|  |  |  |
| --- | --- | --- |
|  |  | H:\shared\Partners-External\Suppliers\China-Europe International Business School (CEIBS)\Logos and Templates\CEIBS-New logo.jpg |

9B17M003

RED COLLAR GROUP: SUCCESSION AND STRATEGIC TRANSFORMATION (A)

Jean Lee and Liman Zhao wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com.

Copyright © 2017, CEIBS (China Europe International Business School) Version: 2017-01-06

My original intention was to run a public enterprise rather than a family business. I had been cultivating professional managers, but I failed to find a good candidate. Finally, I decided to rely on my own children because they were the best. I had no choice other than that.

—Daili Zhang, Red Collar Group Co., Ltd., 2015

In September 2015, Daili Zhang, founder and board chair of Quingdao Red Collar Group Co., Ltd. (Red Collar Group) fully recognized and appreciated his daughter, Yunlan Zhang, when talking about the reason for having selected her as his successor as president six years earlier. But his daughter did not regard herself as successful: “It’s just the beginning. The breadth and duration of my position will depend on my performance and capabilities.” The 30-something, second-generation entrepreneur continued in her usual soft tone, “I believe that if one day I’m no longer up to the task, my father and the entire Group will not hesitate to dismiss me.”

In 2003, Daili Zhang decided to lead Red Collar Group in totally changing the clothing manufacturing industry, shifting from mass production to made-to-order on a massive scale. He started to build a global platform for personalized (i.e., made-to-order) customization called Red Collar Made to Measure (RCMTM). With the rapid development of information technology and a huge investment of hundreds of millions of yuan over the past 10 years, Red Collar Group had successfully launched this global suit-customization supplier platform. In 2015, Red Collar Group’s factories were able to automatically generate more than 20 patterns for completely different suits in a second. In 2014, Red Collar Group witnessed annual performance growth of 150 per cent with zero leftover inventory, and its sales revenues reached ¥6 billion.[[1]](#footnote-1)

But in Yunlan Zhang’s eyes, all of this was just the beginning. By the time the whole transformation of the enterprise was completed in 2013, Red Collar Group’s strategic positioning was no longer one of massive customization as it had been when she first became president in 2009; instead, it now followed the thinking of “Internet plus industry” (an initiative akin to Industry 4.0 pursued by the Chinese government). The purpose was to create a personalized customization platform—a customer-direct “smart factory” or customer to manufacturer (C2M) business ecosystem—allowing consumers to connect directly to the manufacturing plant. At the same time, Red Collar Group would begin setting off a transformation of traditional industry all across the country while providing one-stop solutions to make that transformation possible. This key task would be accomplished by Qingdao Kutesmart Co., Ltd. (Kutesmart), one of the core subsidiaries of Red Collar Group. In August 2015, Kutesmart released its core strategic product, “Magic Manufactory,” which would turn consumer demand into a direct driver of factory production.

Yunlan summed up her role as successor: “I am particularly grateful to my father. In terms of succession, I think the best thing he did was giving me direction and teaching me how to do things, instead of just handing over the enterprise to me. But everything is still in progress. If an enterprise stops developing, “succession” becomes meaningless.”

With all eyes on her, and with the hopes of her father, how should Yunlan steer Red Collar Group forward and implement the company strategy? How should she help Red Collar Group to attract the target consumers to the new Magic Manufactory product?

Establishment and Initial Development

Establishment and Background Environment

In 1995, Daili Zhang and his younger brother founded Qingdao Red Collar Garment Co., Ltd. (Red Collar Garment) in Jimo City, specializing in ready-to-wear clothes. Before that, Daili Zhang had worked in the garment industry for nearly 20 years and had been self-employed since the early stages of China’s reform and opening up. In 1986, he set up Laixi Jiali Garment Factory, which concentrated on jacket production based on ready-to-wear samples from Hong Kong and Taiwan. In 1988, in co-operation with a Taiwanese garment enterprise, he set up China’s first joint venture garment enterprise—Qingdao Xi Sida Garment Co., Ltd.

In its early years, Red Collar Garment followed the traditional path of mass-production, OEM (original equipment manufacturer) manufacturing, and retail selling. In October 1998, Red Collar Garment was restructured as Red Collar Group. In June 2000, the company initiated a joint-stock reform so that Red Collar Group could shift to a modern company structure. Daili Zhang was primarily responsible for garment production, purchasing, and customization, and his younger brother was primarily responsible for sales. By the end of 2002, his younger brother decided to go into the real estate industry, so Daili Zhang took over the retail business of Red Collar Group.

The Chinese garment market had incredible growth potential at the time—China was the world’s largest garment exporter, accounting for one-sixth of the international market. In 2002, China’s annual garment consumption totalled ¥240 billion, of which 95 per cent was attributed to the domestic market. Because the demand for garments exceeded the supply, traditional clothing companies could easily earn profits as long as they followed the traditional business model.[[2]](#footnote-2)

However, Daili Zhang imagined a future different from what others saw. The cost advantage of the traditional garment industry, which was a part of the manufacturing sector, was waning. The cycle of garment design, production, and consumption was a long one. The ready-to-wear industry was plagued not only by inventory problems but also by homogenization. At the same time, Daili Zhang believed that the business model of traditional garment manufacturing was unsound. The manufactured products were sold to consumers through intermediaries, distributors, and agents, leading to fraud, cheating, and price markups that seriously undermined the whole business ecosystem. Daili Zhang was aware that the pyramid based on low price, low cost, and channels was not sustainable for the manufacturing industry in the long run.[[3]](#footnote-3) The challenge he faced was how his garment enterprise could break free from the traditional garment industry model.

Heading for Personalized Customization

Greatly experienced in the garment industry, Daili Zhang had always been convinced that a well-fitting garment was the best. After his younger brother left Red Collar Group, Daili Zhang was determined to transform Red Collar Group into a company specializing in personalized, custom-made garments. Generally speaking, there were three types of garment customization: (1) simple customization, or the production of standard-shape garments without any changes in pattern; (2) semi-customization, or the simple modification of a standard article, i.e., by adding or reducing the length of some parts of a ready-to-wear sized garment without adjusting girth; and (3) full customization, which meant completely adapting to customers’ requirements and measurements, including independent designs, exclusive patterns, and exclusive craftsmanship in producing the garment.[[4]](#footnote-4)

However, the traditional garment customization industry had many problems, such as high costs, long turnaround time, and dependence on experience. To solve these problems, Daili Zhang visited many garment customization enterprises in Germany, Japan, and other countries in the 1980s. His visit to a full-customization garment enterprise in Germany left him deeply impressed with the company’s advanced technology and efficient productivity. He then decided to introduce a piece of customization production equipment from Germany. “I am very receptive to new things,” said Daili Zhang, “and I’m very fond of digital things.” He bought a computer early on in 1986 and invited a tutor to teach his children how to use it. “I am studying their concepts and I think I am a savvy businessman.” Daili Zhang firmly believed in himself: “I can do well! Innovation is risky, but it brings not just enormous risk and high costs but also hope for the future.” In his opinion, the brightest future meant the highest efficiency, the lowest cost, and the strongest profitability. He firmly believed that the mass production of made-to-order products was the only way to create such a future. He decided that Red Collar Group should adopt a full-customization assembly line production model based on the “one-to-one” concept, referring to one pattern for one person, one style for one product, and one production flow for one garment.

Strategic Transformation: Revolution of the Traditional Garment Industry

For many people, personalized customization and mass production were opposite concepts. But Daili Zhang did not think so; he believed that the basic requirement for mass production was standardization, and that personalization was the highest form of standardization. If all aspects of customization could be standardized, personalized customization could be achieved on a massive scale. To prove this point, Daili Zhang spent a decade in a factory “laboratory” of more than 3,000 employees. Drawing on big data technology and an Internet mindset, Zhang eventually succeeded in launching his RCMTM platform.

Massive Customization Driven by Big Data Technology

The RCMTM platform was launched in April 2012. As long as customers could access the Internet, they could use the RCMTM platform on their own to place orders and customize suits. The entire customization process contained more than 30 subsystems, all operated and driven by big data.[[5]](#footnote-5) All garment details could be personalized and customized by using this data system, allowing massive industrial production through the assembly line. The research and development (R&D) and system design were based on the common characteristics of more than two million customers’ individual data, which Red Collar Group had accumulated over the previous decade. Changes in any single piece of data would drive synchronized changes in 9,666 other pieces of data. In other words, the data points were closely linked, thereby ensuring garments fit customers properly.[[6]](#footnote-6)

Invention of the Body Measurement Method

Usually, garment customization (comprising body measurement, pattern making, tailoring, sewing, trying-on, and adjusting) was done by hand. As everyone has a different body shape, these manual steps, which depended on the experience of body measurers, had been a great source of the added value of garment customization. To find a quick and accurate method of body measurement, Daili Zhang consulted many experienced professionals and industry experts, but they thought it was impossible to acquire body measurement skills through shortcuts. Feeling desperate, Daili Zhang turned to his own rich experience, conducted in-depth research, and invented the “Three-Points One-Line”[[7]](#footnote-7) method, which he protected with intellectual property rights. This method required only a ruler and a dedicated shoulder-slope measuring instrument. Using this method, customers could accurately determine their own body measurements in just five minutes by measuring 24 points on 19 areas of the body. With this method, Red Collar Group needed only five working days to turn someone without any experience into a professional body measurer.[[8]](#footnote-8)

3-D Smart Printing Factory

The key to the RCMTM platform lay in using 3-D printing to replace manual pattern making. On the RCMTM platform, customers could collect body data through the “Three-Points One-Line” method and input their data into the system. The system then carried out data modelling and provided customer-specific clothing-data patterns by means of 3-D pattern making. The modelling process used big data technology to ensure the accuracy of the calculation model. Red Collar Group had a database of trillions of patterns that could cover the needs of more than 99 per cent of body types worldwide.

After generating the custom patterns, or fits, of clothing, the system would divide the garment data into approximately 300 steps, which were processed by a computer-recognition terminal, transferred to the stock-preparation department, and then sent to automatic cutting beds. All pieces of cut fabric were hung on a suspension system (similar to a train track), and each piece of fabric included electronic tags noting the customer’s information and individual needs. Workers on the assembly line could scan the electronic tags to access any production or other criteria from customers via the cloud. Then, workers could sew the lining, buttons, sleeve edges, and other parts according to technical data, working manually or by machine.[[9]](#footnote-9) The entire production workshop was tidy and clean, the whole assembly line was smooth, and no extra workload was backlogged between the related procedures. The various departments were synchronized, and all employees worked via online terminals, retrieved data from the cloud, communicated in real time with the markets and users, and achieved zero-distance, cross-border, and multi-language simultaneous interaction.[[10]](#footnote-10)

Moving beyond the Original Model

Based on 3-D printing technology and the integration of informatization and industrialization, Red Collar Group created a flexible manufacturing factory, and ultimately achieved personalized, flexible, large-scale, high-efficiency, and low-cost garment production. Compared with the homogenous batch-manufacturing model of the past, its existing industrial customization model had many advantages (see Exhibit 1).

In addition, Red Collar Group avoided not only the shortcomings of traditional suit customization (i.e., low productivity, a long production cycle, and high labour costs) but also the inability of industrial assembly line production to meet customers’ individual demands. The production cycle of high-end, handmade, customized suits was generally three to six months. The typical price for a mass-produced garment was equal to the channel-based price (double the ex-factory price),[[11]](#footnote-11) while the ex-factory price was often five times the production cost. In contrast, under the Red Collar Group model, customized suits could be produced and delivered less than seven days after orders were received and were priced at only double the production cost. Depending on fabric quality, the minimum price of a customized suit was only ¥2,000.[[12]](#footnote-12)

Reorganization-Driven Change in the Business Model

Operating the personalized customization model on a massive scale was highly demanding for the supply chain, R&D and design, production, logistics, customer service, and other systems as all departments needed to be able to respond quickly. Therefore, to support the business model reform, Red Collar Group constantly adjusted and adapted its management and organizational structure to fully integrate internal and external resources. In approximately 2013, Red Collar Group created an organizational structure with the board of directors as the highest authority and a collaborative management framework with a Process Control Center, Investment and Financing Center, Large Customer Service Center, and Supply Chain Center (see Exhibit 2).

Since the strategic transformation, Red Collar Group had comprehensively merged or eliminated redundant departments and had integrated more than 30 departments from previous organizational structures. Dexing Li, director of Red Collar Group’s Supply Chain Center, commented:

Instead of the hierarchical management in the past, platform-based management is now used in an accessible and point-to-point manner. For example, look at the Supply Chain Center, which encompasses warehousing, supply, R&D, equipment, production, and other departments. Its integration aims to better synergize and efficiently satisfy customer needs.[[13]](#footnote-13)

This point-to-point, efficient flat management structure was exactly the node management model implemented by Red Collar Group. For example, the Customer Service Center compiled customer requirements and could then dispatch instructions to the relevant staff member in any department within Red Collar Group. In other words, customer needs could be directly assigned to any employee in charge of an individual node rather than to the department heads. The Customer Service Center contacted the staff members directly for given tasks, and the department heads provided support for the employees when necessary. In terms of evaluation, when tasks were completed, task-assigning departments gave scores to the heads of task-receiving departments, after which the department heads evaluated their employees according to those scores. This was how the Department Head Responsibility System functioned while using a point-to-point mechanism. The heart of the point-to-point management model was standardization, normalization, and systematization. If there was a problem at any node, it was solved by employees, according to their experience and capabilities. The scope of each position was made clear—employees essentially needed only to perform their given duties but were obliged to keep an eye out for any problems and offer rapid feedback if they had any.

In addition, Red Collar Group established an employee-integrity system incorporating “credits.” A severe ethical breach was considered a “red light” violation and meant instant dismissal from the company. Meanwhile a lesser “yellow light” violation might bar the employee from receiving a pay raise or promotion for a certain period. In this case, the punishment could be waived if the employee made amends, for example, by doing a certain amount of charity work. A “green light” meant the employee had priority in getting a raise or promotion. This system was consistent with the changes in Red Collar Group’s organizational structure, which flattened the company’s departmental, divisional, and leadership structure. Furthermore, Red Collar Group also established a “mall of credits” allowing employees to choose their own reward. For example, they could exchange their acquired credits for a bicycle, a vacation, or even a dinner with the board chair.[[14]](#footnote-14)

The Founder’s Decade-Long Pursuit of Transformation

Despite the platform’s success, the path there had been a difficult one. Given the affluence of the garment industry 10 years earlier, no one had understood why Daili Zhang would want to blaze a new path and invest heavily in setting up a platform with so many uncertainties. On the path to transformation, Daili Zhang encountered many challenges. He endured many trials and tribulations but never considered giving up.

The biggest challenge was changing people’s perceptions. An employee who joined Red Collar Group in 2009 said, “In private, we all said the chairman was crazy at the time. Although we pretended to accept assigned tasks from him, we often delayed or refused to do them.” Daili Zhang felt helpless against his employees’ resistance, but he did not blame them because he knew they had no idea what the future would bring. So, Daili Zhang held information sessions and organized training for his staff. For example, the workers at Red Collar Group factories, most of whom were from rural areas, needed training to learn how to turn the computer equipment on and off. In some cases, Daili Zhang needed to make tough decisions. For example, to support the company’s digital shift and to reduce error rates, he sent orders to the Body Measurement Department and other departments: “All employees should work on the computer or work on finding themselves a new job!” Some employees, who failed to change their traditional work styles and ways of thinking, were dismissed. Those who could not adapt to Daili Zhang’s management style chose to resign from the company.

Moreover, the R&D and innovation activities encountered many blockages. The underlying logic of the RCMTM platform was designed by Daili Zhang, but the programming and physical construction of the system met with great difficulties. In 2003, the domestic enterprise resource planning systems could not meet the requirements of massive customization. As a result, Daili Zhang had to set up his own information technology (IT) department consisting of a dozen employees. In the exploration phase of the system, the IT department often worked overtime. Due to a lack of experience, their efforts sometimes came to nothing, and they had to start over, again and again. Mi Qingyang, director of the IT department, recalled:

The hardest part was getting the information system from the R&D phase to formal, online operation, because no domestic software company had ever developed a system like this before. We exchanged ideas with employees little by little to better understand what the work entailed in terms of content, processes, and efficiency. On this basis, we developed a system that not only met work requirements but also improved production efficiency.

As a witness of the whole process of business transformation, Li Jinzhu, vice-president of Red Collar Group, made similar comments, “The changes at every step were very tough, as there was no precedent we could refer to. There was no time for us to celebrate each success, because another tough task was always waiting for us in the next step.”

To build this unprecedented system, Daili Zhang also attempted to purchase professional platforms and equipment used in streamlined customization systems, and even introduced advanced suspension systems and logistics systems from abroad. But these systems could not be used directly.[[15]](#footnote-15) Therefore, through mergers and acquisitions or partnerships with professional IT companies, Red Collar Group brought together more than 500 IT engineers proficient in big data, cloud computing, and other professional technologies, and independently built this exclusive platform system.

More and more investment was needed in multiple areas, such as employee training, technical innovation, equipment acquisition, factory construction, and so on, but Daili Zhang never gave up: “I was determined to do this. I would do my best to put together the investments step by step. When we lacked money, we postponed the investments. These projects were not designed to be done all at once. After each step, we’d evaluate the situation and decide how to proceed next.”

In this way, Red Collar Group spent ¥260 million on the production line between early 2003 and late 2013.

Succession Planning behind the Transformation

Daili Zhang believed that strategic transformation was an ongoing, step-by-step process, and he adopted a similar approach to cultivating his successors. The difference was that the succession planning was influenced by the enterprise’s process of transformation. He commented:

We needed someone to take on the follow-up tasks and lead the enterprise into the future. I had always trained Red Collar [Group]’s professional managers, but I found a problem in the training process. At that time, a lot of Chinese professional managers were more concerned with helping themselves than with helping the company, despite everything I did with the training.

For this reason, Daili Zhang’s mind turned to his daughter and son. Given that his children had a good educational background and were already financially stable, he believed that they could become excellent successors. So he spoke with them in depth. As his son was unwilling to take over the company, Daili Zhang discussed the matter more with his daughter, Yunlan, who had just returned to China after studying abroad, and who was working in a foreign-funded enterprise in Shanghai. She knew nothing about the garment industry and didn’t want to take over Red Collar Group. However, Daili Zhang passionately described the ongoing strategic transformation and the strategic goals of the company. In the end, Yunlan came to believe in the company’s bright prospects. Driven by a sense of responsibility for the whole family, she decided to help out her father and the company he had created.

And so Yunlan joined Red Collar Group in 2005. Daili Zhang observed his daughter silently and provided her with the freedom to (within reason) make decisions—and mistakes. After Yunlan joined the company, she started recruiting international talent and introducing outstanding foreign partner companies. Starting from scratch, the international business would take up about 50 per cent of Red Collar Group’s total business volume until the end of enterprise transformation. Yunlan did a good job with international business, the marketing centre, and the production centre, and she had a diligent, modest, and low-key work style. Given Yunlan’s good performance and strong capabilities, Daili Zhang asked her to succeed him as the president of Red Collar Group in March 2009. He said, “My daughter has done a good job. She helps me a lot, and I’m very lucky to have her help. She’s willing to make sacrifices, and she knows that this enterprise is not only an inheritance but also a great mission. If she had not stepped up, I would be utterly worn out.”

Regarding working together with his daughter, Daili Zhang commented: “She has brought about many innovations and taken charge of international business and the Magic Manufactory. I am now 60 years old. Though I am forward-thinking, young people are the ones who will ride the wave of this golden age.”

In his opinion, his daughter had more down-to-earth ideas. Complementing her father’s deep experience on the factory side, Yunlan not only made great contributions to the enterprise transformation on the customer side but also reinvigorated Red Collar Group’s strategic transformation.

Strategic Upgrading: Embracing the Internet

As Shakespeare said, “Sweet are the uses of adversity.” Red Collar Group successfully finished its strategic transformation in 2013. From operating alone in the early days, to working together with his daughter, to gaining unanimous support from all employees, Daili Zhang had brought Red Collar Group into the future by “making personalized products with industrialized efficiency.” When introducing Red Collar Group in interviews, Daili Zhang would say, “This used to be a small enterprise, just a little garment business. But now it’s a platform, an online e-commerce industry platform.” After the successful transformation, the “Red Collar Model” began appearing frequently in big media outlets—including twice on *CCTV Tonight*—while a succession of well-known entrepreneurs went to observe and learn from the model. Ruimin Zhang, the board chair at Haier Group, commented after a visit: “The purpose of the shift from mass-production to mass-customization is achieving an ideally personalized user experience. This is a leap traditional industries must make in the Internet age. Red Collar achieved this through years of single-minded dedication and countless efforts.”

New Strategic Positioning: Providing an All-New Driver of Internet and Industry

In 2013, Red Collar Group organized a large discussion on the company’s future strategy, ultimately deciding on an “Internet plus industry” positioning. According to Daili Zhang, this position meant making an “Internet plus” mindset part of Red Collar Group’s lifeblood, rather than simply adding a few Internet-focused elements here and there. Drawing from its industrial origins, Red Collar Group proposed a C2M model on the basis of Internet thinking that aimed to establish an online platform for direct interaction between consumers and manufacturers. According to Kainan Huang, deputy dean of the Center for Economic Research at Shandong University:

The core value of the Red Collar Model lies in its exploration of a new paradigm deeply integrating the traditional manufacturing industry and information technology. This new paradigm encompasses an industrial-production-based Internet mindset, a complete flow of data-driven production processes, a flattened organizational structure, a business model based on directly linking customers and manufacturers. . . . This makes personalized demand compatible with large-scale industrial production.[[16]](#footnote-16)

Kutesmart: Establishing a C2M Business Ecosystem

Red Collar Group also proposed the Kutesmart[[17]](#footnote-17) C2M Business Ecosystem, an initiative designed to integrate the Internet with industry and directly connect customers and manufacturers. For customers, consumer demand could be addressed quickly and directly by production through the Internet platform, without needing to travel through layers of proxies. In this way, consumption and production became interdependent parts of the same market ecosystem. For manufacturers, by means of the Internet of Things and other technologies, it became possible to link person to person, person to manufacturer, manufacturer to manufacturer, and service to service, leading to a high level of horizontal and vertical end-to-end integration. Zhang Daili believed that he could use the Kutesmart C2M Business Ecosystem to provide solutions for upgrading traditional industries into Internet industries. To this end, Red Collar Group built the Kutesmart Ecology Platform (see Exhibit 3) and developed its Source Data Engineering (SDE) product, which possessed full intellectual property rights and its own source code. The core competence of SDE was offering “Internet plus industry” solutions for businesses.

The popular Magic Manufactory was not only a strategic product for Kutesmart but also an e-commerce platform based on the C2M business model. The Magic Manufactory mobile app was formally launched at the end of August 2015 (see Exhibit 4). According to Yunlan Zhang, its magic was “the ability to quickly respond to customers’ personalized demands.” Compared with the previous platforms of Red Collar Group, Magic Manufactory showed many improvements. For body measurement, customers could either visit Red Collar Group stores or make an appointment. Meanwhile the upcoming scientific body measurement method would be able to precisely collect customer measurement data in just five seconds. In the area of logistics, the delivery time would be shortened to five working days by the end of 2015. Customers could either go to a Red Collar store for pickup or specify a delivery address. Furthermore, to facilitate more kinds of online activity, the Magic Manufactory would be launched in 24 cities throughout China. Red Collar Group made plans to open offline experience stores providing body measurement services in all of these cities.[[18]](#footnote-18)

Strategy Implementation: Challenges and Reflections

Over the previous two decades, Daili Zhang had paved the way for Red Collar Group’s development and had led the enterprise to remarkable success. But he knew that everything was still a work in progress, and many strategic initiatives had not yet been implemented. Now in his 60s, he planned to retire within three years. With the aim of making Red Collar Group a public enterprise, he planned to launch an initial public offering (IPO) in the following two years. Red Collar Group had undergone two rounds of financing and attracted three investors, including Fosun Group.[[19]](#footnote-19) To ensure the family’s control of shares, investors would be limited to holding less than 10 per cent of shares. In Daili Zhang’s opinion, Red Collar Group would reach the size of ¥10 billion in the near future, and his goal for the IPO was ¥100 billion.

However, the strategic transformation of this enterprise was still in progress. The Kutesmart platform and Magic Manufactory had not appealed to most customers. For Red Collar Group, the priority was figuring out how to find the first batch of consumers and meet their needs. If this start-up process of going from “0 to 1” was successful, then expanding from “1 to n” would be fast and easy because Daili Zhang and his daughter were confident in Red Collar Group’s business model, products, and services.

In the Internet era, enterprises often hope to run fast, grow steadily, and live long. For Red Collar Group, growing steadily and living long were the primary components of its sustainable development. The key to seizing market opportunity wasn’t speed but stamina. On the manufacturing side, the smart factory had been built and upgraded, but talented employees were still needed to implement the strategy. Yunlan said with disappointment, “No level-headed, talented people have joined us despite the generous salary. These people who are attracted to well-paying jobs often talk highly about strategy on paper but never get their heads out of the clouds!”

To realize the goal of “providing an all-new driver of Internet and industry,” how should Red Collar Group seek out the right talent and find the right methods for implementing the company’s strategy?

Exhibit 1: Comparison of Red Collar Group’s Industrialized Customization Model and Traditional Mass-production Model

|  |  |  |
| --- | --- | --- |
| **Comparison Item** | **Traditional Mass-Production Model** | **Industrialized Customization Model** |
| **Annual Growth Rate in the Past Three Years** | 10% | 100% |
| **Profit** | 100 | 1,100 |
| **Production Cycle (in days)** | ≥ 12 | ≤ 7 |
| **Product Inventory** | 100 | 0 |
| **Raw Materials Inventory** | 100 | 0 |
| **Per Capita Efficiency** | 100 | 600 |
| **Production Cost** | 100 | 110 |
| **Design Cost** | 100 | 5 |
| **Market Competitiveness** | Weak | Strong |
| **Profitability** | Weak | Strong |
|  | | |

Note: The comparison items Profit, Product Inventory, Raw Materials Inventory, Per Capita Efficiency, Production Cost, and Design Cost were each assigned a base value of 100 under the traditional model to show how each changed after shifting to the industrialized customization model.

Source: Red Collar Group.

Exhibit 2: Organizational Structure of RED COLLAR GROUP

Board of Directors

Audit Committee

Decision-Making Committee

Process Control Center

Investment and Financing Center

Large Customer Service Center

Supply Chain Center

Kerry Innovative and Smart

Source Data Science and Tech

Magic Manufactory

Cotte Venture

Internet Industrial Science Research Center

Source: Red Collar Group.

Process Control Center

Cotte Venture

Audit Committee

Board of Directors

Decision-making Committee

Investment and Financing Center

Large Customer Service Center

Source Data Science and Tech

Internet Industrial Science Research Institute

Magic Manufactory

Kerry Innovative and Smart

Supply Chain Center

Process Control Center

Cotte Venture

Audit Committee

Board of Directors

Decision-making Committee

Investment and Financing Center

Large Customer Service Center

Source Data Science and Tech

Internet Industrial Science Research Institute

Magic Manufactory

Kerry Innovative and Smart

Supply Chain Center

Process Control Center

Cotte Venture

Audit Committee

Board of Directors

Decision-making Committee

Investment and Financing Center

Large Customer Service Center

Source Data Science and Tech

Internet Industrial Science Research Institute

Magic Manufactory

Kerry Innovative and Smart

Supply Chain Center

Process Control Center

Cotte Venture

Audit Committee

Board of Directors

Decision-making Committee

Investment and Financing Center

Large Customer Service Center

Source Data Science and Tech

Internet Industrial Science Research Institute

Magic Manufactory

Kerry Innovative and Smart

Supply Chain Center

Process Control Center

Cotte Venture

Audit Committee

Board of Directors

Decision-making Committee

Investment and Financing Center

Large Customer Service Center

Source Data Science and Tech

Internet Industrial Science Research Institute

Magic Manufactory

Kerry Innovative and Smart

Supply Chain Center

Process Control Center

Cotte Venture

Audit Committee

Board of Directors

Decision-making Committee

Investment and Financing Center

Large Customer Service Center

Source Data Science and Tech

Internet Industrial Science Research Institute

Magic Manufactory

Kerry Innovative and Smart

Supply Chain Center

Exhibit 3: Kutesmart C2M Business Ecosystem1

|  |
| --- |
| Kutesmart Investment  Kutesmart Payment  Kutesmart Fund  Third-party Cooperation  Personalized Manufacturing of Full-Line Products  Garment Factory  Leather Factory  Footwear Factory  Smart Wear ……  Personalized and Fragmented Customer Source Demands  Kutesmart B2M  Kutesmart C2C  **C2M**  **CAMEO**  **Cotte**  **Red Collar**  **……**  Third-Party Cooperation  CIIM (Management Consulting)  SDE  (Source Data Engineering)  ……  **Kutesmart Factory (M)**   * Flexible Manufacturing * Personalized Customization   **Kutesmart Finance (F)**   * Fund * Financing * Payment   **Kutesmart E-commerce Platform (C)**   * M2M * B2M * C2M * C2C   **Kutesmart Science and Technology (S)**   * Management Consulting * Mode Output * IT Information Development * Mobile Internet |

Note: C2M = customer to manufacturer; S = science; M = manufactory; IT = information technology; CIIM = Carefound Internet Industry Model1; B2M = business to manufacturer; C2C = customer to customer; C = customer; M2M = manufacturer to manufacturer; B2M = business to manufacturer; F = factory; The Kutesmart Ecosystem is driven by users’ personalized demands, which guide research and development, design, production, manufacturing, and the whole value chain. Through this platform, demand can be combined with manufacturing and technology with capital to form a complete business ecosystem. With this platform, industrial manufacturing can satisfy personalized and fragmented user demand. In this way, industrial manufacturing is restored to the high end of the value chain and is no longer squeezed by intermediaries, distributors, and agents.

1 Carefound Internet Industry Model, accessed October 20, 2016, www.ciim-carefound.com.

Source: Red Collar Group.

Exhibit 4: Magic Manufactory Product Concept

|  |
| --- |
|  |

Note: Magic Manufactory proposed the concept of “making the consumer into the creator,” enabling customers to design their own clothes. “Your need is satisfied by the world” was the slogan of Magic Manufactory. It lived up to this slogan by using the fabric suppliers of world famous brands, smart and interconnected processing plants, and top designers. Different from the traditional direct marketing platforms committed to “sale after production,” Magic Manufactory adopted the model of “sale before production.” Only after consumers made payment would production proceed. Therefore, it resulted in no leftover inventory. Currently, products available for sale include men’s wear, women’s wear, and children’s wear.

Source: Magic Manufactory App.

1. ¥ = CNY = Chinese renminbi; all currency amounts are in ¥ unless otherwise specified; US$1 = ¥6.22 on December 31, 2014. [↑](#footnote-ref-1)
2. Hongmei Dai, “The Influence of China’s Entry into WTO on China’s Garment Industry,” *Textile Economic Weekly* 1 (2002): 13, accessed May 3, 2016, www.cnki.com.cn/Article/CJFDTotal-FZZK200201008.htm. [↑](#footnote-ref-2)
3. China Textile Network, “Textile News: Red Collar to Achieve Zero Inventory Growth of 150% of the Performance,” March 28, 2015, accessed August 10, 2015, http://info.texnet.com.cn/content/2015-03-28/510060.html. [↑](#footnote-ref-3)
4. Red Collar, “Custom Trend: Customization Trend of Clothing—True Full Customization,” accessed October 26, 2015, www.redcollar.com.cn/detailed.aspx?nid=122. [↑](#footnote-ref-4)
5. “Red Collar Group Li Jinzhu: Data Can Be Gold or Garbage,” Sina Finance, October 16, 2014, accessed August 10, 2015, <http://finance.sina.com.cn/leadership/msypl/20141016/140920557774.shtml>. [↑](#footnote-ref-5)
6. China Textile Network, op. cit. [↑](#footnote-ref-6)
7. The three points were the shoulder, the area where shoulder and neck meet, and the seventh cervical vertebra; the line referred to a horizontal line drawn at the middle of the waist. [↑](#footnote-ref-7)
8. “Yunlan Zhang: Manufacturing Can No Longer Rely on Environmental Dividends,” Sina Finance, August 7, 2015, accessed October 26, 2015, http://finance.sina.com.cn/hy/20150807/231822909264.shtml. [↑](#footnote-ref-8)
9. Xiaoying Zhang, Shuang Zhang, and Cheng Liu, “Red Collar Group: A Leading Role in Internet Plus Garment Customization,” *Economic Daily*, July 7, 2015, accessed October 26, 2015, http://paper.ce.cn/jjrb/html/2015-07/07/content\_246675.htm. [↑](#footnote-ref-9)
10. “Red Collar: Smart Manufacturing Industry Model under ‘the Internet Plus’ Wave,” June 4, 2015, accessed August 10, 2015, http://b2b.toocle.com/detail--6263000.html. [↑](#footnote-ref-10)
11. Ex-factory price referred to the cost a manufacturer charged for a distributor or other buyer to purchase products directly from the source. Channel-based price included the cost charged by the channels (such as distributors and shipping agencies) and the ex-factory price. [↑](#footnote-ref-11)
12. Zhang et al., op. cit. [↑](#footnote-ref-12)
13. Dongyan Pan, “Red Collar: A Reformer of the Manufacturing Industry?,” *CEIBS Business Review*, August 16, 2014, accessed October 13, 2015, www.eceibs.com/commentary/show/index/id/2902. [↑](#footnote-ref-13)
14. Yandong Zhou, “Special Clothing Custo—Red Collar Group Zhou Yandong: Today You Zhuangshan It?” China Internet Support Centre: Home/Science and Technology, October 26, 2015, accessed November 10, 2015, http://toutiao.com/i6209846269848027649. [↑](#footnote-ref-14)
15. Meiqi Liu, “Witnessing the Manufacturing Revolution: Re-producing Business Suits,” December 3, 2014, accessed May 3, 2016, www.tmtpost.com/174226.html. [↑](#footnote-ref-15)
16. Zhang et al., op. cit. [↑](#footnote-ref-16)
17. Kutesmart was originally Qingdao Cameo Clothing Co., Ltd., which was incorporated in 2005. Daili Zhang consciously implemented enterprise transformation programs with core competence in this company. In 2013, the company was renamed Kutesmart. [↑](#footnote-ref-17)
18. As of October 21, 2015, Magic Manufactory had 15 physical stores: Ji’nan Store No.1, Ji’nan Store No. 2, Tianjin Store, Beijing Store, Shenyang Store, Dalian Store, Chengdu Store, Xi’an Store, Qingdao Store, Shanghai Store No.1, Shanghai Store No.2, Suzhou Store, Hangzhou Store, Shenzhen Store, and Kunming Store. [↑](#footnote-ref-18)
19. Prior to the introduction of investors, Daili Zhang, his daughter Yunlan Zhang, and his son controlled 51 per cent, 25 per cent, and 24 per cent of the company, respectively. [↑](#footnote-ref-19)