



If the Shoe Fits: Wenzhou Aike Shoes Company, Ltd.

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Teaching Note

1. Synopsis of the Case Study

This case study addresses critical aspects of the strategic decision to be made by Ma Juncheng, CEO of Wenzhou Aike Shoes Company, Ltd., a Chinese multinational shoe manufacturer. The specific focus of the case is on Aike's operations in Elche, Spain. Over a period of several years, upheaval stemming from a multitude of Chinese new entrants to Elche's revered shoemaking industry reached a flashpoint. The Chinese new entrants run operations significantly differently than the local Elche businesses in terms of daily practices, production, imitation, price competition, and supply chain management. All of these aspects derive from deep cultural differences, are highlighted in the case, and weigh upon the decision facing Ma. The flashpoint occurs when local citizens and business owners rebel, riot, and set fire to a large amount of Aike's inventory as they seek to force the Chinese businesses out of Elche. Ma is interested in staying in Elche but must find a way to assimilate his operations into the local culture. Several strategic options are presented (foreign partnership, brand acquisition, exiting Elche and entering another country) for discussion. The strategic management aspects of the case are complicated significantly by intense competition from large numbers of other Wenzhou-based shoemakers expanding internationally.

2. Immediate and Basic Issues

This case addresses a topic highly relevant to the global world of business: the current expansion of Chinese companies and business operations in the global marketplace. Such expansion, though a current event, incurs some of the most basic strategic management challenges that are complex. Some of the most

interesting ones are based on culture differences that permeate business operations and clash with foreign business environments. Culture clash is an underlying theme in the case. “If the shoe fits...” illustrates these kinds of compelling issues via actual challenges faced by Wenzhou Aike Shoes Company as they marketed their Chinese-manufactured shoe inventory in Elche, Spain.

How to keep his business viable amidst the tensions that rise to such a high pitch in the case is the immediate issue facing Aike’s CEO, Ma Juncheng. To respond to the challenges effectively, he must make a strategic management decision about whether to stay in Elche or not and, if not, delineate other options and next steps. The decision is complex because it entails operational and ethical aspects related to productivity and quality as well as effects on the local industry in Elche. The complexity is compounded by issues of political and economic complexions (e.g., mass immigration of Chinese into Spain, European Union anti-dumping laws). Possible strategic options in the case vary in terms of the basic issues around the options (location, planning, labor cost, law and legal environment, logistics) and allow room for users of the case to expound their own ideas about what Ma should do. However, those options can and should be contextualized by current immigration, foreign trade, or even ethical (e.g., is copying Spanish styles with cheaply-made Chinese shoes ethical?) problems as reflected in the news media or popular press.

3. Audience

The case has definite international business and strategic aspects. It details a current event. The case itself is also not a long manuscript and does not take a long time to read. As such, it is useful for use with executive managers in corporate training programs or executive MBA programs. Because the case also has underlying ethical tones, particularly regarding the local shoe industry in Elche, Spain, undergraduate university students of commerce and business will also find the case compelling and engaging. However, those students will almost certainly tend to focus more on the ethical aspects of what is the “right” thing to do instead of the strategic management aspects of the same question. Certain audiences, particularly international ones, will be able to comment and discuss the perceived or expected political arrangements with local figures that might be necessary for Aike to enter Spain.

4. Student Assignment

The case provides a large range of topics for discussion, and can draw from supplementary lectures, external research and theory, as well as the personal experience of the case readers.

5. Additional Readings

One option for engaging students can be accomplished by having students bring in collateral material from internet searches of the international news. The political and legal environment around the expansion of Chinese businesses is constantly updating and students will be able to capture material that they can bring to bear on the issues. For example, even as this case was being written, news stories would hit the wires commenting on the latest developments in the shoe industry in Elche. There is little risk of the case itself becoming irrelevant, as the basic issues it implies (whether to partner, compete, exit) are quite general as underpinnings to strategic management decisions in international business.

6. Possible Discussion Questions

There are four strategic options presented at the end of the case. As questions about those options are provided in the case itself, students should analyze each of them in terms of risks and benefits. In what follows are four possible approaches to critically engaging some of the basic issues around the strategic options. Students should be encouraged to provide additional critiques of each option.

Expanding into Africa. Using African countries as manufacturing bases, Aike could immediately replicate its considerable capacity for efficiency and volume in the low-end footwear industry sector in Africa. Inexpensive labor and lower working condition standards in Africa could enhance Aike's low cost competitive strength. However, Aike would likely not be able to develop high-end products in Africa. The reason is because it is a very remote location and quite far away from the mainstream market where high-end shoes are in demand. And if Aike cannot move up into the profitable high-end sector, it will certainly have to compete fiercely with Chinese and Vietnamese shoemakers for slim profit margins (as it did in Russia and Elche). Yet another problem is that the local market in Africa is very limited in terms of buying power.

Acquiring a Brand. Brand establishment is capital intensive because of its marketing aspects. It also requires a great deal of resources other than financial ones (e.g., technology, media channel) as well as pure luck. Acquiring a European firm could help Aike jump directly into the high-end sector and enjoy established intellectual property while avoiding anti-dumping regulations. However, Aike is not the biggest player in this area, and it may not have enough capital to secure an advantageous deal. In addition, the chances of such a deal occurring are very low and unpredictable. Acquisition, at any rate, would not necessarily be a cure-all for Aike's future as it would also open up new kinds of challenges. For

instance, international acquisitions are known to trigger clashes of cultures, business philosophies, and operations.

Cooperation with a Foreign Company. A foreign company could help Aike enter the foreign market and fuel growth. In the mean time, Aike could work as an original equipment manufacturer (OEM) for the foreign company. However, new risks emerge with this option based on the nature of the formal relations with the foreign company. In particular, the brand itself would still belong to the foreign company. Thus, when and if cooperation ends, the market and any growth or increased share in that market would remain a property of the foreign company, but not Aike. For purposes of design and development, Aike would also have to follow the foreign partner's directives closely. As a going concern, Aike would also not be able to benefit from core technologies or develop its own new information to support its strategy. Instead, it could only use such resources at the pleasure of the cooperating foreign partner.

Remain in Elche and Change Operations. The fire in Elche should have awakened Aike to be aware of the importance of achieving a win-win solution for all partners concerned. The Spanish shoemakers should have learned that they cannot compete with Chinese companies on price. Thus, both sides should seek to understand that a continual benefit-sharing mindset is conducive to removing barriers in international trade. Developing trust in benefit sharing supports a steady-state system. When one partner shows it, the other partner finds it easier to follow. But such a cycle has to initiate somewhere, and the circumstances in the case suggest that Aike needs to make the first move. To realize exorbitant profits, Aike had been using simple tactics such as longer business hours. It had also benefited from monopolization of its entire production chain: from manufacturing in China, exports to Spain, imports in Spain, and marketing in Spain. Going forward, Aike should adjust its operations with a view toward respecting Spanish culture and business practices. It should eschew aggressive competition based low prices or hours of operation. Aike could seek to hire more local workers, help Spanish firms expand into the Chinese market, and seek to build joint venture operations advantageous to both sides.

7. Potential Uses

This case fits well in strategic management or international business courses. It can also be used in entrepreneurship or principles of management courses to support sections on the international aspects of commerce. Courses in business ethics will derive value from discussions about what is "the right thing to do" for Aike. Finally, operations management courses can use the case when covering international supply chain management. Executive workshops for managers of

companies will derive value from case discussion because of the pure reality of the complicated issues as they are presented. In those contexts the case works well because it is not a particularly long document, but its issues are rich.

8. Suggested Teaching Approach

One effective way to conduct a discussion using this case is to assign students to groups representing (1) Wenzhou Aike Shoes Company and (2) the local competitors (in Elche, Russia, or Africa). After they have read the case, it may be convenient to have students assign themselves to particular groups voluntarily if they have strong feelings about a case solution. The instructor can assign students with neutral perceptions to a group. Each group should discuss pros and cons vis-à-vis one another as the instructor guides the discussion through the four possible strategic options Ma is considering for Aike. Because some of the issues covered in the case are purposefully designed to be provocative, the tone of the discussion can become spirited. The tone may become strident in very diverse international audiences. As such, effective and capable moderation by the instructor is important.

9. Proposed Session Plan

The following is a sample 90-minute session for a large class of undergraduate commerce students. The strategic option entailing cooperation between Aike and the local shoemakers tends to be the most controversial. As such, it is presented last in the case and should be discussed after the prior options are discussed and determined not viable.

0-10 minutes: Case introduction and summary

10-20 minutes: Assignment to groups (Aike, local competitors, Elche citizens)

20-25 minutes: Sides state general problems and concerns

25-35 minutes: Sides debate strategic option #1 (Africa)

35-45 minutes: Sides debate strategic option #2 (acquisition)

45-55 minutes: Sides debate strategic option #3 (foreign cooperation)

55-65 minutes: Sides debate strategic option #4 (stay in Elche)

65-75 minutes: Consensus on an option (voting or discussion on each side)

75-90 minutes: Instructor summarizes issues and closes lesson