

REGIONAL BRAND STRATEGY IN CHANGING TRADITIONAL INDUSTRIAL DISTRICT

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ABSTRACT

The purpose of this paper is to understand transformations in production and wholesaling function in traditional local industrial districts. Wholesaling manufacturers focused on building their own corporate brands as a means to strengthen their planning, design, and development functions. This shrinking of the production function causes considerable reductions in business transactions with companies dealing in raw materials and processors. The autonomy of wholesaling manufacturers with the ability to strengthen in planning and development function has led to the creation of networks of companies giving up on production. However, many wholesaling manufacturers cannot skillfully respond to a solution- or creativity-oriented business requiring design, planning and development, and sales promotion capabilities. Most of these companies have relied on agglomerations of existing wholesalers that have these functions. Two case studies in this paper suggest the important factors for regional brand strategies. It is the thinking innovation, which is the transform from manufacturing to producing brands.

Keywords: regional brand; industrial district; producing capability; network creation

INTRODUCTION

There have been many regional industrial districts in Japan. Some of them have their origin over 300 years and still remain to form regional industrial districts. Since the late 1950s, Japanese manufacturing systems facing to attain high economic growth created production structures, where wholesaling manufacturers had been in the central position to deal with mass production. It has promoted the expansion of the regional industrial districts which had the agglomeration of small and medium business. Wholesaling manufacturers organize the specialist manufacturers responsible for the fragmented production process and the division of labor for those working at home. (Yamazaki 1977) They control the areas of production within the production and distribution system (Itakura 1984).

The specific functions undertaken by wholesaling manufacturer as follows:

1. Distribution functions such as the procurement, sales, storage and delivery of products within the industrial district;
2. Production management functions for specialist manufacturers such as setting the design, volume, and deadlines, as well as technical support;
3. Certain production functions such as assembly, processing, decorating and packing;
4. Marketing functions such as market research, product design, products and design development.

That is, wholesaling manufacturers as converters had central roles in regional industrial districts (community-based industrial areas) by supporting the structure for production and distribution during the periods of mass production and expanding production. Nevertheless, global competition has been increasing since the 1990s due to the collapse of the bubble economy and the progress in the industrialization of Asian countries. There has been a decline in the number of business locations and employment in the domestic manufacturing sector, and the production function has been shrinking. There needs to explore how the wholesaling manufacturer functions have changed during such a shrinking era. It also has to be examined what sort of functions would make it possible to maintain the competitiveness of regional industrial districts. This study is to reconsider the wholesaling manufacturer functions that have been the nucleus of regional industrial districts and a possibility of regional brand development. At first, we consider wholesaling manufacturer in the era when regional industrial districts are shrinking from previous studies, and clarify the transformation of the core function for wholesaling manufacturer during the era of shrinking local production. Secondly, we consider two cases in regional industrial districts, and while focusing mainly on intangible assets of corporate

CHANGES IN THE REGIONAL INDUSTRIAL DISTRICTS

The areas of industrial agglomeration in Japan, particularly the structure for division of labor in local industrial districts, were rapidly formed in the period of high economic growth to deal with the mass production system. Most industrial districts resulted from wholesaling manufacturers receiving orders from local wholesalers in the industrial district that led to the creation of a system for the division of labor with raw material merchants and processors. Wholesaling manufacturers took charge of the final assembly and created the finished products from components that were outsourced. This formed a production and distribution system to deliver goods to local wholesalers in the industrial district and retail stores etc. While there were slight differences in the power relationship with local wholesalers or raw material dealers depending on the industry type, the structure was virtually the same. In addition, while the scale was increasing at the time, the production and distribution system was stable and a rigid vertical production structure was formed due to mass production (Seki and Oikawa 2006). Consequently, much of the research on local industries has focused on understanding the social specialization system that made it possible to have a mass production system with wholesaling manufacturer and local wholesalers at the center (Yamazaki 1977, Takeuchi 1983, Itakura 1984). That is, much of the research has been focused on understanding the structure and can be considered static research about the industrial district (Hatsuzawa 1987).

An urgent issue from the late 1980s was the creation of a high value-added production system due to the inflow of cheap imported goods. This led to transformation of the production and distribution system to deal with the changes in the production system. These researches can be called as “dynamic research”. It aimed at understanding the transformation of industrial districts such as a reorganization corresponding to improved processing technologies through application of manufacturing engineering (Oda 2005); the decline in manufacturers’ planning and development capacity caused by the expansion of OEM production (Hatsuzawa 1987); the decline of localized wholesalers and the increase of wholesalers in distribution center (Ohsawa 1996). There has been increased polarization for wholesaling manufacturer during this era with medium businesses that have their own planning and design development divisions with their own brand. Small and medium businesses aimed to improve their processing technologies that overemphasize the production function and rely on wholesalers for their marketing, sales, planning and development. The production function gradually shifted to China from the late 1990s, and there was a further decline in the number of companies within local industrial districts and a further shrinkage of the domestic production function. Consequently, the emphasis of research about regional industrial districts became focusing on understanding the inter-corporate network to generate innovation aiming at establishing even further value added goods. Such research clarified the impact that social networks such as technology exchange consortiums formed by small and medium businesses had on industrial districts (Matsushashi 2002). There was also research on the impact that the establishment of public technology support centers and incubators in the industrial districts (Ide 2002). Much of that research revealed the structure for industrial activity that utilized the existing resources in the producing area under industrial agglomeration theory. This is attributed to the accumulation of research that focused on the advantages provided by the formation of horizontal networks in industrial areas with an agglomeration of small and medium businesses such as Silicon Valley and Third Italy. However, there is currently a massive inflow of low priced goods from China and the production function is increasingly shifting towards China and ASEAN countries. Domestically, more companies specialize in making the prototype, planning and development. Considering the ongoing decline in manufacturers and growing post-industrialization in Japan, the benefit from agglomeration through the use of various networks was not enough to gain the competitiveness to sustain regional industrial districts. This situation has led to a research on the change in the function of wholesaling manufacturer caused by the progress in post-industrialization during recent years.

There has been a research that shows a change in the structure of the division of labor for local industrial districts from the type of a division of labor for manufacturing processes to that of labor for information (Japan Finance Corporation for Small and Medium Enterprise Research Dept. Report 2003). And there has been a research on the progress of increasingly complex and integrated wholesale and production functions for companies in the industrial district (Japan Finance Corporation for Small and Medium Enterprise Research Dept. Report 2003, Osaka Research Center for Industry and Economy 2008). At the same time, there has been an increase in research since 2000 that takes a sociocultural approach in considering the

advantages of regional industrial districts These research have pointed to the importance of ‘locations’ and ‘milieu’ for industrial districts (Itami et al. 2000) such as the elucidation of the tacit knowledge that is unique to an area and the importance of face-to-face contact (Endo 2012, Kamakura 2012). There have also been arguments that the existence of social capital such as ‘trust’, ‘moral’, ‘network’, and ‘community’ have revitalized industrial areas. Such sociocultural approaches have now spread to research on understanding the impact of ‘regional brands’ and ‘regional identities’ on industrial areas. That is, the importance of intangible assets has increased with the shift into high value-added production.

SHIFTING FROM PRODUCTION FUNCTION TO WHOLESALING FUNCTION

In this section, we clarify the change in the wholesaling manufacturer function by looking at industrial district of the Kobe Chemical Shoes industrial district to clarify the actual functional change from the manufacturing sector to wholesaling.

Kobe Chemical Shoes industrial district is an industrial agglomeration of footwear production centered on Nagata-ward in Kobe. There were about 430 wholesaling manufacturers in 1994, before the Great Hanshin Earthquake. There were about 1,700 companies providing materials to the wholesaling manufacturers and associated companies that were subcontracted to process components. There were reportedly about 15,000 workers and 5,000 working at home. The production of footwear involves many processes from product planning, creation of parts, final assembly, and finishing to wrapping and delivery. Wholesaling manufacturer controls all these operations. As illustrated in Fig. 1, a wholesaling manufacturer buys the materials for each part (soles, inner soles, heels, etc.) from the raw material merchants and outsources them to processors. In the case of the leather product, the leather acquired from the leather merchant is outsourced to processors for cutting, sewing, and drilling, in this order. Ultimately, the product outsourced for processing is assembled and completed by the wholesaling manufacturer and completed products are supplied to wholesale distributors, mainly located in urban areas. That is, the structure for the division of labor in the shoe-making process in the Kobe Chemical Shoes industrial district is a production and distribution centered on wholesaling manufacturer.

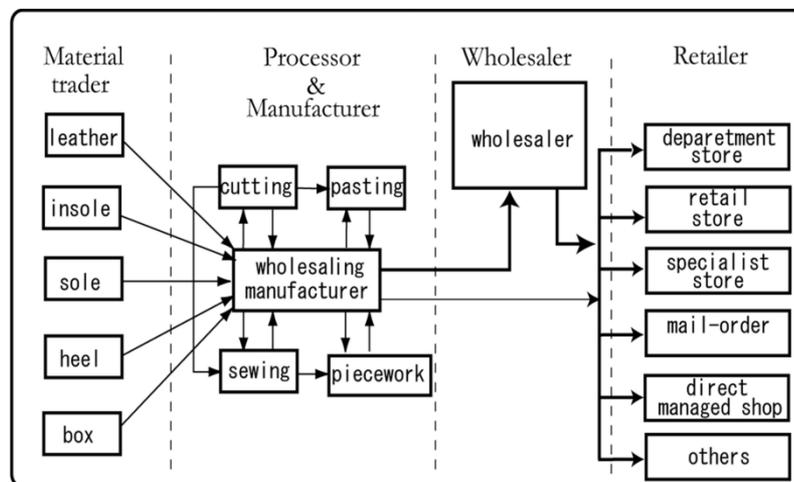


Fig. 1. Production and distribution system in shoe industrial district

Such a system of division of labor facilitated the supply of goods with short lead time for a small lot production of many products in line with the fashion trends. It also made it possible to keep prices low. However, the scale of the industrial district is shrinking due to the decline in the number of related business dealers. The 1995 Great Hanshin Earthquake caused extensive damage to the industrial district, and production volumes almost halved. There was subsequently a recovery to about 70% of the pre-earthquake levels, but there has been another downward trend in recent years. The number of wholesaling manufacturers in the producing area had fallen to 95 in 2010. This downward trend had already started before the 1991 collapse of the economic bubble. Rather than the earthquake, there has been a much larger impact from low priced imported goods from China and ASEAN countries. The decline in wholesaling manufacturer that is at

the core of the division of labor is causing a similar downward trend for related companies. According to Yamamoto (2011), there has been an increase in the number of wholesaling manufacturers with a production function in the industrial district that have shifted into only non-production functions of planning and design, sales, and wholesaling. The production function has been shrinking. Looking at the proportion of companies to which goods are shipped for each business, we note while there is still an important focus on the linkage to wholesalers, some business have a high proportion of mail order sales. The state of development of planning and design for each business indicates that most companies have capacity to develop planning and design and many companies employ their own designer or outsource. Because of this, most companies responded that they have their own brand. Some leading companies and small scale networks of processors are choosing to survive not as part of an industrial district but using their corporate brand as a core.

Furthermore, there is a remarkable trend for companies to shift their production function to China and import the semi processed goods or finished product from there. Table3 illustrates the progress made by each business in overseas development. Five of the wholesaling manufacturers within the area have their own factory or a factory of a business partner located in China. That is, while wholesaling manufacturers maintain the minimum level of production network within the industrial district, they have simultaneously implemented a management strategy to strengthen the production function outside the industrial district of overseas. However, wholesaling manufacturer in this industrial district relies on the agglomeration of wholesalers as a link to the market, and there has not been much accumulation of know-how or the function as a wholesaler. It means that many wholesaling manufacturers are producing on the basis of designs and volumes dictated by wholesalers in distribution center. (Yamamoto 2008) This trend has not changed as of 2010. It shows how a high level of trading with wholesalers outside the industrial district still exists.

Summarizing the aforementioned characteristics, there has been a reduction in the manufacturing function for wholesaling manufacturer that had been at the core of the division of labor. By focusing on the development of planning and design, and by having one's own brand companies should be able to aim for increasing the sales function mainly through mail order sales. There has also been a progress in shifting to overseas production that wholesaling manufacturers will highly likely to increase their wholesaling function. If this trend continues, there will be more reduction in the trading volumes between wholesaling manufacturers and the processors within the industrial district and raw material merchants that will make it very difficult to remain as a location for processing. The shift by wholesaling manufacturers into the wholesaling function is exacerbating the decline in scale of the industrial district.

CREATING A SYSTEM FOR HIGH ADDED VALUE PRODUCTION THROUGH BRAND BUILDING

In this section we take the other case of the industrial district for one of Kyoto's traditional crafts: *Kyo-kanoko Shibori* (dyed textiles). We clarify the transformation of the production and distribution network for the *Kyo-kanoko Shibori* industrial district, and try to identify the functions needed for wholesaling manufacturer when the industrial district is shrinking. *Kyo-kanoko Shibori* is the general term used for the tie-dyed goods produced in Kyoto. This mainly refers to silk products that have been produced with a pattern using a technique to tie up white material made of silk with silk thread to create parts that cannot be dyed. Tie-dyed goods became popular in Japan early Edo era and the center of production was in Kyoto. Production volumes increased from the late 1950s and there was a golden age up until the early 1970s. The Sales for the total industrial district in 1973 was about 30 billion JPY, and there were 229 member companies in the cooperative association. However, the popularity of western clothes has led to a decline in the overall rate of Japanese style clothing since the late 1970s, and production has fallen dramatically. This has also led to a sharp decline in the corporate members of the cooperative association. As of 2006, the total sales the association were about 10 billion JPY, with 93 members.

This has led to the current production of a wide range of products from clothing to accessories and interior goods in order to expand the sales channel. As a result, whereas the proportion of traditional crafts accounted for 80% of total production in 1973, it had fallen to 20% as of 2006. Similar to other local industrial districts, the era of producing designs for Japanese traditional clothes had a production and distribution structure suitable for mass production, while wholesaling manufacturer controlled the processors in the industrial district. The dramatic decline in production volumes coinciding with a lack of workers as artisans became older made it impossible to maintain the previous production structure. It is difficult to maintain it and some

labor intensive processes are now outsourced to China. Some companies are creating new production structures based on producing function to build a corporate brand. In an example of a company that has clearly transformed its production structure, we provide details below about Company K. This company has shifted from tie-dyed goods for Japanese clothing to tie-dyed goods for Western clothing and interior. Company K was established in 1935 and continued to produce tie-dyed cloth for *Kimonos* (seven employees, of which four were family members.) In 1993, the products related to Japanese traditional clothing accounted for 100% of their sales. However, in 2005, Japanese traditional clothing and Western clothing/ interior goods accounted for 50% respectively. As of 2011, sales of Western clothing/ interior goods had risen to 80% of their sales. Such self-renewal from traditional crafts was triggered by the company's participation in the system for developing new business areas sponsored by Kyoto Prefecture.

In addition, Company K was thinking about expanding into the European markets to increase its customer base and participate in the operation Kyoto Premium. Kyoto Premium is a project that has been sponsored by the Kyoto Chamber of Commerce and Industry since 2005 to create brand value and promote the sale of traditional Kyoto crafts to overseas markets⁴. The participation by Company K as a Kyoto Premium company triggered the development of new interior goods utilizing tie-dye techniques that led not only to an increase in new trading with overseas companies but also with Japanese companies. In particular, there was a sharp increase in sales of lamp covers that use the tie-dye technique and the price of one item is about 25,000 JPY. In addition, a scarf with a tapered end of about 20,000 JPY is popular. In other words, the participation in this project has generated innovation in a multitude of areas not only in design, but also product planning and the cultivation of new markets. Company K has made progress expanding in overseas markets and uses the processing techniques based on the traditional past tie-dyeing production to develop Western clothes and interior goods. In that process, it has shifted the production function to China and implemented a management strategy to strengthen its own design and planning and development function (design and planning is the sole responsibility of the company president). Consideration of the production costs has led to all processing of goods outsourced to China. The company is focused on design irrespective of the location of production. The manager thinks Kyoto's strength is not production capacity, but to accumulate design and good taste. In addition, Kyoto is also a preferred location for an exhibition because of its capacity to draw clients from all across Japan. Although the volume is small, the company is also producing the cloth with tie-dyed patterns for *Kimono*, but the role as a wholesaling manufacturer in controlling the production function in the industrial district has been dwindling drastically.

This Kyoto Premium project has created new transactions in overseas markets for many participating companies, not just Company K. For example, as a result of an exhibition, a textile company A has received orders for the shop interiors for an overseas construction company and its contract is worth more than 10 million JPY. In addition, Company B jointly develops a brief case with a foreign company and receives orders for foreign novelty products with the orders in high prices. Many companies participating in the project eventually entered into a contract after the third year of joining the project. Participation in the project has provided opportunities to study trends in abroad and management of know-how and administration, and foreign market concepts that has bring companies to understand buyers and led to signed contracts. The Kyoto Premium concept is not to revitalize the traditional crafts segment, but aims at invigorating each industry such as textiles, dyeing and sewing. It is not aimed at 'Made in Kyoto', but in the creation of high added-value goods that are 'Produced by Kyoto'. It is aimed at turning traditional industries into cultural businesses that do not rely on 'tradition' or 'production'(Murayama 2012), which is considered a change that will lead to transformation of the existing production structure. This means the current wholesaling manufacturers do not require the controlling function of 'production', but instead they require the design, planning and development functions to establish corporate brands. In terms of production, regardless of location of the industrial area, it is now important to rebuild optimal production networks.

CONCLUSION AND MANAGERIAL IMPLICATIONS

In the research studies of global marketing and brand strategy, a company has to consider the globalization of brand or the regionalization of brand adapted to the local market. Whether a company takes a standardization brand strategy or regional brand strategy, customer markets will perceive a brand with the country image of origin (Balabanis and Diamantopoulos 2011, Riefler 2012). The brand strategy of this study has a same issue, but its route is absolutely reverse. While the conventional research of global brand strategy has been focusing to the brand development of a company possessing power brands, brand strategy in this study is the brand

creation of a company or districts possessing a still seldom known brand (Tamura 2011).

This study has clarified the current state of production with the shift away from the control function of wholesaling manufacturer that was established in the mass production era. The decline in production volumes due to the import of low priced imported goods has resulted in transformation away from the production function towards the design, planning and development, and marketing and sale functions aiming to building corporate brands. However, OEM production increased from the 1960s and the popularity of the DC brand in the 1980s meant that most wholesaling manufacturers came to rely on designer brands from overseas and outside the industrial district. Wholesaling manufacturer has been expanding its wholesaling function without retaining its competitiveness in planning and development capacity. That is, although the focus for wholesaling manufacturer is shifting away from the production function towards planning and sales, they have been unable to address the important issues of solution, creative design and planning and development, unlike fabless companies in the apparel industry such as specialty store retailers of private label apparel (SPA). They have at the same time lost their competitiveness advantage, which has exacerbated the declining trend in local industrial districts. Even so, wholesaling manufacturers have made progress towards the establishment of own company brands and the creation of value in a company brand has become an important issue. The change from the production function to the producing function aiming for establishing wholesaling manufacturer brands is having a major influence on the production and distribution structure in local industrial districts.

We wonder whether or not wholesaling manufacturers that have to date somehow managed to maintain advantages on the production function can build company brands without production. In the Kobe Chemical Shoes industrial district, progress has been made with shifting the production function overseas and wholesaling manufacturers have been putting effort into producing the corporate brand with a loss of the organization function within the industrial district. Even in Kyoto's traditional craft industrial districts, companies and industries producing *Kyo-kanoko Shibori* and Kyoto Stone Crafts have become increasingly dependent on China for their production function. So despite being referred to as traditional crafts, the creation of purely domestic products has become impossible. The Kyoto Chamber of Commerce and Industry has promoted Kyoto Premium program by helping companies to expand into the European markets, but the business concept is not 'Made in Kyoto' but 'Produced by Kyoto.' This type of shrinkage in the production function has significantly reduced the volume of transactions with material merchants and processors within the industrial district. It means that the advantages of the production function where they were good at working on product assembly through organization will be lost. At present, most wholesaling manufacturers have not been able to respond well to the solution and creative-based business conditions such as design, planning and development and sales promotion that are necessary for autonomy. The current sharp decline in the number of companies suggests that the loss of competitiveness in the production function leads to a loss of the industrial district's competitive advantage and exacerbation of the downward trend. In these circumstances, what will be needed to establish strong regional brands? It is not enough to only to promote to be known by national and international markets. It will need to gain the value of index like the degree of attachment, intension of recommendation, price premium, and rate of regular uses. There needs the fusion of the ardor of marketers and markets. They need the thinking innovation, which focuses on not to where products are manufactured, but to where brands are produced and managed. As the brand theory suggests, a brand is not product itself, but it is the intangible asset and the relationship between company and customer through product.

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