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RED COLLAR GROUP: SUCCESSION AND STRATEGIC TRANSFORMATION (B)

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.

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Daili Zhang started making succession plans early on in the history of Qingdao Red Collar Group Co., Ltd. (Red Collar Group). He was delighted to see that his daughter, Yunlan, was willing to set aside her personal interests and work for the enterprise. In his opinion, the strategic transformation of Red Collar Group was tied to finding a good successor. Nevertheless, as the successor to the president of Red Collar Group, Yunlan said in October 2015, on Red Collar Group’s 20th anniversary, “My growth was not counted in days, but in hours.” Ten years earlier, she had joined Red Collar Group without hesitation or concern in response to her father’s invitation. Six years earlier, she had confidently envisioned that an age of personalized customization would come after her presidential succession. Now, she continued to strive on the front lines. As the representative of Red Collar Group, she built the Magic Manufactory and the Kutesmart platform.

However, Yunlan understood that most of these successes should be attributed to her father who had firmly supported the strategic transformation. She was also clear that the following years would bring additional challenges when her father completely retired. Considering the different management styles of her father and herself and their conflicts in the past, she considered her own leadership style and wondered how she could lead Red Collar Group to succeed in a changing business world in the future.

Succession Planning: Stories behind the Strategic Transformation

Seeking the Successor

In contrast to many entrepreneurs, Daili Zhang began making succession plans just as Red Collar Group was established. He had never planned to pass Red Collar Group to his daughter and son. Thus, his children had never worked in Red Collar Group, not even as interns. When his daughter, Yunlan, was studying overseas, Daili Zhang started looking for someone to succeed him. He recruited many professional managers and even gave them equity in the business. He worked hard to make Red Collar Group into a nonfamily business, but none of the professional managers he hired could meet his standards.

In his opinion, the problem with the professional managers that he had recruited previously was not their work skills or management abilities, but their moral character. “It’s easy for them to forget what they should be doing and overstep the boundaries when there is too much temptation,” said Daili Zhang. He believed that such temptation was an inevitable result of the circumstances in China at that time. The lack of a mature professional talent pool and the professional managers’ strong desire for material returns often led to a violation of trust.

As he searched for outstanding managers to hire, Daili Zhang gradually realized that his two children were sufficiently capable of handling this work. Material gain no longer appealed to them, they were well educated, and they had been positively influenced by their family values. They also had ambition and were professional. Thus, Daili Zhang began to discuss the matter with his children.

Since his son had started his own business, which was doing well, he decided not to join his father at Red Collar Group. Daili Zhang then turned to his daughter, who had spent four years studying at the University of Northern British Columbia in Canada. After receiving a dual degree in marketing and international business, she returned to China and started working in a foreign-funded enterprise in Shanghai. At the time, however, she had no plans to succeed her father. In her mind, she believed that her life would continue on a peaceful path. “I did not have a clear plan for my life then because I thought I only needed to live day by day and enjoy life back then,” Yunlan recalled.

One day in 2005, Daili Zhang went to Shanghai to see his daughter in person. He described his plans for the enterprise, delving into the problems of informatization, strategic transformation, and so on. Yunlan became interested in what her father said even though she had no experience in the apparel business. She recalled, “He spoke so beautifully that even I was moved.” Yunlan promised her father that she would join him. “The first thing I felt was that my dad needed me. No matter what difficulties lay before me, I had confidence that I could overcome them as long as I kept my diligence and eagerness to learn.”

Things had gone smoothly between daughter and father, and Yunlan joined Red Collar Group without any hesitation. She commented, “My parents taught us about our family’s idea of being ‘harmonious and unified’ when we were kids. When the family encounters difficulties, we need to give up our personal benefit for the sake of the family. This notion is deeply rooted in my mind.”

However, although Yunlan fully supported her father, she knew little about the strategic transformation her father had described. She had so many things to learn, such as the macro view of the business, its organizational structure, and the business culture.

Growing the Successor

Cautious and methodical just as he had been with the strategic transformation, Daili Zhang did not immediately give the post of president to his daughter. Instead, he put her on the front lines of the business, and let her learn in different posts. He observed her behaviour quietly. Over time they developed a mutual understanding, but the process of adaptation was a painful one.

When she first joined Red Collar Group, Yunlan had thrown herself into understanding the situation at the front lines, including business procedures and professional knowledge. At the beginning, she was given a position as the customs declarer in the department of international business, responsible for declarations, inspections, documentation, and international business negotiations. One year later, Daili Zhang moved her to a position in charge of the marketing centre. Later on, she was moved to the manufacturing plant, at her own request.

The arrangements looked like they were carefully planned, but in reality they were done without any scheduled plan. Yunlan recalled, “I was not clear about my next step. I just went to a place to learn. When I learned the skills and got proficient using them, I would tell my father, and he would let me transfer to another position.”

In the first two years after Yunlan’s arrival at Red Collar Group, she did not appear in public as the daughter of the board chair; instead, she worked diligently from day to day like a regular employee and interacted with other leaders and her colleagues of the company politely as their junior. For this reason, she won her father’s recognition and was welcomed by her colleagues.

However, the job on the front line was not uneventful. Yunlan remembered the first bold decision she made as though it had happened yesterday. When she was in charge of the marketing centre, many employees of the marketing centre at that time were relatives and friends of her uncle, who was both the fourth younger brother of her father and his co-founder. These colleagues had enjoyed special privileges to some extent, and although Yunlan allowed them to stay on in the enterprise, she no longer tolerated their having special privileges. She talked to these employees every day to try to persuade them to follow the rules, but the conversations didn’t change their behaviour. She then decided to fire the core members of the entire marketing team. When she reported her decision to her father, he did not object but instead encouraged her to make decisions on her own.

Afterward, Yunlan readjusted the entire marketing team and laid off team members—almost half the marketing team—who were resistant to the enterprise’s strategic transformation. Meanwhile, she started recruiting new employees born in the 1980s. This move seriously affected the business of Red Collar Group. In that year, its annual sales revenue dropped by half and didn’t recover until a year later. As a result, outsiders voiced many negative comments, blaming Red Collar Group for sweeping away capable employees and hiring young people. Yunlan was seen as having squandered the family’s resources.

The reaction to her decision was a serious blow to Yunlan. But to avoid putting her under stress, her father did not relay the outsiders’ negative comments to Yunlan, who was devoted to her work. Instead, he encouraged her to focus on improving the company’s market performance. “He would let me fix things and reflect on my own, but he had everything under control,” Yunlan said. “I think my father did a very good job with this, and I am thankful to him.”

Although Yunlan gained her father’s support, she also endured a painful transition period. “He really never praised us. As long as he didn’t point out our problems, we were happy.” In Yunlan’s opinion, her father had always held high standards for his children. In the field of enterprise management, her father had even higher demands and expectations. For example, he expected Yunlan to take a laptop to meetings and to not take the meeting minutes using paper and pen; she had to dress properly all the time and could not wear her hair long. Regarding strategy, Daili Zhang wanted his daughter to step back and look at the big picture whereas Yunlan was usually more focused on the details. In the eyes of employees, Daili and Yunlan were similar in their ideas about the enterprise and in their strict requirements for integrity and quality but differed in their management styles. According to Rubo Zhang, general manager of American business for Red Collar Group:

What President Zhang and the board chairman focus on are slightly different. The board chairman’s requirements for product quality and production details were extremely rigorous, telling us that high-quality products are the lifeline of the enterprise. There could be no compromise on this. President Zhang came back to China after finishing her overseas study. She tends to encourage us to think from the market and customer’s viewpoint. One emphasized quality products while the other focused on customers. The two actually make a complete picture.

Yunlan and her father had many conflicts. Throughout the transition period, during which she assumed control of the company, Yunlan took a smooth and gentle approach. At the beginning, Yunlan, who had gained experience overseas, often told her father bluntly when she had a different view, but she gradually realized that such an approach did not solve problems efficiently and was more likely to cause hurt feelings. Subsequently, she learned to take her father’s suggestions, think them over carefully, and then use them to improve her own ideas. She would then find the right time to email her father to express her afterthoughts. She realized that such an approach worked much more effectively, as she could sort out and express her ideas more clearly, and her father could listen to her suggestions more calmly.

“A New Broom Sweeps Clean”

In March 2009, Daili Zhang said to Yunlan: “I think everything is ready for you to become president. Please prepare a speech about the plans for the company’s future. I will invite some friends to join the ceremony.” And so, Yunlan went on to become the president of Red Collar Group. Her speech on the day was mainly focused on Red Collar Group’s personalized-customization strategy. She also expressed her gratitude to her father. In her opinion, what her father passed down to her was not only the presidential position but also good direction. Following the path would lead to good results, even if at a slow pace. This direction was just the strategic transformation toward the massive personalized customization.

Yunlan was 30 years old when she took over as president. She felt great stress facing the employees who had worked in Red Collar Group for a long time and held a certain amount of power inside the company. Another source of stress was the employees who doubted the enterprise’s institutional system as well as its strategic positioning. To build her authority and earn their trust, she spent a lot of time communicating with the employees. However, she finally found that there was still opposition to the strategies of the company, even though she had been totally honest and open with employees. She decided to turn to the institutional system instead of putting too great an emotional burden on the company’s management.

Following this principle, Yunlan fired an influential veteran employee who had set up huge obstacles for her and for the implementation of the company’s strategies. Yunlan recalled: “I talked to him several times honestly and openly. I told him that I badly needed his support. I wanted him to be a leading example as both an employee and an elder. He agreed to support me but then never did in practice.”

Then one day the veteran skipped a meeting entirely and could not be contacted. Yunlan told the human resources department to initiate the process of laying off the employee. Then, she told her father gently and indirectly that she might be making another mistake. In spite of that, her father agreed with her decision. Her actions had a powerful effect on the other veterans of Red Collar Group. From then on, they followed regulations.

In addition, to establish a more enlightened system—and to prevent damage to the corporate culture by enabling cronyism or by allowing some staff to have special privileges—Yunlan removed nearly all of her relatives from the business. As a result, almost no family members remained in core management positions. Yunlan also used the personalized-customization system as a way to boldly recruit new talent. Many of the new additions to Red Collar Group’s top management were born after 1980, and many administrators were born after 1985.

The team had become more internationalized and younger. The international business of Red Collar Group gradually took off after Yunlan succeeded her father.[[1]](#footnote-1) Before the transformation, Red Collar Group’s foreign trade business had consisted mainly of cheap original equipment manufacturing (OEM) processing, which yielded small profits and could easily result in losses. Moreover, the company had never attended overseas exhibitions and had nearly no voice in the international market. As the president, Yunlan began to attend exhibitions in the United States. She recruited college graduates who could speak English. With the core competitiveness brought by the RCMTM platform, Red Collar Group strengthened its bargaining power in the international market and increased its profit margin. Rubo Zhang, who was recruited by Yunlan, touched on many of the changes in the company’s international business after the transformation:

Before the transformation, we provided OEM service for M&S [Marks & Spencer] in Great Britain and had to compete with many other companies. We had to lower prices to the point that they barely covered costs, and from time to time we, the client, would end up moving production to Southeast Asia. After the transformation, we capitalized on the RCMTM [Red Collar Made to Measure] platform to work with other British brands in the MTM [made-to-measure] business and quickly took market share, bringing M&S back to us and restart[ing] the MTM business. The price was several times higher than before, and both parties felt respected in the operation.

Furthermore, to align with the model of personalized customization launched by Red Collar Group, Yunlan continually promoted market innovation by building more diversified customization brands. For example, Red Collar Group launched the R-Prince brand for the wedding gown market, the international customization brand CAMEO, and the new Cotte brand, as well as apparel brands for women and children.

Succession: An Ongoing Process

Although he had passed the presidential position to Yunlan, Daili Zhang still wanted to create a public company. “The idea [of running a public company] has never changed. I am still looking for excellent professional managers. They exist in the world; I just haven’t found any of them,” he said. Yunlan now deeply understood her father’s thinking and spoke frankly: “I, of course, have a calm attitude because I believe it’s right. I think it’s closely related to my father’s ideas. He has grand vision for the future, and it’s at the centre of every move he has made.” To help Red Collar Group’s business succeed and develop further, Daili Zhang invited his son to join the company, mainly to handle the enterprise’s operation. In Daili Zhang’s opinion, the Kutesmart platform could be applied to other industries, enterprises, and organizations, where it could help to spur the evolution of both online industry and manufacturing.

Yunlan deeply believed in her father’s strategy, but she also knew that the future would be full of challenges and that there was a long way to go to successfully implement the strategies. She commented: “Actually, since my very first day, I haven’t been sure if I could successfully lead this enterprise to the future because the C2M [customer to manufacturer] plan we are working on now is too big. The biggest thing is that there are no successful cases for us to refer to.”

Now that she could observe the overall situation as president, Yunlan realized that things were not as simple as when she had just taken over the post. “However, I am not sure how long I can hold that position.”

Standing on the shoulders of a giant, what should Yunlan do in the next year or two to successfully manage the strategic transformation?

1. In 2014, half of Red Collar Group’s sales revenue came from the overseas markets, with the U.S. market contributing 80 per cent. The New York market was the company’s best developed market in the United States. [↑](#footnote-ref-1)