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DALIAN XINHE LEATHER CLOTHING: STRATEGIC TRANSFORMATION in Response to COVID-19

Haifen Lin, Zhou Sun, and Xiangtong Liu 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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Dalian Xinhe Leather Clothing Co. Ltd. (Dalian Xinhe) was a garment manufacturing enterprise, mainly producing men’s and women’s clothing and leather garments. In February 2020, in response to the COVID-19 pandemic, Dalian Xinhe decided to transform to produce medical protective clothing. The company achieved good results with the transformation, which made Chun He, the chairman of Dalian Xinhe, proud.

However, opinions within the company varied with regard to the company’s further development. With the pandemic situation improving in China, the ordinary garment market had gradually recovered. Because Dalian Xinhe was originally a garment enterprise, many people in the company thought that the ordinary garment business and its self-owned brands was the direction for Dalian Xinhe’s further development. Others noted that the pandemic in other countries was still serious and that there was still a large market demand for medical protective clothing. Those people believed that Dalian Xinhe should continue with full efforts to develop the business of medical protective clothing.

Dalian Xinhe held several meetings to decide on a path forward, but there was still no final conclusion. Looking at the increasingly fierce debate within the company, Chun was troubled: should Dalian Xinhe focus on developing its own brands, or should it continue to put its full effort into producing medical protective clothing?

The Garment INDUSTRY IN CHINA

Ordinary Clothing

From 2014 to 2019, retail sales in China’s ordinary garment industry fluctuated, but the range of fluctuation was not large, and overall development was relatively stable (see Exhibit 1).[[1]](#footnote-1) However, the outbreak of the COVID-19 pandemic at the beginning of 2020 had a major impact on the ordinary garment industry: retail sales of ordinary clothing were only ¥153.4 billion,[[2]](#footnote-2) a decrease of 30.9 per cent from the same period the year before (see Exhibit 2).[[3]](#footnote-3) Because both supply and demand were under pressure during the pandemic, the competition in the Chinese ordinary garment industry intensified. Garment companies that had been listed suffered substantial losses, and many privately held garment companies faced the risk of closing down (see Exhibit 3).[[4]](#footnote-4)

To alleviate the impact of the pandemic, Chinese ordinary garment enterprises switched to online sales. Taking advantage of online channel resources and brand influence, large-scale garment enterprises quickly realized online sales breakthroughs. However, for many small and medium-sized garment enterprises, the online sales situation was unsatisfactory due to the lack of online marketing experience and brand influence.[[5]](#footnote-5)

After the pandemic stabilized in China, many ordinary garment enterprises realized the importance of self-owned brands.[[6]](#footnote-6) In addition, the Chinese government had provided strong policy support to brand building, which accelerated the pace of the self-owned brand building of ordinary garment enterprises in China.[[7]](#footnote-7)

Medical Protective Clothing

Belonging to the category of public safety and emergency supplies, medical protective clothing was the protective clothing worn by staff in the medical environment. From 2014 to 2019, the total output of protective clothing in China showed an increasing trend year by year, reaching 4.28 million pieces by 2019, including 3.69 million pieces for medical use, with the remainder used in other non-medical industries.[[8]](#footnote-8)

Supply and demand in the Chinese medical protective clothing market could basically achieve a balance. However, in early 2020, the outbreak of COVID-19 resulted in a massive gap in demand. Subsequently, due to the policy guidance of the Chinese government and the stimulation of market demand, the capacity for manufacturing medical protective clothing expanded rapidly, and the supply increased greatly, gradually meeting the needs of disease prevention in China.

As the pandemic stabilized in China, the domestic demand for medical protective clothing gradually declined.[[9]](#footnote-9) However, the pandemic situation in foreign countries was still grim, so some Chinese medical protective clothing manufacturers began to turn to foreign markets.[[10]](#footnote-10)

THE DEVELOPMENT OF DALIAN XINHE

Dalian Xinhe was established in 2000. At first, it was a processing enterprise mainly engaged in the production and export of leather clothing. Its main customers were Zara SA, Hennes & Mauritz AB (H&M), C&A, Vero Moda, and other international fast-selling brands. But as labour costs increased, Dalian Xinhe faced increasing pressure with its export business, so it gradually focused on the domestic original design manufacturing[[11]](#footnote-11) business in China.

In 2014, Dalian Xinhe officially transformed to serve domestic brands such as K-Boxing Men’s Wear (Shanghai) Co. Ltd., Fujian Septwolves Industry Co. Ltd., and Lilang Co. Ltd. Soon after, Dalian Xinhe signed a contract with Balabala, the first child garment brand in China, and Semir, the leading leisure garment brand, and became their important strategic partners.

After several years of development, Dalian Xinhe was not satisfied with the simple clothing processing business and set out to establish its self-owned brands. In 2016, its first self-owned brand, Warmsincere, was born and sold online on the Biyao e-commerce platform[[12]](#footnote-12) in a consumer-to-manufacturer[[13]](#footnote-13) mode. Since then, Dalian Xinhe had taken the self-owned brands as the key point of the company’s development and established its second self-owned brand, Warmtrust.

With the development of its self-owned brands and years of clothing production experience, Dalian Xinhe had gradually become the largest leather garment manufacturer in northeast China. The total number of employees had expanded to 500. By 2019, although the overall consumption environment was sluggish, the company’s annual income still reached ¥350 million, with an annual profit of ¥12 million, maintaining a stable operation.

THE garment MARKET UNDER THE COVID-19 PANDEMIC

COVID-19, the disease caused by the novel coronavirus, broke out and spread rapidly, becoming an epidemic in China during the 2020 Spring Festival (Chinese New Year). With the whole country affected, the epidemic—which quickly became an international pandemic—had a great impact on the garment market.

To curb the spread of the virus, various provinces in China began to take measures to lock down cities and quarantine residents,[[14]](#footnote-14) resulting in a significant drop in customer flow in the off-line garment market and a standstill in physical stores. Under these circumstances, ordinary garment enterprises turned to online sales, trying to mitigate the impact of the pandemic.[[15]](#footnote-15) At the same time, the pandemic had caused an economic depression, decreasing consumers’ income and increasing their reluctance to spend, and changing their demand for clothing significantly.[[16]](#footnote-16)

Many consumers showed less enthusiasm for ordinary clothes and purchased, instead, more essential safety textiles such as protective clothing. In addition, as a large number of medical staff dealt with the virus, the demand for medical protective clothing increased sharply—well beyond the available supply. To alleviate the supply pressure and improve the production capacity for medical protective clothing, the Chinese government issued the Notice on Accelerating the Registration, Approval, and Production Licensing of Medical Protective Clothing. The regulation encouraged and supported manufacturers to transform to produce medical protective clothing and optimized the product registration and production licence procedures for medical protective clothing.

As the virus spread and became a global pandemic, countries around the world paid more attention to the need to contain COVID-19. Many countries began to restrict the entry of ships, block the land border, suspend the international railway connection, and control the import of goods. The various measures made it difficult for garment companies to deliver their orders on time.[[17]](#footnote-17)

DALIAN XINHE’s DILEMMA

After the outbreak of the COVID-19 pandemic, Dalian Xinhe, as a garment enterprise with both export and domestic sales, ran into trouble in both production and operation. In terms of production, road blockades interrupted the supply of raw materials and delayed logistics distribution, which disrupted Dalian Xinhe’s original production plan. In terms of operation, quarantine measures forced Dalian Xinhe to close its clothing stores, resulting in a dramatic decrease in the company’s off-line revenue.

In the absence of off-line sales channels, Dalian Xinhe increased its online sales efforts. However, due to the fierce competition and Dalian Xinhe’s lack of online marketing experience, the company’s sales status was not optimistic. In addition, other countries began to control both import and export, and Dalian Xinhe’s export business became increasingly difficult. When a large number of orders could not be delivered on time, the company’s foreign trade orders also declined.

THE SOLUTION

Facing the operational dilemma, Dalian Xinhe immediately launched market research, trying to find a way to deal with its problems. After an in-depth investigation and analysis, Dalian Xinhe found that the pandemic situation had significantly decreased consumers’ demand for ordinary clothing and had fiercely increased the market competition for the same. Both were extremely unfavourable for the operation of Dalian Xinhe. Fortunately, the company also found a market opportunity.

After the outbreak of COVID-19, consumers’ demand for medical protective clothing surged, far exceeding the current production capacity. To relieve the supply pressure for protective clothing, the government broke the original entry barrier and began to encourage ordinary garment enterprises to transform to produce medical protective clothing, making it easier for them to enter the market. In addition, there were many similarities between the production of medical protective clothing and ordinary clothing, so the technical requirements were not high. Ordinary garment enterprises could easily learn and train their employees to produce medical protective clothing.

After considering the current situation and the company’s conditions, Chun decided to transform Dalian Xinhe to produce medical protective clothing to get out of the current business dilemma.

Making the STRATEGIC TRANSFORMATION

After deciding to make the transformation, Dalian Xinhe took full advantage of its resources and adjusted four aspects: raw materials, equipment, personnel, and publicity.

Raw Materials

During the pandemic, medical protective clothing was in short supply. The main raw materials—polypropylene spunbonded fabric and polyethylene breathable membrane—were also in short supply. To ensure a stable supply of raw materials, Dalian Xinhe strove to find raw materials suppliers with the help of the government and its industry partners.

To improve the production capacity of medical protective clothing as quickly as possible, the local government tried its best to support the transformed enterprises. Dalian Xinhe took the initiative and reported the shortage of raw materials, and the local government immediately responded. Relevant departments coordinated the raw material resources for Dalian Xinhe from both inside and outside the city through the form of letters of invitation and telephone communications.

Dalian Xinhe also actively contacted its business partners. Being engaged in the garment industry for many years, the company had accumulated a wide range of industry contacts and developed a number of business partners. With the help of its network, Dalian Xinhe obtained information from multiple sources and quickly found potential suppliers. Through the joint efforts of many parties, Dalian Xinhe finally contacted four raw material factories and successfully ensured the stable supply of its raw materials.

Specialized Equipment

Sewing medical protective clothing could leave pinholes in the clothing. If these pinholes were not treated appropriately, bacteria and viruses could easily pass through the clothing. To effectively protect the safety of the wearer, hot-melt adhesive strips were typically used to seal edges and fill needle holes. Hot-melt adhesive was a special material; its match with the fabric was affected by various factors such as pressure, temperature, and glue content. Therefore, professional glue pressing equipment was necessary to use the adhesive.

Like so many other items during the pandemic, glue pressing equipment was also in short supply. Dalian Xinhe’s management discussed the problem several times and developed a special batch purchase plan. First, the company purchased all of the professional glue pressing equipment currently available to enable the production staff to carry out preliminary tests and sample production. At the same time, Dalian Xinhe continued to expand the scope of procurement and, to ensure a stable ongoing supply, assigned special personnel to obtain status updates from the relevant mechanical equipment suppliers. In the end, Dalian Xinhe purchased more than 20 sets of glue pressing equipment in three batches and successfully completed the procurement plan.

Personnel Reorganization

Dalian Xinhe reorganized its personnel in both production and management to actively adapt to the needs of transformation.

At the management level, Chun personally took charge of the strategic transformation from the aspects of raw materials supply, equipment purchases, sample garment production, and publicity and promotion. Meanwhile, the company made partial adjustments to its current organizational structure and constructed a professional management team to assist Chun in managing matters related to medical protective clothing.

To ensure its production workforce was sufficient, Dalian Xinhe transferred a large number of workers from several factories to the production line of medical protective clothing. In response to the lack of skilled workers within the company, Dalian Xinhe chose to employ outside experts to conduct systematic training of the production processes, testing standards, and application scope to promote the rapid transformation of workers from ordinary clothing to protective clothing production. In addition, to protect its own employees and guarantee the safe production of medical protective clothing, Dalian Xinhe arranged for special personnel to monitor the body temperature of employees every day, and it regularly sent personnel to disinfect the production site and equipment.

Publicity and Promotion

Medical protective clothing was a new field for Dalian Xinhe. Therefore, to open the sales market, the company adopted corresponding publicity and promotion measures.

During the pandemic, off-line promotions were not possible, so Dalian Xinhe chose to publicize its activities through the WeChat platform. By displaying a sample of its medical protective clothing, providing the government qualification certification documents, and regularly updating the production progress using the WeChat Moments function, Dalian Xinhe made full use of the networking effect of the WeChat platform to improve the credibility and speed of publicity.

Meanwhile, the company launched their “love action” campaign, working 24 hours a day to make 3,000 pieces of medical protective clothing that were donated free of charge to the areas suffering the most with the pandemic. The thin protective clothing carried the deep affection and warm love of Dalian Xinhe to the citizens and also displayed the company’s social responsibility to consumers.

Taking advantage of the WeChat platform publicity and “love action” measure, Dalian Xinhe quickly opened the medical protective clothing market. Orders began to pour in.

THE CHOICE OF FURTHER DEVELOPMENT

After transforming to produce medical protective clothing, Dalian Xinhe’s revenue improved significantly, and the enterprise gradually emerged from its previous operating dilemma. In addition, the company’s decision to transform during the pandemic fully demonstrated Dalian Xinhe’s corporate responsibility, which was widely recognized by the government and the society.

In April 2020, the pandemic situation in China gradually stabilized, the lockdown and quarantine measures were gradually lifted, a large number of enterprises began to resume production and work, purchase desire of customers rebounded, and the general garment market gradually recovered. At the same time, the pandemic continued to have serious effects abroad. In many countries, masks and medical protective clothing were out of stock, so these countries focused on Chinese manufacturers. With these circumstances, Dalian Xinhe faced new options for its development, and Chun was considering which option was more suitable for the company’s further development.

The first choice was to return to the original garment business and focus on the development of self-owned brands. As an original garment enterprise, many people in the company thought that the ordinary garment business was Dalian Xinhe’s direction for future development. While the company had transformed to produce medical protective clothing during the worst of the pandemic, as the pandemic situation improved and the Chinese market recovered, Dalian Xinhe could return to the ordinary garment business as quickly as possible and continue to develop its own brands. However, the COVID-19 pandemic was expected to continue throughout the world for an inestimable time. In that case, it would be difficult for the ordinary garment market to return to the normal standard. Returning to the ordinary garment business and developing self-owned brands would face fiercer competition than usual, and the final results might not be satisfactory.

The second option was to continue to expand the production capacity of medical protective clothing and fully develop the business of medical protective clothing. Although the pandemic situation in China was gradually improving, the situation in foreign countries was still quite severe. Generally speaking, medical protective clothing still had a broad market. Dalian Xinhe had made good profits after transforming to produce medical protective clothing, and further expanding production might bring more profits. However, expanding the production capacity and fully developing the business of medical protective clothing meant that Dalian Xinhe would allocate a lot of resources to medical protective clothing; it would be further transformed into a medical protective clothing manufacturer. This transformation required more thorough changes within the company and could face various unknown difficulties. Further, as the transition progressed, it would cost more to go back.

EXHIBIT 1: RETAIL SALES AND GROWTH OF the ORDINARY garment Industry IN CHINA

Note: ¥ = CNY = Chinese yuan renminbi; US$1 = ₹6.9364 on February 1, 2020.

Source: Adapted from Prospective Industry Research Institute, “Analysis of the Development Status of Chinese Clothing Industry in 2020” [in Chinese], Sohu, April 26, 2020, accessed July 20, 2020, www.sohu.com/a/391349706\_473133.

EXHIBIT 2: COMPARISON OF ORDINARY CLOTHING SALES AND GROWTH IN CHINA

|  |  |  |
| --- | --- | --- |
| **Time Period** | **Sales (¥ Billions)** | **Year-on-Year Growth (%)** |
| January to February, 2019 | 2,332 | 1.8 |
| January to February, 2020 | 1,534 | −30.9 |

Note: ¥ = CNY = Chinese yuan renminbi; US$1 = ₹6.9364 on February 1, 2020.

Source: Adapted from China Competition Information, “How Does the Pandemic Affect the Clothing Retail Industry” [in Chinese], Netease, March 19, 2020, accessed July 20, 2020, https://dy.163.com/article/F83JB3L8051481OF.html.

EXHIBIT 3: PERFORMANCE OF SOME LISTED garment COMPANIES IN CHINA

(FIRST QUARTER, 2020)

|  |  |  |
| --- | --- | --- |
| **Name of Enterprise** | **Revenue (¥ Billions)** | **Growth (%)** |
| Ningbo Peacebird Fashion Co. Ltd. | 13.83 | −16.66 |
| Heilan Home Co. Ltd. | 38.48 | −36.80 |
| Zhejiang Semir Garment Co. | 27.38 | −33.51 |
| Fujian Septwolves Industry Co. Ltd. | 6.66 | −29.70 |
| Saint Angelo Group Co. Ltd. | 6.48 | −16.00 |
| Lilang (Fujian) Garment Co. Ltd. | - | −40 ~ −45 |
| Anta Sports Products Ltd. | - | −10 ~ −20 |

Note: ¥ = CNY = Chinese yuan renminbi; US$1 = ₹6.9364 on February 1, 2020.

Source: Adapted from “Summary of Performance of 33 Clothing Brands in the First Quarter of 2020” [in Chinese], Ebrun, May 7, 2020, accessed July 25, 2020, www.ebrun.com/20200507/384932.shtml; “Septwolves' First-Quarter Net Profit Plunged 146 Per cent, Down 29.7 Per cent,” East Money Net, April 29, 2020, accessed July 27, 2020, http://finance.eastmoney.com/a/202004291470797575.html.

1. Prospective Industry Research Institute, “Analysis of the Development Status of Chinese Clothing Industry in 2020” [in   
   Chinese], Sohu, April 26, 2020, accessed July 20, 2020, www.sohu.com/a/391349706\_473133. [↑](#footnote-ref-1)
2. ¥ = CNY = Chinese yuan renminbi; ¥1 = US$ 0.14238 on February 1, 2020. [↑](#footnote-ref-2)
3. China Competition Information, “How Does the Pandemic Affect the Clothing Retail Industry” [in Chinese], Netease, March 19, 2020, accessed July 20, 2020, https://www.163.com/dy/article/F83JB3L8051481OF.html [↑](#footnote-ref-3)
4. “Optimizations of Clothing Industry Structure under the Pandemic and the New Regulation” [in Chinese], INHE Daily, March 13, 2020, accessed July 25, 2020, http://news.winshang.com/html/067/0326.html. [↑](#footnote-ref-4)
5. Ibid. [↑](#footnote-ref-5)
6. Dahe Website, “Agent processing enterprises try to establish their own brand under the COVID-19” [in Chinese], The Henan Economic Daily, June 22, 2020, accessed February 25, 2021, https://baijiahao.baidu.com/s?id=167015762980547887. [↑](#footnote-ref-6)
7. “Notice on the investigation of self-owned brand construction of textile and garment industry in 2020” [in Chinese], General Office of the Ministry of industry and information technology, August 17, 2020, accessed February 27, 2021, http://www.gov.cn/zhengce/zhengceku/2020-08/27/content\_5537855.htm. [↑](#footnote-ref-7)
8. “Market Status and Development Trend of Medical Protective Clothing Supply and Demand in 2020” [in Chinese], Prospective Industry Research Institute, May 12, 2020, accessed July 27, 2020, www.qianzhan.com/analyst/detail/220/200511-4609a838.html. [↑](#footnote-ref-8)
9. “Notice on the investigation of self-owned brand construction of textile and garment industry in 2020,” op. cit. [↑](#footnote-ref-9)
10. “The growth rate of epidemic prevention material production enterprises reached 1821%, and foreign mask orders increased 10 times” [in Chinese], Surging news, April 10, 2020, accessed March 2, 2021, https://news.163.com/20/0410/07/F9R8REO900018AOR.html. [↑](#footnote-ref-10)
11. Original design manufacturers provided all services—from research and development, design, and production to maintenance—according to the client’s specifications and requirements. [↑](#footnote-ref-11)
12. Biyao was an e-commerce platform, established in 2014, that linked consumers to manufacturers to realize a two-point, straight-line connection from the terminal to the factory, eliminating the intermediate circulation links and providing users with high-quality goods. [↑](#footnote-ref-12)
13. Consumer to manufacturer was a new e-commerce Internet business model in which consumers placed orders through the platform directly to factories. The factories received the personalized demand orders from consumers and designed, purchased, produced, and delivered the goods according to consumers’ needs. [↑](#footnote-ref-13)
14. Phoenix Business, “National Health Commission: Blockade measures can be taken when necessary” [in Chinese], China business news, January 26, 2020, accessed March 6, 2021, http://finance.ifeng.com/c/7tXeHGtSwsq. [↑](#footnote-ref-14)
15. Textile China Online, “Analysis and Suggestions on the Impact of the Pandemic on China’s Textile and Garment Industry” [in Chinese], April 7, 2020, accessed March 12, 2021, www.ctn1986.com/index.php?a=show&c=content&id=90403. [↑](#footnote-ref-15)
16. “The impact of the COVID-19 epidemic on Chinese clothing consumption” [in Chinese], Oliver Wyman, June 28,2020, accessed March 16, 2021, www.199it.com/archives/1069872.html. [↑](#footnote-ref-16)
17. Phoenix Business, “National Health Commission: Blockade measures can be taken when necessary,” op. cit. [↑](#footnote-ref-17)