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I, Bing Han, hereby submit this original work as part of the requirements for the degree of Master of Design in Design.

It is entitled:
Current analysis of Industrial design firms in China - An Industry Report

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This work and its defense approved by:

Committee chair: Craig Vogel, MD
Committee member: Paul Zender, MFA
Current analysis of Industrial design firms in China
An industry report

A thesis submitted to the
Graduate School
of the University of Cincinnati
in partial fulfillment of the
requirements for the degree of
Master of Design

In department of Design, Architecture, Art and Planing
by
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Bachelor of Engineering, Tianjin Polytechnic University

Thesis Committee:
Craig Vogel, MD
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Abstract

This paper reviews and analyzes the state of industrial design firms and businesses in China. The research includes mixed methods of primary and secondary research. Over 40 one on one interviews and site visits were conducted with Chinese Industrial Design firms. Additional interviews were conducted with professors from U.S. and Chinese universities, senior managers and founders from United States based design firms. Concurrently, significant amounts of secondary research data were collected. Based on the research, now is a great time for industrial design in China. Business is rapidly growing due to economic, political and other factors. However, the data also uncovers that most Chinese industrial design firms are not without challenges. First, it is difficult to make Chinese clients believe that there is any value in creativity. Design is perceived as a commodity and purely execution. Second, win their clients’ trust on their capability of generating innovative solution and becoming a partner in their clients’ strategy. Some Chinese industrial design firms have overcome the first challenge. As these Chinese firms overcome the second one, they will begin to compete directly with international industrial design firms. Currently Chinese industrial design firms and international ones have different strengths; the author suggests that collaboration between them would be a good solution for both.
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Introduction

Industrial design in China has been emerging in China since the 1980s. Academia introduced professional design to China and as a result the focus was on history and theory, rather than practical experience. The earliest Chinese industrial design firms were founded in the early 1990s in Shenzhen, Shanghai, and Beijing. Growth of the industry was slow until 2004, when the first boom of industrial design firms began. Many more Chinese industrial design firms have been founded since then, than ever before. Multinationals also realized the need to develop products specifically for the Chinese market. As the local talent base improved, more of the multinationals companies employed Chinese designers. Sony, Samsung, Motorola, Nokia, General Motors, Volkswagen, and many others have opened design teams in China to research local tastes (Rocks, 2005). At the same time, many more international ID firms came into China.

Recently there has certainly been a great deal of speculation regarding the real or perceived rise of Chinese industrial design (Tharp & Munson, 2005). In late 2003, a survey conducted by the Federation of Hong Kong Industries discovered that only a very small-size percentage of Hong Kong manufacturing operations employ the service of designers even though there seemed to be an appreciation of what and how design may help in business (LAM, 2007). Also state owned companies had undermined the incentive for innovation instead of contribute (Fuller, 2009). In 2005, Business Watch Magazine published a paper, "China does not need industrial design?" The article cited many examples, research and discussions; it showed the tough situation of Chinese industrial
design firms and gave one conclusion that the value of design is far underestimated in China, and as a result most Chinese industrial design firms are suffering (Wang & Feng, 2005).

The world economic crisis is a clear signal that the golden age for OEM in China is coming to its end. The global financial crisis has made more and more companies realize that it's not sustainable to depend on cheap and low-end products (Du, 2010). As the industrial structure of China is upgrading fast, the demand for design/branding/strategy services are also increasing. This is a great opportunity for design firms and designers in China (Jia, 2009). As China evolves from its status as a developing country with an emphasis on primary industries and manufacturing, to a mature, market-driven economy benefiting from high levels of international investment, it will become more actively engaged with the global “knowledge economy” and “information society”.

Chinese design firms appear to be moving even faster, developing innovation capabilities that will enable them to compete head-to-head with western companies soon (Collinson & Sullivan-Taylor, 2008). In this context, developments in the “creative industries”, which are playing such an important role in developed economies, might reasonably be expected in China (Hartley & Montgomery, 2009). The support and attention from Chinese government has increased dramatically as expected. For example, in 2008 and 2009 large numbers of low-value added export manufactures in China collapsed due to the world economic crisis. CCTV (China Central Television) and many local Chinese televisions broadcast all kinds of reports and interviews for industrial design firms and innovation oriented corporations. These “free advertisements” are part of the Chinese government’s plan of recovering from world economic crisis and upgrading China’s industrial structure. In 2010, for
the first time the Chinese government put developing industrial design into its big economic strategic plan and wrote them into formal economical guidelines (Zhu, 2011).

In this paper, the author will research the current state of industrial design firms in China, and the future opportunities for them. This report will start from a mix of primary and secondary research. Based on analysis of the data, additional research will be conducted including interviews, anthropography research and focus group research.

Research

Methods

This part includes primary research and a secondary research.

In the primary research, the author will gather data by interviewing participants, and visiting their offices and facilities.

Secondary research came from three areas of exploration for Chinese industrial design firms. These areas are: 1, Economic Background; 2, Political background; 3, Philosophy, strategy and methods.
Participants

1) Chinese industrial design firms.

In order to have a broad understanding of the current state of Chinese industrial design firms a list of 43 firms in four cities (Shanghai, Beijing, Nanjing, Hangzhou) were picked and visited. This list included most of the best Chinese industrial design firms in these four cities such as *S.point design*, *Nova design*, *LKK*, *Exmade design*, *LEO design*, and *Mooma design*. In addition to top tier firms, medium and the new small-size ID firms were also surveyed. Of these 43 firms identified, 29 accepted author's interview, 2 did not. The remaining ID firms had moved or closed. Of those who offered the author an interview, more than one hour of their time was provided, and most of the people interviewed were top managers or founders.

2) US and international industrial design firms

Five design firms in US were visited. Mangers or founders from six other design firms accepted telephone interviews. These design firms include Frog, TEAM design, Kaleidoscope, Priority Design, Essential design, and so on.

3) Professors

Professors from several Chinese and US universities were interviewed face to face or through phone or email.
4) Chinese government officers.

Face to face conversation with two government officers. One leads the Industrial Design Government & Business relationship in Beijing; the other is the Chinaman of Shanghai design center (a government organization).

**Procedures for primary research**

The basic questions asked during the interview (phone and face to face conversation):

1) When your company was founded? Why and How?

2) What's the main business of the company and where do most of the profits come from?

3) How many designers in total? Which kind of designers are they? And how many for each kind?

4) How many engineers do you have?

5) Do you have office in other cities or countries? Where are they? If not, do you plan to open offices in other cities?

6) Who are your clients? Where are they located or where are the offices that you do business with located?

7) Who are your long term or repeat clients? How many are there?

8) Does your firm have close business partners? Who are they? What business are they in? What kind of relationships are they?

9) What percentage of your clients are new ones each year? How do these new clients discover
10) What is the cost of your average project (describe the design project)? How you price it?

11) What is the average duration for the typical industrial design project (describe the design project)?

12) What is employee turnover like? How you keep the company structure stable?

13) How many of your projects involved consumer research, strategic design, and or technical innovation?

14) What do you view your company? (One of the best, above average, small-size but has huge potential, and so on.)

15) What's your company's five year plan? Or where can you foresee your firm in five years?

Other questions were asked depended on different situations. For example:

1) Do you have a factory, if so where is it? How many workers do you have? What's the output?

2) How many salesmen do you have?

Results and Discussion

Result from primary research

For the purposes of this research these Chinese industrial design firms are separated into three
groups: small-size, mid-size and the top industrial design firms. The evaluation criterion used to identify small-size and mid-size ID firms are the number of designers, the average payment of each design project and design capability. The evaluation criterion used to separate top ID firms from other ones are the size of the company, popularity, clients and design capability.

<table>
<thead>
<tr>
<th>Design firm information (In average)</th>
<th>Small-size ID firms</th>
<th>Mid-size ID firms</th>
<th>Top ID firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial designers</td>
<td>2</td>
<td>10</td>
<td>30-100</td>
</tr>
<tr>
<td>Structure designers</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Marketing persons</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Price for each project (Example, airconditioner, ID+MD)</td>
<td>20k</td>
<td>50k</td>
<td>80k</td>
</tr>
<tr>
<td>Ratio of customers in international top 500 companies (excluding Chinese companies)</td>
<td>0</td>
<td>A few</td>
<td>50%</td>
</tr>
<tr>
<td>Ratio of customers in top 200 Chinese companies</td>
<td>0</td>
<td>A few</td>
<td>30%</td>
</tr>
<tr>
<td>Ratio of NEW customers every year</td>
<td>90%</td>
<td>80%</td>
<td>50%</td>
</tr>
<tr>
<td>Job quit ratio (per year)</td>
<td>80%-100%</td>
<td>30%-80%</td>
<td>30%</td>
</tr>
<tr>
<td>General time costed for each project (Example, airconditioner, ID+MD)</td>
<td>2-4 weeks</td>
<td>Less than 2 months</td>
<td>2 months</td>
</tr>
<tr>
<td>Percentage of time spending on design research</td>
<td>0</td>
<td>5%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Chinese ID design firms can be sorted into three generations.

The first generation firms were founded before 2000. Most of the surviving first generation design firms are the very famous design firms in China.

The second-generation firms were founded between 2001 and 2005. Most of the mid-size level ID firms are second generation.

The third generation firms were founded after 2006. Unlike that many of the first and second generation firms which were founded by college teachers, a large proportion of the third generation ID firms were founded by designers who used to work in the first and second generation Chinese ID firms.

Example: the growth of one Chinese ID design firms' revenue (second generation).
Salary of designers in Shanghai/Beijing (Undergraduate, RMB/month)

<table>
<thead>
<tr>
<th>Salary</th>
<th>1st year</th>
<th>3-5 year</th>
<th>7+ year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese Design firms</td>
<td>2000-5000</td>
<td>3000-7000</td>
<td>5000-10000</td>
</tr>
<tr>
<td>In Big Chinese company</td>
<td>3000-5000</td>
<td>4000-12000</td>
<td>10000-18000</td>
</tr>
<tr>
<td>International design firms</td>
<td>3000-6000</td>
<td>5000-10000</td>
<td>8000-15000</td>
</tr>
<tr>
<td>International corporation</td>
<td>3000-6000</td>
<td>10000-15000</td>
<td>15000+</td>
</tr>
</tbody>
</table>
Non-Government industrial design entities:

<table>
<thead>
<tr>
<th>Industrial Design Enterprises</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing Industrial Design Promotion Organization</td>
<td>- Assist enterprises to improve value-added products and balance market competition. - Promote activities for industrial product design, space environment design and visual design.</td>
</tr>
<tr>
<td>China Association of Automobile Manufacturers</td>
<td>- Gathering together vehicle and parts manufacturers for discussions concerning industry issues and trends. - Assist enterprises in improving the quality of industrial design products.</td>
</tr>
<tr>
<td>China Industrial Design Association</td>
<td>- Development of Chinese industrial design industry. - Assist enterprises to compete by advising on the value of design.</td>
</tr>
<tr>
<td>Shanghai Industrial Design Promotion Organization</td>
<td>- Promotion of Shanghai design innovation. - Provide more added value services for the innovative design and promote economic development.</td>
</tr>
<tr>
<td>Shenzhen Industrial Design Association</td>
<td>- One of the most influential design associations in China. - Establishing professional committees for different aspects of industrial design such as product design, graphic design, packaging design, etc.</td>
</tr>
</tbody>
</table>

All these non-Government industrial design entities have government backing.

**Teachers’ Design Agencies**

Those teaching industrial design in college founded many of the design firms in China. Many of the
famous Chinese industrial design firms evolved from the informal business model of "teachers' design agency". "Teachers' design agencies" played a significant role in the early stages of Chinese industrial design's development; however, now its existence is more of a hindrance to Chinese industrial design than in previous years.

Cons:

When these teachers started their design businesses, in most instances their agency ID projects were only leisure-time activities. Their major incomes were still their salaries. Many of these teachers were neither professional designers nor businessmen; they used their limited social networks to get industrial design projects. Most of them didn't have consistent ID projects. As a result most of these design agencies didn't have designers as formal employees. When the teachers got a project, they will gather a number of their students to work for them, sometimes for free. Some of the teachers didn't take the projects of their ID agencies seriously; they wouldn't do the design themselves but leave the design work to their students. At first, students like the opportunity to work for the teachers because of the opportunity to learn something from doing real project work. (Sometimes, it is considered an honor to be picked to do work for their teachers). However, there was in reality not much to learn from these kinds of projects. Few students would work for their teachers (almost for free) for any long period of time. Also, college students would always be busy in their 4th year, then graduate and get a formal job. So the majority of the students working in teachers' design agencies are mainly second year and third year students, who are learning rather than doing design projects. Since these teachers only treat the ID projects as part-time activities, without paying their students
nor a consistent work place, this kind of design agency can tolerate an extremely low design fee (like 5K RMB). Because of the low fees, some of the teachers who owned ID agencies don't always treat their ID projects seriously; as the design fee is only a small amount of extra income. The quality of their students' designs is also quite low, but this low quality work is acceptable for the teachers, as even if the client refuses to pay there is not much too lose.

Small-sized start up ID firms share the same client base as the university teachers’ ID firms. Teachers’ firms fees can be much lower than the start-ups. This contributes to the perception that there is little value for industrial design itself. This effect at the low end of the market influences the de-valuation of fees across the entire design service industry. Moreover, the inconsistent quality of the teachers’ design agencies is not only destroying their own reputation, but also the willingness of the client to trust other industrial design firms. In many instances Chinese clients first interaction with ID agencies are with these university teacher firms. Even though these clients had no prior working knowledge or experience working with industrial design, they want to try. However, the low-quality design delivered creates the expectation that there is no value in hiring industrial design firms. In most instances few will experiment with industrial design firms for a long time.

Pros:

While the cons are hard to overlook there has been some benefits from these university teacher firms, at least in the early of the Chinese industrial design's development (before 1997). At that time, the market demand for industrial design was too small for other design firms to be built from nothing.
Teachers’ design agencies enabled the transition phase of the business of design in China. They not only helped the earlier explorers reduced their risks; but also contributed to the development of whole industrial design service business.

Unlike now, most of those early explorers treated their ID projects seriously. As these teachers accomplished good work and completed high quality work they started to forge long term relationships with their clients. Their reputation and fame became strong enough to consistently attract projects on an ongoing basis. The teachers who delivered work beyond expectations had common strategies. They were eager to learn all kinds of business knowledge that is useful for starting a company. They began by building a core team for their design firms. They gathered a few talented student designers who were very loyal to them and their business. They trained those students to be professional at the same time treated them fairly. These students became the “core team”. Later, many of these well-trained “core teams” members became the founders of second-generation of Chinese industrial design firms.

Some of these teachers’ design firms are very big now, including those most famous industrial design firms such as Exmade, Mooma, LEO and LKK. Those owners’ college salaries became relatively negligible. However, they still prefer to keep their identity as teachers in colleges. In some instances a design firm owner that is a college teacher can be positive. For example, clients often will show more trust and give them more respect if they are teachers. Also, they will be able to identify the talented designers earlier than others. Culturally the “teacher & student” relationship is one of the
Small-size Chinese ID firms

Most of the small-size industrial design firms were founded after 2006, the third generation ID firms. Most of ID firms founded before 2006 have already grown bigger or closed.

One of the biggest challenges for small-size ID firms are the difficulty to attract design talents and then retain them. Managers are frustrated by the high turnover among their employees. This situation is bad in China’s biggest cities such as Shanghai and Beijing, but it’s even worse in second level cities. Sometimes, the turnover can be as high as 100 percent. One owner of a design firm related the following story. Right before the Chinese New Year vacation, he paid his employees (Four employees) their last year’s bonus. He and his employees celebrated their success and planed their next year’s goals together. All looked pretty good. However, when he came back from the Chinese New Year vacation, he waited in the big office a whole day by himself. Then he understood that none
of his past employees were coming back. The New Year becomes a totally “new year”.

Since many owners of small-size ID firms have known that high turnover is what stopped them from developing, they have created different solutions. Few of these “solutions” are effective. Small-size ID firms cannot pay their employees with salaries as high as large corporations; nor give their employees a bright future full of opportunities. Nevertheless third generation ID firms that are founded by more than one person are growing faster and more stable than the ones founded by one person. This phenomenon is also true among second-generation ID firms.

Small-size industrial design firms’ clients are manufacturers that have little experience working with ID companies. On an average of 40 percent of them come to ID companies for the first time because they just want to try once to see if it works. This leads to an interesting result. The most common complaints small-size ID firms owners are: “Our clients know nothing about industrial design, so they don't trust our design. They interfere with our work and tell us what to do, even though they didn't understand industrial design. Compounding the problem, is these firms can't take the risk of losing the project by disagree with the bossy clients. It's just impossible to communicate with them!”

Over 90 percent of the projects, clients of small-size ID firms are looking for small-size changes based on existing products (their products or their competitors’ products). They prefer design that already exists in the market over new creative designs. This contributes to the difficulty of working situation with these clients of small-size ID firms. Those clients have doubts on the value of design
and have little trust in designers in these firms. They always try to reduce design fees, even though it is already very low. They kept telling designers what to do, and consistently change their mind constantly. All the small-size industrial design firms the author visited were struggling to survive. They had to fight hard for every project that came to them. They have no influence over their clients.

The most common reasons clients come to choose small-size industrial design firms:

1) The client’s competitor was working with an ID firm, so they want to work with one too. Prior to the competitive threat the client didn't have any plans to engage an ID firm.

2) Introduced by friends or employees.

3) Through TV stations’ introduction, the client learned about industrial design and became interested in it.

The most popular design projects small-size ID firms done for their clients.

1) To make their old fashion products look similar to the popular ones in the market.

2) The new product's shape that designed by engineers is too industrial that needed to be refined.

3) The client wants its decades old product to have a new modern look so it could be sold with a much higher price.

4) In all three kinds of work above, design is fully restrained by the existing products structure.
Mid-size Chinese industrial design firms

Over 90 percent of the mid-size industrial design firms are second-generation ID firms founded between 2001 and 2005. The ones founded before 2001 were either disappear or became top Chinese ID firms; those founded after 2005 were simply too young. Many owners of mid-size industrial design firms used to work in the first generation industrial design firm.

The typical clients of mid-size industrial design firms can be describe as below: they have some experience working with ID companies. From their past experience of working with industrial design firms, they have some understanding and confidence in industrial design. Their understanding of design and some past successful experiences have encouraged them to spend money on design. However, these clients still treat design as a cost instead of an investment, the increase of design fee of small size firm for each project is little. Most of these clients are still very conservative and reluctant to accept new and creative design. They treat ‘creative kind of design’ as game of risk, due to the reason that they were small, they relied mainly on a few products and all of them only had a very small market share. The success or failure of one product almost equals the success or failure of the company. At the same time, mid-size ID firms intend to strengthen the relationship with some existing long-term clients; also they target new clients to become long-term business clients. Based on past understand how to make effective use of time to find out who are good clients, who are not and give up the worst ones.

In all the middle-size ID firms interviewed, close to 50 percent of them shared a same character:
most of their long-term clients are in the same business category (such as office supplies, the category can be as narrow as only pens). These kinds of ID firms are very professional in this category. Their revenues are very stable, but it is very easy for them to reach a limit on their revenue growth.

Some mid-size industrial design firms realize that design in China is not an effective way to earn profit. They found other profitable business models besides industrial design but it is often related to industrial design. They started to treat industrial design as their core competence rather than a profit pattern. For example:

1) Todesign (Shanghai) is an industrial design company. It has a small design team with 7 senior designers and a small factory with 60 workers. This small factory can produce 60 to 100 thousands small pieces of product cases per month. The profit of manufacturing is much higher than design, for this reason, Todesign sometimes charges its clients zero design fee in order to win the manufacturing work. The Binding of design and manufacturing became Todesign's key advantage. It reduced the cost of design for its clients, while also inspiring confidence in their clients that the beautiful and expensive design can be produced.

2) Magic product design (Beijing) is a gift design and sales company. It has a design team of 10 product designers and a marketing team of 20 sales people. Magic products design company's binding of design and sales together created its strongest competitiveness. Comparing to other gift and product design firms, Magic product design has its own distribution channels and it only designs for itself. Comparing to other gift selling companies, it has many unique products that
can't be bought from any other companies.

Todesign's business model makes it possible to have more revenue than most of other mid-size ID firms. However, its manufacturing department is where most of their profits came from, not design. Todesign was willing to have projects with small amounts of design work and small amount of manufacturing work (they only have a small factory with 150 workers). This will leads to several problems. First, If Todesign tries to improve their design and get bigger design projects it will exceed their manufacturing capacity to support the client need. Bigger design projects require lots of resources in design department but do no benefits to the manufacturing department and bring little profit contribution to the company. Second, if Todesign is getting big manufacturing projects and improving its manufacturing capability, then its design team may not be professional enough to support it, or design may not be needed in the project at all. Then the development of manufacturing department won't provide any benefits to the development of the design department.

Top Chinese industrial design firms

In 2008 and 2009, CCTV (China Central Television) and some local Chinese televisions did many "free advertisements" for industrial design firms. The "free advertisements" were news stories shot by reporters with a purpose of showing the broad masses of manufacturers' managers the power of innovation and design. These "free advertisements" are part of the Chinese government's plan of
recovering from world economic crises and upgrading China's industrial structure. The most popular story scenarios are some like this: one company manager's foresight came to a talented industrial designer by coincident. They started to work together. They were able to overcome the difficulties of collaboration and the design showed its power at the end. A happy ending: the company became much bigger than before and the talent industrial designer founded his own design firm. Since these are news stories, they use real company names and real industrial designer's name. For this reason, some industrial design firms and their founders became very famous in China. So, there are many famous industrial design firms, but there are only a few top Chinese industrial design firms.

Except one of the top industrial design firms were founded before 2002. All of their founders are very famous in this business for the reason that industrial designer is a very small group. The best Chinese companies are building their design staffs or hiring outsiders to help them make more products of their own (Rocks, 2005). The outsiders are mostly international design firms and top Chinese ID firms. They also have connections with local government and universities. Many founders of the top Chinese ID firms used to be college teachers.

Over 50% top Chinese ID firms’ clients are long-term clients. For this reason, their revenues are more stable with much higher net income than small-size and mid-size industrial design firms. Top ID firms can pay their designers 1-2 times of salary that mid-size and small-size ID firms can pay. This makes them easier to keep design talents, or even hire international designers.
Top Chinese ID firms have many loyal designers who have been worked there for more than 7 years (since the firms were founded). Most of the designers working in mid-size Chinese ID firms only stayed in one firm for 2 or 3 years. This number goes down to 1 for designers working in small-size Chinese ID firms.

**Economic Background in China**

1. China overtakes Japan as the world's second-largest economy
2. China is the world's fastest-growing major economy
3. China will be the largest manufacturer in 2011
4. The Chinese market is one of the fastest growing markets in the world

China is growing fast, and if capital accumulation proceeds at the current pace, innovation capabilities will rapidly be built up in China (Altenburg, Schmitz, & Stamm, 2008). However, China's growth is largely input driven, and this will constrain the rate of future growth.

**Design/methodology/approach** - Statistics were gathered from a number of sources to make the case that China will face limited growth in the near future (Troilo & Zhu, 2010). If China can not finish building up its innovation capability before its economic growth rate slowing down, it will be a big problem. Currently, one serious problem is that the low-cost advantage of coastal area of China is gradually diminishing. The government gives manufacturers in coastal areas two options: move to the inner part of China; or innovate and compete in a higher-value market.
First, move to inner part of China. Manufactures keep the labor cost low; China keep its place as the biggest part of global market and its high economic growth rate.
China is big. Not all the provinces in China are on the same economic level. The economic levels of provinces in coastal area are much higher than the ones located in the inner parts of China. This economic difference makes them look like two different worlds. For this reason, many OEM manufacturers are moving to cities in inner part of China, where the labor costs are still low enough for them to maintain their price advantage. China has always been highly active in seeking to forestall the emergence of a politically conscious organized labor movement in ways that have important implications for the mode of China’s insertion into the international division of labor (Gray, 2010). The Chinese government does not plan to give up those low-value-added international businesses, at least not yet. Provincial governments in the inner part of China are building brand new manufacturing cities with complete infrastructural facilities. Along with many other beneficial policies, they successfully attracted many OEM manufacturers to relocate, such as Foxconn. Building new manufacturing centers can stimulate the economy of inner China, bring inner China’s development level closer to that of coastal areas, and narrow the gap between the wealthy and the impoverished to ensure social stability.
Second, innovate and compete in a high-value market. Greater innovation enables manufacturers to overcome the increasing labor cost. For China, this is the key to upgrading the industry structure.

OEM, largely depends on world economy. Due to the economic situation, many of those enterprises that run OEM businesses have none or fewer outsourcing contracts. The profit margins of these remaining contracts require a reduction of labor costs. Margins are further eroded due to the rising
value of Chinese currency in the world market.

Compared to the world market, the Chinese market is growing fast. Passively or actively, more and more manufacturers are changing their business models to compete.

Enterprises that run OEM businesses can utilize their existing production and technology capabilities to compete in the Chinese market. However, the knowledge needed for doing OEM is very different from that needed for businesses to create products that resonate with consumers directly. For businesses implement the changes to create branded goods there are a lot more problems than just quality/cost control and client relationship. Lack of knowledge that is one of the biggest concerns that prevents managers of many manufacturers from making changes; it continues to be one of the biggest challenges for the manufacturers who have made the changes. The consulting firms that have professional knowledge and experiences are becoming extremely valuable for those manufacturers. A healthy appetite for innovation and willingness to invest has increased the ability to compete in their local market, and it might also allow them to capture more prestigious global
business (Koepenick, 2008). Working with industrial design firms, marketing firms or branding firms becomes necessary and critical for those manufactures who wish to achieve success.

**Political background**

Contained in the five-year plan of People’s Republic of China are a series of economic development initiatives. Communist Party of China (CPC) plays a leading role in establishing the foundation principles of these initiatives. The future of China was shaped by CPC through plenary sessions of Central committee and national congresses, which was written into the Five-Year Plan of China. Its contents include mapping strategies for economic development, setting growth targets, launching reforms and so on.

The twelfth Five-Year Plan of China was finished in 2010. The first point noted in the document is that China has developed the infrastructure and technological foundation which is strong enough for it to overcome the any roadblocks of future development. Second, Chinese industrial structure has changed, and the international competitiveness of the manufacturing industry has significantly increased. Third, China’s vast domestic market still has huge potential. Fourth, China is
deepening its political reform. There are three whole chapters which discuss the industrial structure upgrades and technological innovations. This is the first time that the Five-Year Plan of China concentrates more on upgrading the abilities of existing manufacturers and arming them with the necessary skills to succeed in international competition, rather than discussing how China might increase its manufacture capability.

This change of focus in 2010 Five-Year Plan of China is important. The Five-Year Plan is the most authoritative guidance of China's economic and political activities. It will change the work concentration and priority of the levels of Chinese governments. And as a result, there will be a lot more beneficial policies and government support for the design and innovation industry. This lined up with the claim from two government officer interviewed by the author: many beneficial policies for industrial design are making by local governments.

**Philosophy strategy and methods**

The twisted interpretation of "Marketing as King" had dominated China for a very long time. Many entrepreneurs believed that a concentration on marketing communications was all that it took to be successful. The popularity of this theory largely undermined the healthy development of many professional consulting businesses (including industrial design) in China. It was caused by the immaturity of Chinese entrepreneurs and consumers. It also reflected another truth. In this fast growing market (Chinese market), it's too easy to find fast success business examples to support the
theory of "Marketing as King".

The craziest years of "Marketing is King" started from 1995 thanks to CCTV. China Central television (CCTV) is the biggest television-advertising platform in China. When CCTV held the first advertising bidding in 1994, the winner spent four million dollars on advertising on CCTV, far more than the winner's previous year's revenue. This increase in advertising spending demonstrated the power of advertising as the ‘winner’s’ return on investment in 1995 increased beyond anything previously experienced in China. These strong results stimulated the bidding; by the end of 1996 (the third year of bidding) the price went up to 40 million dollars.

Years later, in retrospective, the first 4 corporate bidding winners all ended as tragedies: go bankrupt. Nonetheless, huge numbers of entrepreneurs in China still believed in "Marketing is King". They reasoned that as long as they controlled the selling channel and spent enough on advertising, they could sell stone at the price of gold. And too often, when consumers realized the advertising misled them, some entrepreneurs simply abandoned their old products and brands, launched new ones depending on their marketing to build their revenue. In that period of time in China, despite the presence, and the advice, of some very good consulting agencies and design firms in China, manufacturers still did not feel they needed to focus on product quality, branding, and building consumer loyalty. Some companies continued to ignore product quality standards, branding, and issues of consumer loyalty and still made huge profits. Their attitude seemed to be ‘who needs that other stuff?’ But the game was changing.
The craziest years of "Marketing is King" ended in 2004 (Jia, 2009). In this year, P&G became the CCTV bidding winner for the year 2005. P&G, along with other international corporations, brought new thinking into China. The misleading version of "Marketing is King" began to fade from mainstream thinking. Coincidently, the number of consulting agencies and design firms has increased sharply since 2004.

Recently, China has become a more credit based society than in the past. Because consumers are more mature, most entrepreneurs have become more committed to understanding both the consumer’s needs and their decision making process. Most Chinese corporations now recognize the multitude of product and brand choices that consumers currently have and are thus starting to turn to the experts that can help them with strategy, branding, and most of all, with more creative executions.

Case study:

For many companies, the key question is not only about what they can do today, but also what can they do tomorrow? This case study explored the following points below:

1. Importance of having a visionary leader

2. Be prepared and financed first.
One year after Galanz bought a production line from Toshiba Corporation they started making Microwave ovens. At that time, Galanz had mainly worked on outsourcing contracts, only producing products with their own brand when they had surplus capacity. By 1995, the overall production and sales of Galanz had become number one in China. In 1999, Galanz's production and sales volume had reached $6 million, becoming number one around the world. In 2001 the number reached was $12 million. In 1997, only 10 percent of the products exported were sold under Galanz's own brand; this number increased slowly to 30 percent in 2003, and after 2006, more than half of its products exported were sold with its own brand.

This indicates the advantage of having a visionary leader. OEM was never the Galanz’s final goal. One year before Galanz bought the production line; it had already hired 5 senior engineers to form the technical team. Right after it becomes number one in China, it had already hired several well-known international marketing managers. Originally, Galanz did not spend much money on branding. That shift began in 1995, the year its production and sales volume became number one in China. In 1997, they hired a famous Korean marketing person to become their international marketing director; that was also one year before its production and sales volume became number one around the world.

The Galanz story is a very instructive case study. There are now a many Chinese companies transforming themselves from being only manufacturers of OEM contracts into corporations with their own R&D ability and their own brands. Compared with selling products of their own brands,
manufacturing for OEM contracts is stable income and much less risky. Using Galanz as an example, the best strategy for OEM centered factories is to grow and learn through the OEM work until they are financially and structurally strong enough to branch into the design and marketing of their own branded products.

While branding is now understood as important, it could be harmful rather than helpful if the OEM manufacturers are not strong enough and fully prepared to make the transition. Most Chinese OEM manufacturers aren’t yet qualified to make this transition. The decision to commit capital and human resources required to successfully launch a branded products depends on market factors, determination, and most of all, an understanding of how long it might take to achieve success. Of note is the fact is that many Chinese manufacturers, even those with world recognized brands still do a significant amount outsourcing work for other international corporations. That OEM business is still their most stable income resource.

After 1990, as the Chinese economy went into a fast growth mode, stories of making great fortunes over night spread. That’s one of the key reasons that the theory of "Marketing is King" dominated mainstream thinking for such a long time and sadly why so many Chinese managers and entrepreneurs continued to only be interested in short term profits. However, if OEM factory managements aspire to do more than just OEM manufacturing by selling branded products and expand into external markets, they must first learn the hard lessons already learned by their competitors. The Chinese and world markets are fierce battlegrounds and only the best prepared,
and well financed, companies can hope to succeed.

Conclusion

Based on the results from the secondary research, it leads to one to conclude that this is a good time for design business in China. Three points are of note. First, the fast development of Chinese economy has helped China to accumulate vast material and technical resources. These resources gave China the confidence required to upgrade their industrial structure. The 2008 worldwide economic recession became a great opportunity for China. Based on the information contained in the Five-year plan of China, the most authoritative resource in China, the Chinese government immediately shifted its emphasis to design and innovation rather than manufacturing output alone. Second, Design has been gaining momentum since the mid-1990s. But due to the current economic situation, China needs to invest in design more than ever before. Third, in past years, the immature Chinese market neglected to give advanced design knowledge and methodologies the respect they were due, perceiving them as immature and useless. Now, as the Chinese market becomes much more internationalized and mature, entrepreneurs begin to see the importance of that knowledge and methodology.
Two developing obstacles

There are two developing obstacles for Chinese ID firms in sequence.

First, being a trusted design service provider who can deliver high business value with creative design.

Second, being a trusted strategic partner that can offer innovative solutions and to contribute to companies business development.

In China, Innovation is significantly correlated with Client companies’ competitiveness and size, suggesting that large companies are likely to become innovation leaders (Cao & Hansen, 2006). Which means the second obstacle is about building strong partnerships with top Chinese corporations and big international corporations. This in turn, leads to direct competition with international design firms.

Most mid-size and top Chinese ID firms have already overcome the first obstacle. With the economic, political and theory background, these design firms are developing fast to reach their second obstacle.
The second obstacle

What is there the second obstacle for Chinese ID firms? This hurdle can be divided into three reasons.

First, we know that large Chinese corporations and international corporations prefer to work with international design firms. Chinese industrial design firms work with other types of clients.

Currently, Chinese ID firms are still weak as compared to international design firms in China from many points. Chinese firms know the Chinese market well and are cheaper. However the quality of the work and less modern techniques and methodologies put them at a disadvantage when working with international corporations. The language difference causes communication problems and they are not considered to be trusted partners. Projects from large Chinese corporations and international corporations are the richest and most challenging projects. Most of these projects still go to international design firms’. There is no sign that it will change in the near future.

Chinese industrial design firms’ situation is getting better. More Chinese enterprises come to design firms looking for professional consulting. They have a better understanding of design and place greater value on industrial design. Many Chinese companies are looking for innovative solutions rather than just design refinement and incremental change. They pay industrial design firms more, because they consider design as an investment, rather than an overhead cost.
Second, clients of international design firms are looking for innovative solutions; clients of Chinese ID firms are looking for creative design. Many clients of Chinese ID firms understand the value of innovative solutions, but there are some objective and subjective reasons why Chinese enterprises' managers were very cautious about innovative solution.

Objective reasons:

1) Most Chinese ID firms don’t have the capability to find innovative solution and execute them.

2) Innovative solution could be seen as a challenge of customers' existing aesthetic habit. In order to make it accepted by sufficient number of consumers, sufficient funds, strong advertising and marketing capability are necessary.

3) Cheap copy is a fatal threat. Unless the company can make enough profit from the innovative solution; the company can utilize it to build (or enhance) its brand identity and
popularity or its brand value can force cheap copy to compete in a much lower price segment. If not, cheap copy will be used by its opponents against itself.

4) Innovative solution done by industrial design firms often result in changes on products' structure as well as profile. It may take long time to test the feasibility and stability of the new design. Even it the concept tests well, the need for new parts may cause a supplier change, which could be a tough and risky decision for some enterprises to make.

Subjective reasons:

1) Industrial design was a brand new business. Few entrepreneurs knew or understood it. People don't pay much for something they don't quite understand.

2) Industrial design firm are small (many of them are tiny), designers are young with little experience. It is understandable that clients don’t trust them.

3) The average age of their designers is around 25. And there's no legal measuring for the competence of industrial designers.

4) Design success is difficult to measure, just as it is difficult to quantify the value of design

Third, it needs a more than design capability to become the strategy partners and provide innovative solutions. In order to give innovative solutions, they need collaboration of all the different disciplines such as design, manufacturing, marketing, distribution and so on. In many cases, the best solutions are not new designs but new business models. This requires design firms to have experts with different backgrounds. At this time, few Chinese ID firms realize this and almost none of them have
diverse disciplines beyond design.

The Value of Collaboration

Chinese industrial design firms facing the second obstacle are not only competing with each other; they are becoming direct competitors of international design firms. However, as discussed above, Chinese industrial design firms and international design firms are sharing very different strength/weakness, which are mostly complementary. This leads to a hypothesis, collaboration maybe a good choice.

Advantages of collaborations for Chinese design firms

1. Improve design and research capability in a short time
2. Additional sources of profit.
3. More experience working with international clients and the opportunity to deliver high quality design work
4. The ability to compete at a different level of market, potentially enabling a faster business growth pattern.
5. Increase trust of their capability from both Chinese and international clients.
6. Face less risk and competition in China, therefore, enabling focus on higher levels of good design.
At the same time, many international design firms are looking for the opportunities to start businesses in China. For international design firms, normally the strategic plan outweighs earning huge profits. The most common reason for international design firms to open an office in China is because their key clients are doing business in China. China continues to be a place full of unknowns for most international design firms. And, China remains "a black hole for correct information" about its economy (Buss, 2005).

There will be many concerns in partnering and doing so with trusted Chinese design firms will be the best way to eliminate many of those concerns.

Advantages of collaboration to US design firms

1. Enjoy the cheap labor cost and vast amounts of labor: large amounts of professional engineers and college educated designers.
2. Take advantage of the local manufacturing capability, and the convenience of communication.
4. Hire Chinese employees who can earn more trust and understanding from local customers and new potential customers.

**Bibliography**


