is one of the economic development providence with industrial accumulation. The business way of clusters have reduced the costs of production and transportation of the producer and the exporter, it increased the producing efficiency largely. Therefore, the exporter enable to save time and expense during the international trade, thus it expanded the production, increased the quality of exportation and enlarged the total amount of foreign trade (Shen 2007). As a whole, the typical cluster makes Zhejiang province has the high foreign trade dependence (FTD), FTD easily bring huge risks to Zhejiang's international trade. Hangzhou is the provincial capital of Zhejiang province, it is the central economical, politics and cultural of Zhejiang province.

By the end of 2008, from the statistical yearbook of Zhejiang province, processing trade occupy 20% of Zhejiang foreign trade market in 2008 (see table 5), less than 21.29% in 2007.

Table 5 The way of foreign trade in Zhejiang province (Statistical yearbook of Zhejiang 2008)

YEAR	General trade (%)	Processing trade (%)
2003	82.19	17.51
2004	80.39	19.31
2005	78.63	21.11
2006	76.63	22.43
2007	77.46	21.29
2008	79.78	20.00

In this table, General trade is the relatively trade way of processing trade (Baidu 2009). it refers to the import or export of goods by enterprises in China with import-export rights. In China's customs statistics, the scope of general trade covers: imports and exports using loans or aids; the import of materials by Foreign Investment Enterprises(FIEs) for processing of

goods for sale in the domestic market; the export of goods purchased by FIEs or manufactured by processing domestically-produced materials; the import of food and beverages by restaurants and hotels; the supply of domestically-produced fuel, materials, parts and components to foreign vessels or aircraft; the import of goods as payment in kind in lieu of wages in labour service cooperation projects with foreign countries; and the export of equipment and materials by enterprises in China as investment in kind for their investment abroad.(HKTDC 2004)

In 2009, the total import/export volume in Zhejiang province reached US\$187.73 billion compared the same downward in 11.1%. Which the total value of export reached \$133.01billion, down 13.8% over the previous year respectively, the total value of import reached \$54.72 billion, down 3.7 %. ( Hangzhou Custom 2010)

From the customs' analysis, the foreign trade in Zhejiang province presents six features: (Chinain 2010 a)

- 1) The general trade goes well, processing trade decreased much more.
- 2) More than 50% enterprises of Zhejiang foreign trade are private, foreign companies investment are fell sharply.
- 3) The main export markets are European Union (EU), The United States and Japan, not too much decline of export to Association of Southeast Asian Nations (ASEAN).
- 4) The main import places are Japan, EU, and Taiwan, and also from Australia and Brazil.
- 5) Garment and textile are keeping well, not decline to much, however, large decline of mechanical and electrical products and high-tech products export.
- 6) Import of raw materials such as primary form of plastic, warrants, brass and crude oil are increase exponentially, but a sharp drop in mechanical & electrical products and high-tech products.

In 2010, the unfavorable factors of foreign trade are still exist, such as: uncertain international market potential; trade barriers; U.S. dollar devaluation; cost of raw material, production rises and so on.

Global economy slowly recovery, it is impact on global market requirement. In spite some of developed countries' economic are recovery, however, the economic outlook is exceptionally uncertain. Uncertain of economic recovery of international market, the requirement of global market are not going to increase in the short term. It can be an important factor to impact export in Zhejiang province.

During the recent years, there have been more and more antidumping actions between countries, most time it is a policy of trade protection. According the data from the Commerce Department, by the end of 15<sup>th</sup> of December, 2009, there are total 20 countries and regions are launched about 107 trade remedy issues on Chinese export products, total about \$11.9 billion .(Chinairn 2010 b)

U.S. dollar devaluation and increase of cost affect export competition. U.S. dollar devaluation are not further weakened the advantage of the export price of Zhejiang province to USA market, but also further improving the cost of raw materials(Chinairn 2010 c). Result the cost increase of export products in Zhejiang province, and impact on international competitiveness.

In order to push foreign trade grows, Hangzhou Custom give the suggestion following:

The **first** suggestion is encourage the transformation of export growth mode, and keep Zhejiang foreign trade developing healthily. Encourage scientific and technical innovation; strengthen the technology and products upgrade of the beneficial export industry industries, for example, textile industry.

The **second** suggestion is concentrate attention on Low Carbon Economy, grasp the development tendency of emerging industry, seeking the new motivation of economic development and trade grows.

The **third** suggestion is explore the domestic market, strengthen the import of advanced technology's equipment and recourse, realized the coordinated growth of import and export, promote the overall balance in national economy.

The **fourth** suggestion is preferential treatments given under CHINA-ASENA free trade area preferential tariff, more than 90% products are zero of duty. On the basis of CHINA-ASENA, enhance regional cooperation and regional economic integration, from this way,



not only enhance the export of ASEAN, but also import lower cost of raw materials from ASEAN.

The **fifth** suggestion is help enterprise comprehend related trade policy and law of export markets, enhance the products have the positive impact on the image, and create favorable international environment. (Chinaim 2010)

### 3.1 SWOT analysis

In the way of strategy planning, SWOT analysis (Albert Humphrey 1970s) is important to help enterprise to know more about their business. A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as Strengths(S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) or Threats (T). Such an analysis of the strategic environment is referred to as a SWOT analysis. (Bradford & Duncun)

#### **Strengths**

The **first** strength is business system. Most of enterprises are private enterprises in Zhejiang province. The advantages of those enterprises are clearly established ownership, flexible operation system, close to the market, and they have not to reforming like state-owned enterprises.

The **second** strength is good location. Zhejiang province has a unique geographical advantage (see Figure 5 ), located in the Yangtze River Delta area; the Yangtze River Delta megalopolis is one of the best in China. Zhejiang province endowed with good natural conditions and advantageously located near both the river and the sea. Near Shanghai and Ningbo ports which are two of international ports in China. Because this location advantage, there are extensive and close relationship with oversea business and trade channels in Zhejiang province.

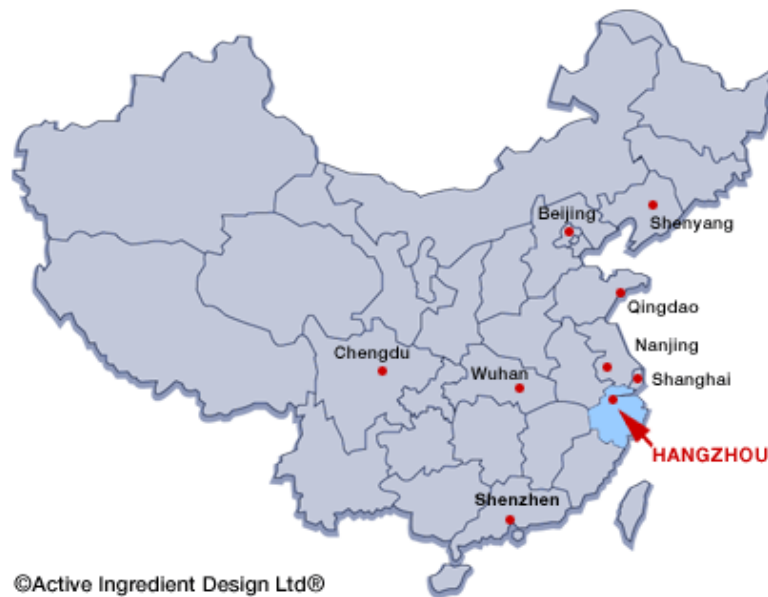


Figure 5 Map of China (China-Britain Business council 2010)

The **third** strength is industry base. “Small commodities, big market, low cost, high benefit” (Mao 2005) are the construction features of Zhejiang industry. Due to the earliest developed and largest scale, Zhejiang industry is strength at products price and process scale, improve the export competitiveness of Zhejiang province. The main export products are low technological content products, labor intensive products such as textile, clothing, and shoes... Because of the long time develop of labor intensive industry; Zhejiang has a great advantage of labor. Zhejiang is a big province of manufacture; there are several manufacturing center of China.

The **fourth** strength is supporting facility. Zhejiang province has a strong and perfect transportation system, consist of land, sea and air transport. After many years test, it set the mature Imp & Exp combined transportation system.

The **fifth** strength is policy support. The government takes foreign trade into account, help SMEs in real. The government organizes and guides the eligible SMEs to obtain import & export rights; support and encourage SMEs take advantage of foreign investor reasonable and efficient, establish the foreign-investment enterprise to upgrade enterprise-level. In addition, government earmarked special funds to improve export trade. The funds are using on: encourage overseas investment, encourage enterprise expand global markets; support technology update and new products R&D, and promote fair of import and export.

Several policies are outcome from government to encourage and promote the development of the SMEs in foreign trade.

### **Weakness**

The **first** weakness is imbalance development between southeast and western of Zhejiang. Zhejiang province can be divided to 11 provincial cities. In 2005, the export value of 6 cities (Hangzhou, Ningbo, Shaoxing, Jiaxing, Wenzhou, and Taizhou) in southeast of Zhejiang province are around 82% of total value of whole province, and the another 5 cities (Quzhou, Lishui, Jinhua, Huzhou, and Zhoushan) in western of Zhejiang are less than 20% (Statistical yearbook of Zhejiang province 2006). The huge gap between two regions are became the obstacles of further development of foreign trade in Zhejiang province.

The **second** weakness is nature resource. Zhejiang province is lack of natural resources in China. It will ease amid fluctuation prices of resource commodities in global and domestic markets, and also be influenced by related product price and transportation cost. The high resource consumption products and non-renewable source products hold larger proportion in Zhejiang export products. In 2008, the pressure of global inflation result in cost increased on energy, raw materials, land, transportation, money rate, exchange rate, salary, social security, environmental protection and tax , enterprises have to be face severe tests.

The **third** weakness is technology innovation large amount enterprise of Zhejiang province are private enterprise, most of them are SMEs. They lack of technology, depend on price competition in foreign trade. This is generally true of Zhejiang foreign trade industry. SMEs cannot in charge of the scientific researches and lack of independent R&D capacity. The situation of SMEs can be summarized following: enterprises do not want to innovation due to lack the powers of technology innovation; enterprises dare not try to innovate due to too risky of innovation; limited innovation capacity; lack of capital. (Gu 2007).

The **fourth** weakness is lack of proprietary brand or OBM. The majority of export products of Zhejiang province are low value-added products, the main reason is lack of technology. There are very little famous brands have competitiveness in the high-end international market. In fact, Zhejiang textile industry has absolute advantage in international market, however, over 90% are OEM, and OBM are less than 10%, some of export prices are almost nearly costs. The same situation is happened in other industries like shoes, sanitary ware prod-

ucts. As low brand effect and lack of pricing power in global market, the results are price increments, higher transaction costs, profits decline, and worsening trade condition,

### **Opportunities**

The **first** opportunity is the main structure of foreign trade in Zhejiang province are small private enterprises. As the main body of export trade in Zhejiang province, the scale of the private enterprises is small. It was a mostly SMEs labor intensive enterprises with low technology and small amount of capital investment. However, it has already form industrial clusters. Industrial clusters make the value chain lengthen and complete range of facilities, and then emerge large economic benefit.

The **second** opportunity is the macro-economic policies adjustment from government. From 2008, global economic crisis has spread to every corner of the world including China (China print 2009). The Chinese government adjusts economic policies, such as raises tax refund rates and declines the reserve ratio, to avoid economic downturn. As sure as the government will sets out new policies to support export, further improve foreign trade condition; this is an important chance of trade enterprise. (Yu & Du 2009)

The **third** opportunity is foreign investment. The investment environment of Zhejiang province is still improvement, and continues to attract foreign investment. Through utilizes foreign capital to developed advantage industry and products, enhance trade competitiveness.

### **Threats**

The **first** threat is decrease of international market requirement. As the main market of export, the unite state, EU, and Japan are facing economic downturn, followed by consumer market downturn, decline of international market requirement. Because decline requirement from aboard, part of enterprises have to reduce output. First half year of 2008, over ten thousand enterprises remained deficit, approximate 20% of total enterprise. (Yu & Du 2009)

The **second** threat is cost increase. Domestic company rises considerably with labor cost; space of manufacturing industry profit is compressed quickly. In recent years, the enterprises are facing shortage of human recourse, especially operating personnel. “The labor contract law” is implemented from 1.1.2008. In the law, there are inflexible rules, such as social in-

surance and employment forms. As the same time to safeguard workers' rights, enterprises have less flexible of work position shift; on the other hand, the costs of labor are increased.

The **third** treat is heightened trade friction. With the continue changing of international trade friction, the international trade friction which Zhejiang province is faced are not only trade problem, but also deep-seated problems, for instance, exchange rate, environmental protection, liability, and economic management mode. On 17<sup>th</sup> of February 2009, President Obama signed the economic stimulus package, one of the article inside are purchase made in USA only (Yu & Du 2009). Chinese export products experience anti-dumping in worldwide, especially in the Unite State and EU which are main markets of Zhejiang province. Trade friction intensify is the serious threat of enterprises in Zhejiang province.

Table 6 SWOT Analysis of processing trade in Zhejiang province (Yu & Du 2009; Mao 2005)

<b>SWOT ANALYSIS</b>		
	<b>Helpful</b> To achieving the objective	<b>Harmful</b> To achieving the objective
<b>Internal origin</b> Attributes of the organiza-	<b><u>Strengths</u></b> <ul style="list-style-type: none"> <li>• Business System</li> <li>• Location</li> <li>• Industry base</li> <li>• Supporting facility</li> <li>• Policy support</li> </ul>	<b><u>Weaknesses</u></b> <ul style="list-style-type: none"> <li>• Imbalance development between southeast and western of Zhejiang</li> <li>• Nature resource</li> <li>• Technology innovation</li> <li>• OBM</li> </ul>
<b>External origin</b> Attributes of the environment	<b><u>Opportunities</u></b> <ul style="list-style-type: none"> <li>• small private enterprises are main structure of foreign trade</li> <li>• the macro-economic policies adjustment</li> <li>• foreign investment</li> </ul>	<b><u>Threats</u></b> <ul style="list-style-type: none"> <li>• Decrease of international market requirement</li> <li>• Cost increase</li> <li>• Heightened trade friction</li> </ul>

### 3.2 The foreign trade in Hangzhou

In 2009, the annual value of import and export totaled \$404.17 million and of which the total value of export reached \$271.8 million, down 15.9% and 19.1 % over the previous year respectively. The development of international service outsourcing accelerated. The amount of offshore outsourcing implementation of the city's reached \$919 million, up by 352%, of which the service outsourcing enterprises of offshore delivery of more than \$10 million was 17, by 240%, offshore implementation of a total of \$667 million, accounting for 72.6% of the total city.(Hangzhou government)

Table 7 Foreign trade in 2005 – 2008 of Hangzhou city (Statistics yearbook of Hangzhou city 2009)

Foreign Trade in 2005 – 2008 (Unit: million US\$)				
	2005	2006	2007	2008
Import/Export	298.7	389.09	434.26	480.65
Export	198.04	262.28	299.66	336.14
Import	130.2	132.4	114.2	112.2

In any case, according to the statistics from the customs, the total import/export volume in Hangzhou reached US\$480.65 billion in 2008(Table ?), gaining a growth of 10.7% over the previous year, to which export contributed US\$336.14 billion, up 12.2% and import US\$112.2 billion, up 7.4%. (See Table 7)

From table 7, it is easy to know how fast the Hangzhou developed in international trade. The main reasons for this highly economic development are human resources, environmental resources, developed and mature markets, development of Small and Medium –sized enterprises(SMEs).

#### 4 CASE OF HANGZHOU ALPHA IMP & EXP CO., LTD

Hangzhou Alpha Imp & Exp Co., Ltd located in Hangzhou, the provincial capital of Zhejiang province. Hangzhou is the center of economical, politics and cultural of Zhejiang province. As the coastal city in the southeast of China, with the extensive resources and geographical advantage, Hangzhou has large developing space of international trade business. This is one of the reasons the manager choose Hangzhou to build her business as the beginning.



Figure 6 Manufactory of Alpha (Alpha 2008)

The manufactory located in countryside, about 30 minutes' drive from city. It was originally planned to build factory there because low costs of land, and environmental protection. On the other hand, the factory build in countryside can be lager area than in the city.

##### 4.1 Research method

To understanding depth knowledge of company, the research is conduct of interview. Due to the distance limited, interview was finished by phone and online interviews. The research questions involves to the history of company, the reasons of transition, strategic marketing management, brand management, with OEM, ODM and OBM developing. It is included current situation and further development of company.

## 4.2 Company situation overview

The head office of Alpha was established in 1997, named Hangzhou Yongsheng Sanitary Ware Co., Ltd. It is engaged in the manufacture and sale of complete leading and high-level bath equipment such as shower enclosures, shower cabins, and bathtubs. They specialized in OEM and customized sanitary ware. The president of company has an idea of the transition from OEM to OBM in 2005, and he wants to manufacture comfortable sanitary ware products with high-tech and designed. In fact, till 2008, they were well-established working on OBM, they have own designers, and own brand named MASTEN. After several years experience, the case company is going to the right path gradually. At the beginning of this year, the new products line were placed on the market, all of products are high-tech, specious, convenient, and multifunction. The massage bathtubs are not only used to shower and massage, like the traditional bathtub, but also with DVD, radio, telephone, freezer, colorful lights and so on. Even the sanitary ware products are also in the high-tech time now.

In order to manufacture better products, factory invited several designers from Dangshan (located in Guangdong province, one of the best cities to do import and export business in sanitary ware market), which city is one of the best to do sanitary ware products exports, located in Guangdong province. The special design group concentrate to research and develop new products more than year, and the outcome is satisfactory.

At present, Alpha has accessed to America and European markets (Russia, German, Spain, France, Finland, Ukraine), and exploited market in Canada, South Africa, and Japan. Developed to now, Alpha has become an Export-oriented enterprise and act as OEM supplier for lots of international sanitary ware brands. Even the OEM is main business of factory at this moment, and the OBM is beginning to develop, Alpha pay more attention on this business area, and Alpha believe OBM has great development trends future.





Figure 7 Workshop of Alpha Manufactory (Alpha 2010)

### 4.3 Transition from OEM to OBM

According to Zhou Feifei, the manager assistant of Alpha interviewed in 20<sup>th</sup> of November, they arose the idea of transferring to OBM mode firstly in 2005, and prepared to realize it with long-term experience and knowledge accumulation. The actual plan started at 2008. To transition can be summarized into two aspects as follows: Internal and external factor.

#### 4.3.1 Internal factors

If Alpha wants to transfer from OEM to OBM successfully, They have to have sufficient capacity, for instance, strategy marketing management ability, R&D ability, innovative ability, high technology, financial support... nevertheless, all of those are exactly lack of Alpha.

Alpha is not strong enough, but Alpha is on the way to be stronger. For several years experience to manufacture sanitary ware products to foreigner markets, a large proportion of in-

ternational companies have high performance standard for manufacturing craft and product quality. Therefore, with the cooperation with those international companies, Alpha had accumulated lots of experience and technology. With long-term develop and manufacture, Alpha realized the markets of sanitary ware industries are becoming smaller, more and more enterprises enter in this market and want to share the cake. As an OEM manufactory, they attached to cooperation companies. Alpha has to face the junction, go downhill or transition, and they choose transition. They realized if they want to have greater progress, they have to find other way, more independent.

On the other hand, through years of OEM experience, factory accumulated experience and technology of manufacture sanitary ware products; with a part of knowledge about international market. However, those are not enough if they want to do OBM successful. Factory has founded a designer group, included 4 sanitary ware products designers. Alpha is well aware of the rapid development of the manufacturing sector. In order to understand and absorb the advanced manufacturing technologies of sanitary ware, designer group went to exhibition of sanitary ware products regularly. The China Export Commodities Fair is one of the famous export commodities fair in China. Every year, each exhibitor will show the most advanced techniques and the best design of their products during the fair period. The managers and technology staff went to the fair every year, to learning. Alpha took part in an exhibition from 2009, by this chance, not only show the collections of their products to foreign manufacturers, but also designer and technology staff can work closely with other high-technology factories.

On the financial front, the profit space decreased, the company has shortage of funds. Alpha has to be changed in order to increase returns. Alpha follows the market trend, in line with the spirit of excellence and perfection constantly improve. OBM is the result of the development of the industry trends. Certainly, OBM will make more profit than OEM. But then, front-end investment and pre- production are also more complicated than OEM. Alpha needs money to purchase high-tech equipments, hire technology R&D specialist and high quality managerial talent. As a small sized enterprise, Alpha cannot afford such high investment, but they found the new investor, to solve the preliminary financial investment.

#### 4.3.2 External factors

Compare with several years ago, sanitary ware market at present cannot be mentioned in the same breath. Competition intensifies, the raw materials' prices increase, U.S. dollar devaluation and appreciation of the Chinese Yuan (CNY) caused the profit decline.

##### **Competition intensifies:**

Around 2000, there are no more than 50 factories which manufactured and exported sanitary ware products in Zhejiang province. At present, it cannot be accounted how many enterprises are manufacturing and exporting related products of sanitary ware. More competition cause smaller of market share, finally result in price competition and cutthroat competition. As a common enterprise in this market, Alpha did not have superiority anymore, they have to change.

##### **Price increase of raw materials:**

Recent years, the price of raw material increased drastically, and effected manufacture industries directly. As the export market, the effect became even more pronounced.

“The price increase of raw materials and the high costs of products, even we adopted various measures, these still affected on our export”, said by Chen Xinxin.

The price of raw materials increase effect Alpha directly. Practically co-operation raw materials factories increase their price, and continue rising. Alpha has to update price list every three months. The better thing is, as an OBM factory, Alpha can control profit more than OEM factory.

##### **U.S. dollar devaluation:**

Alpha products are traded in U.S. dollars that is why the devaluation of U.S dollar have huge influences in business doing by Alpha. As a sanitary ware products export company, ocean shipping is the main logistic method. Weak of American dollar will cause higher oil prices, and the end result in higher shipping fee.

**CNY appreciation** has serious damaged Chinese advantage industry, Alpha cannot avoid. Labor costs is one of the strength of factory, CNY appreciation increase the employment

pressure, worsening the current employment situation, the prices of products rose, and the capital input costs have increased, make Alpha's competitive downgrade.

On account of manufacture of sanitary ware products need long duration, sometimes production cycle is more than one month when they have the bulk orders. This is a long time period between consumers making order to consumer pay a sum of payment, during this period, U.S dollar devaluation or costs increaseing can be happened, and the exchange rate changed caused direct economic loss of Alpha.

#### 4.3.3 SWOT analysis of Hangzhou Alpha

The way of transition from OEM to OBM is not always successful, for many years experience of OEM, Alpha has its strengths: customers accumulate, good corporate reputation, a certain degree of technology and the most competitive thing is that Alpha has its own factory, it make supply stably. The products can be ensuring more than some of other international trades enterprises do not have own factories.

However, OEM brings the weakness to Alpha, they lack of independent R&D, no own designer group, no technological innovation capacity, old manufacture equipment, lack of management, and no distribution channels of OBM.

Government policy support is a good opportunity to Alpha. In Chinese business environment, government has a big power to support or even control business. Recently years, Chinese government introduces laws and relative policy to improve export and import business. Other opportunity is the highly development of e-commerce in China. The B2B platforms give Alpha the readiest channel to distribute products.

Although it is so, more and more competitors make Alpha hard to exist in this market as an OEM company. Meanwhile, the cost of products increased because the prices of raw materials and labor are raised. Alpha had lost part of their consumers because the products' price rose. Other threats are international financial crisis drop the foreign demand and U.S. dollar devaluation, both of two effects Alpha directly or indirectly. (See table 8)

Table 8 SWOT analysis of Alpha Company (Chen &amp; Zhou 2010)

<b>SWOT ANALYSIS</b>		
	<b>Helpful</b> To achieving the objective	<b>Harmful</b> To achieving the objective
<b>Internal origin</b> Attributes of the organization	<b>Strengths</b> <ul style="list-style-type: none"> <li>• Rich experience</li> <li>• Customers accumulate</li> <li>• Good corporate reputation</li> <li>• A certain degree of technology</li> <li>• Own factory, supply stability</li> </ul>	<b>Weaknesses</b> <ul style="list-style-type: none"> <li>• Independent R&amp;D capacity</li> <li>• Technological innovation</li> <li>• Manufacture equipment</li> <li>• Management</li> <li>• Distribution channels of OBM</li> </ul>
<b>External origin</b> Attributes of the environment	<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Policy support</li> <li>• Cooperate with small company or fledgling companies</li> <li>• expansion of e-commerce and internet business</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>• More and more competitors in Zhejiang appear</li> <li>• Drop in foreign demands</li> <li>• Increase price of raw materials</li> <li>• Appreciation of the CNY(exchange rate)</li> </ul>

#### 4.4 The way of transition

At very beginning, Alpha is mainly charge business of manufactures for foreign enterprise. However, as a manufactory, they lack of technology and skills. In order to better grow up, through manufacture products for international enterprise, Alpha learn and accumulate advanced technology introduced from other countries, imitate production foreign enterprise produced, follow them and try to exceed them. During this processing, strength technology study, pay attention to digestion and absorption of introduce technology, avoid the vicious circle such as “introduction – backward – re-introduction – re-backward”, Said Chen Xinxin.

Alpha increase the inputs in technological absorption, one the base of digestion, Alpha is bold in putting things into practice and blazing new trails. Alpha work to promote continual upgrading and independent innovation.

Alpha did not urgent to transition from OEM to OBM. They choose OEM – ODM - OBM path, and spent several years to implement. There is no elevator to success, only stairs. Said Chen Xinxin. Alpha spend time to gather experience and learn from it.

#### 4.4.1 Own design and own brand

The owned brand of Alpha is named MASTEN (see figure?). To expand the well-known of MASTEN, Alpha recommends the letter of introduction about MASTEN attach in the E-mail to their consumers. Alpha also makes advertisements on B2B platform. According to diverse market segments, MASTEN launched two different products lines, traditional and luxurious. At the very beginning of establish MASTEN, Alpha team wants to involve both lower-income market and high-tech market.



Figure 8 The OBM brand of case company (Alpha 2010)

The traditional products line will focus on lower-income market, the products are simple design without digital technology functional. The target customers of traditional products will focus on lower-income people or people love simple design. (See figure?)



Figure 9 The traditional sanitary ware products of MASTEN (Alpha 2009)

The luxurious products will focus on those people who love to take a bath and enjoy in it. This products line have more high-technology, it can be controlled by computer control panel, the functions such as surf massage, radio, air pump, DVD, heater...(See figure ?). Alpha also produce customized products, manufacture products according to consumers' requirement.



Figure 10 The luxurious sanitary ware products of MASTEN (Alpha 2010)

In April of 2010, new collections of 2010 are put into market. Independent R&D, design, manufacture, the emergence of these new products, not only encourage staffs enthusiasm, but also Alpha's "breaking the ice" in OBM area. New products have both exterior and technology, they have elaborate design, but functional. "We want that customers can really relax when they take a bath. Rather enjoy in bath than just clean themselves." Said Chen Xinxin.

New products are not same as traditional bathtub, they more like work of art. DVD, radio, phone, massage... all of those are design into bathtub. not only pattern designs, but also satisfies visual sense, auditory sense and tactile sense of customers. In fact, the new products of 2010 are designed for high-end market. The idea of new products is enjoy the

bath. For years, Alpha invested lots of talents, material and financial resource in products development. See figure?, this is one of their hot new products.



Figure 11 The new design massage bathtub from Hangzhou Alpha Imp& Exp Co., Ltd. (Alpha 2010)

Although Alpha started in OBM steady, they do not abandon OEM. At present, OEM and OBM are coexistent, because the manager think they are not strong enough in OBM. From the consumers' feedback, own brand have a positive impact on Alpha. Consumers think that Alpha is more professional and trustworthy than before, they have higher willingness to cooperate with Alpha.

#### 4.4.2 OEM Updating path: OEM to ODM to OBM

In order to realize of the enterprise developing, need continuous learning and innovation to formed Alpha's own core technology and R&D capabilities, and based on this, foster independent global brand. Specifically, Industry has to set up brand awareness firstly. During the business for developed countries with OEM business, learning from the produce process, accumulate manufacture experience, grope, explore, copy and development of equipment and high-tech skills at the same time. It is the process introduction and secondary innovation.

When Alpha has own design and preliminary research and development ability, they are trying to transition to ODM gradually, and expand to upstream of industry chain. Along with the further increase the strength of Alpha. Start from 2005, Alpha is on the way to OBM



development. ODM is the necessary support of own intellectual property for brand development. At this way, in the realization of transition from OEM to ODM to OBM, Alpha is also schussed to upgrading of technology and products.

## 5 CONCLUSION

This thesis examines the reasons of enterprises transit their business style from OEM to OBM in Zhejiang industry, case company is Hangzhou Alpha Imp & Exp Cp., Ltd. The paper is based on the previous studies, given an in-depth analysis of the topic through theoretical and empirical research, as following conclusions.

This paper is an outcome of both theoretical and empirical analysis. In theoretical part, the value chain, brand management, and strategy marketing management are mainly applies. As mentioned, the main objective of thesis is to further support the necessity to transition from OEM to OBM of Zhejiang processing trade industries. In order to prove thesis objective through cases, Alpha Company has been selected, which is mainly in charge of importing and exporting sanitary ware products business. Alpha has decades of experience to do OEM, and started OBM few years ago.

In empirical analysis, SWOT analysis was used to make clearly understand strength, weakness, opportunity and threats of Zhejiang processing trade industry. In accordance with interview to manager and trade assistant of Alpha, in addition the practice training experience in Alpha before, through real case to further proof why if have to be transition from OEM to OBM. The most important reason is that comply with the development of the market. Change is a must when the market is saturation. The other reason is profits of enterprises. In fact, years ago, it can be said every enterprise which doing the international trade business get great profits. However, at present, totally different, there are serious competition, global financial crisis, and higher costs of materials. Anyone of those problems can makes business harder. To pass the crisis, they have to be changed, to have new further plan and selected the better way. Relative to OEM, as OBM has more profits, and autonomy.

After years of experience to rapid expansion, the international trade business in China is downturn in recent years. New situation of foreign trade has emerged gradually. As a whole environment of foreign trade, these changes are inevitable. Chinese enterprises upgrade and innovate while business development.

Furthermore, as a large foreign trade country in the past, cheap labor and raw materials are the most competitive of China. Nevertheless, these advantages are disappeared gradually. Chinese enterprise have to be faced those problems and try to solve them. The idea is to

find out the new form foreign trade, government expect and support enterprises to involve high-tech and more environmental business. This will be also the future of Chinese foreign trade, high-end and environmental.

For the further study, depth research is recommended. Due to some practical reasons, like could not to take interviewee face to face, time limited and cost. Some of questions were not enough understanding and researching. In fact, to understand one industry for short time is quite complicated. OEM and OBM are normal problems among lots of Chinese industries. OBM is still in early stage of development, like OEM in China years before. To suppose several years later, the problem shall be back, the new business model shall be replacing OBM, anything is possible.

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Interview:

Interviewee	Title	Company	Time
Chen Xinxin	manager	Alpha	18.11.2010 & 20.11.2010
Zhou Feifei	trade assistant	Alpha	18.11.2010 & 20.11.2010

## LIST OF APPENDIC

## Appendix 1 The question list of interview

Following is the question list for interview, it give information support of case company:

### **The transition of Hangzhou Alpha Imp & Exp Co., Ltd**

#### **Company background**

1. How many years did your company established?
2. What kind of business your company refers to?

#### **OEM mode**

1. How many years did your company adapt OEM mode?
2. Why did your company choose OEM industry in the very beginning?
3. What is strength of the OEM for your company?
4. What is weakness of the OEM for your company?
5. What is opportunity of the OEM for your company?
6. What is threat of the OEM for your company?
7. What are the difficulties when you are doing OEM business? (Finance, customer communicate, supplier searching, product manufacture...)

#### **ODM mode**

8. Does your company have ODM mode at present?
9. Do you think ODM is helpful in the way from OEM to OBM?
10. How many designers does your company have?
11. How many years does your company start to design by your own company?

#### **OBM mode**

12. What are the main reasons force your company to adapt OBM mode?
13. When you start the OBM business?
14. What is strength of the OBM for your company?
15. What is weakness of the OBM for your company?
16. What is opportunity of the OBM for your company?
17. What is threat of the OBM for your company?
18. What are the ideas of your company developed both OEM and OBM at the same time?
19. What essential abilities do you think one enterprise must have if he wants to carry on a transition to OBM mode?



