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ABSTRACT

The Eliza Fashion School of Art (EFSA) is a fashion school in China founded by the fashion legend Eliza Wang in 2008. EFSA has five programs encompassing almost every aspect of the fashion industry, including modelling, fashion design, makeover design, movie & TV performance, and hospitality management. Because, from my point of view, modelling training is the core competency of EFSA, this paper’s strategic analysis focuses on the modelling section of this school.

Utilizing Michael Porter’s 5 Forces analysis (Porter, 1979), my findings indicate that the modelling industry in China lacks differentiation, but has great potential. Hence, it is essential for EFSA to adopt a differentiation strategy to leverage its strengths on sensational experiences and expertise to maximize its profit. In order to make the strategy work, EFSA also needs to reorganize its structure and increase efficiency so that its internal resources can accommodate the differentiation requirement.

Keywords: strategic analysis, modelling industry, fashion school, China

Subject Terms: Strategic Planning – Case studies
DEDICATION

To my dearest mum,
without your selfless love, endless support and encouragement,
I could not make it this far.
Thank you for being in my life.
I love you.

Also, to dear Ms. Eliza Wang,
your talent, dedication, and integrity,
is the best annotation for the word “Model”.

And to my dearest friend Deborah,
thank you for being a good friend to me.
You are the best, always.
ACKNOWLEDGEMENTS

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I am also very thankful for the trust and support from Ms. Eliza Wang and my dear friend Deborah Wang. I am looking forward to seeing the success of your business as soon as possible.
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1: BACKGROUND – ELIZA FASHION SCHOOL OF ART

1.1 Writing Purpose and Paper Scope

Along with almost 40 years of professional experience in the fashion industry, the founder of the Eliza Fashion School of Art (EFSA), Ms. Eliza Wang, has gained extraordinary expertise and an extraordinary reputation in the arena, including modelling training, modelling agency, fashion design, and social etiquette. Her school is into almost every area of the fashion industry, offering programs such as modelling, fashion design, makeover design, movie and TV performance, and hospitality management. The purpose of this paper is to carry out a strategic analysis for EFSA to draw conclusions on the key success factors for the school. Amongst all of Ms. Wang’s specialties, modelling training and modelling agencies is the area that she has the longest and most successful experience with, and is the foundation for all of Eliza Wang’s business. My strategic analysis of EFSA will focus on the modelling training & agency section of the school, which is, from my perspective, the core competency of EFSA.

1.2 China Modelling Industry Overview

The establishment of the modern industrial modelling concept dates back to 1979 when Mr. Pierre Cardin, together with his modelling team, visited Beijing. This caused quite a stir. Subsequently, 68 model agencies sprang up that are registered under the China Fashion Association (CFA), and there are roughly 7,000 contract models working in China’s fashion industry (Fan, 2006).
1.2.1 Model Agencies in China

Model agencies manage models (excluding those models that do not have contracts with any model agencies). In the modelling industry, the model and model agency is a co-dependent relationship. All of the effort that a model agency goes to for a model is to gain marketable value from the model. Models rely on an agency’s network power to facilitate more, and better, working opportunities. Models in China are generally classified into four different categories according to the model’s industry experience and reputation. How much a model makes is commensurate with his or her professionalism and reputation in the industry, and it is relative to how many shows the model can get (see Table 1.1).

<table>
<thead>
<tr>
<th>Model Category</th>
<th>Compensation ($)</th>
<th>Qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Super A</td>
<td>$1,170-$2,200/show</td>
<td>Top three winners in International Model Pageants, such as Elite Model Look</td>
</tr>
<tr>
<td>A</td>
<td>$732-$1,170/show</td>
<td>Top three winners in National Model Pageants</td>
</tr>
<tr>
<td>B</td>
<td>$439-$732/show</td>
<td>Top ten winners in National Model Pageants</td>
</tr>
<tr>
<td>C</td>
<td>$220-$439/show</td>
<td>Professional Models with years of working experiences and certain reputations within the industry</td>
</tr>
</tbody>
</table>

*Source from (A Glance at Shanghai Modelling Industry, 2003)*

With an estimated annual revenue of USD $730\(^1\) million (Yu, 2005), the modelling industry in China is still in its growth stage. Just like any other immature business, the modelling industry in China has problems that need rectifying. Despite the enactment of a *Model Professionalism Standard* in 1997, there is still a lack of regulation in the whole industry. Some modelling agencies do not have enough industry experience and professionalism, so they do not know how to operate a model agency properly, and do not know how to promote their models competitively in the market. In order to win a

\(^1\) The dollar amount ($) is in US dollars unless otherwise noted.
contract, some modelling agencies place a bid that is priced far lower than the industry average. Some models even negotiate directly with clients, leaving the modelling agencies and the whole modelling industry to suffer considerably from these unfair competition behaviours.

1.2.2 Modelling Education Industry in China

China’s Modelling Education has two segments. The first segment is the Modelling Performance programs provided by public universities or colleges such as the Beijing Institute of Clothing Technology and Shanghai Dong Hua University. Students receive a Bachelor or Diploma degree when they graduate. There are about 63 universities/colleges providing such modelling education. The second segment is professional modelling training provided by private-owned modelling training schools such as the New Silk Road Modelling School. Students get certificates when they graduate. There are dozens of such modelling schools in China (Liu, 2008). Both the public universities/colleges and private modelling schools are in direct competition with EFSA. Students from both of these segments should have the same career path upon graduation: to become professional models.

Modelling training schools play a leading role in the modelling education industry. First, the student base for modelling schools is larger than that of the public universities/colleges. Modelling schools recruit students from the ages of 12 to 24, while most eligible applicants for modelling programs in public universities/colleges are high school graduates aged around 18. Second, the modelling education provided by modelling training schools is more market-oriented. Students are selected to participate in big modelling competitions or events in China when they are at school, which provides
them with industry experience and greatly promotes their reputations in the modelling industry if they are successful in getting places in these competitions. Alternatively, students in public universities/colleges are busy with the fulfilment of various academic criteria so that they can graduate and get degrees. Then when they finally do graduate and get the chance to delve into the modelling market, they could be expected to be around the age of 22, which is relatively “old” in this youth-oriented industry.

1.2.3 Industry Strategy Preference

The modelling industry is fast moving and frequently changing. Since there are significant differences in dress, movement and style in the way models behave that must be learned in detail and practiced perfectly; it is likely that the modelling industry tends to favour a differentiation strategy. Companies adopting a differentiation tactic will excel over their competitors by tackling such a preference. The validity of this assumption will be discussed further in Chapter 2.

1.3 Founder – Eliza Wang

From 1971 to 1975, Eliza Wang worked as a model in New York. Ms. Wang’s oriental charisma, combined with her in-depth understanding of fashion, made her unique in the New York fashion world. In 1971, Ms. Wang was invited by the famous fashion designer Dona Brook to fit dresses that were designed for Mrs. Nixon for her visit, accompanying President Richard Nixon, to China in 1972. Two years later, Eliza won the Millionaire Supermodel Competition. The competition was about which model could sell the most clothing in one fashion show. Each model held a number, and buyers bid on the clothes worn by them. Ms. Wang remains the only Asian model to win the competition.
After giving birth to her daughter Deborah, Eliza Wang returned to Taiwan and created her company - Eliza Couture. She also designed high-end apparel for Taiwanese nobilities and celebrities. At the same time, she operated a monthly fashion magazine, which had journalists in Tokyo, Paris, and New York grasping the most up-to-date fashion vibe all over the world. As the receiver of the Golden Horse award for best fashion designer, which is a famous Asian film festival held in Taiwan annually, Eliza Wang designed outfits for Elizabeth Taylor when Taylor visited Taiwan as an award guest for the Golden Horse Awards in 1979. Subsequently, she became one of Taylor’s favourite designers.

In 1985, Ms. Wang moved to Los Angeles and started the Eliza Charming and Modelling Training School. Her students include the winners of the Universal Chinese Supermodel Search, the Miss Asian World Pageant, the Tournament of Roses, and Miss Hong Kong. Due to Eliza Wang’s avant-garde reputation and milestone status in the fashion industry, in 1987, Ms. Wang was co-invited by the United Nations and the Government of the People’s Republic of China to train the first model team for China. In 2007, Eliza Wang shifted her business focus to Mainland China, and she established the Eliza Fashion School of Art in Nanjing in 2008.

1.4 School Introduction

The Eliza Fashion School of Art is a fashion School founded in 2008 by Eliza Wang located in Nanjing, People’s Republic of China. The school is established along the shore of Qinghuai Lake – a beautiful tourist resort, with an area of 13,974 square miles. Other than teaching buildings, EFSA integrates various entertainment and business facilities in this area such as the runway, theatre, studio, art galleries, a high-end shopping
mall, and the Eliza cafe. To facilitate EFSA’s students capability to excel in the fashion industry internationally, Eliza Wang aims to provide her students with professional fashion expertise, and she aims to impart the students with an international sense of fashion through her five programs. The teachers of the Eliza Fashion School are professionals with overseas working experience in the fashion industry. For example, its Fashion Design teacher Nancy Chang once worked as a fashion designer for Calvin Klein and Ralph Lauren in New York. Its modelling instructors either worked as contract models for big international modelling agencies such as Ford Models, or were the winners of international model competition such as ELITE Model Pageant. All the programs in the Eliza Fashion School of Art are two years long. Qualified students have opportunities to go to sister fashion schools in the United States for training during their second year in school.

1.5 EFSA’s Strategy

EFSA has a unique advantage in being able to send its students to modelling and design colleges in the USA for training. To be eligible, students need to pass all the assessments by teachers from sister colleges in America, and they need to pay a premium price which is a little higher than the regular EFSA modelling program. Even though the open-door policy allows Chinese to have more access to the Western world, many Chinese are still very passionate about going abroad to personally experience western life. Therefore, this international training opportunity will attract richer students who are interested in studying abroad. An international education experience will benefit the student’s future modelling career. Eliza Wang is now in the process of establishing a sister school relationship with the Fashion Institute of Technology (FIT), the Parsons
School of Design, and the Fashion Institute of Design and Merchandising. Eliza Wang was an alumna of FIT and her instructor in FIT was the extraordinary fashion designer Hubert de Givenchy.

Ideally, the students of EFSA are between the ages of 12 and 24, and have a height of no less than 5.6 ft for females, and no less than 5.9 ft for males. Eliza Wang plans to charge RMB ¥18,000 (around $2,647) per year for her two year modelling program, which amounts to RMB ¥36,000 (around $5,294) in total, whereas universities usually charge RMB ¥10,000 (around $1,470) per year for four years, which is RMB ¥40,000 (around $5,882) in total. Private modelling schools normally charge RMB ¥3,600 (around $530) per month, and their programs usually last one or two months.

Eliza Wang charges for her program approximately the same amount of money as universities charge; whereas, universities receive total tuitions in quarters, she will receive all her tuitions within two years. She actually charges higher. Ms. Wang also condenses a four-year program into two years, which means her program will be more intense than the programs offered by universities. In this way, she manages to save students two-years of lost opportunity costs, which is precious for individuals venturing into a highly competitive “youth” industry. Is her differentiation strategy then, a successful strategy versus the universities’ lower cost approach? On the other hand, programs in modelling schools only last one or two months, while the same programs in universities normally last for years. Thus, it is hard to believe these modelling schools could manage to deliver the same amount of education quantity and quality in such a short period. Then is Eliza Wang charging as much as she could considering that she
delivers a quality education within two years and saves precious two-year opportunity cost for students? Moreover, does she have the internal capabilities to carry out her promises?

It appears that EFSA is using a differentiation strategy by offering overseas training opportunities, an intensified two-year program, and a team of international instructors. In order to identify EFSA’s strategy and determine if its strategy matches the industry’s differentiation preference, I have analysed EFSA in terms of its strategy and did a Strategic Fit Grid as shown in Table 1.2 below according to the set of scales formulated by Dr. Ed Bukszor.

<table>
<thead>
<tr>
<th>Table 1.2 EFSA Strategic Fit Grid</th>
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<tbody>
<tr>
<td><strong>Cost Based</strong></td>
</tr>
<tr>
<td>Low Cost, Adequate Quality</td>
</tr>
<tr>
<td><strong>Source</strong></td>
</tr>
<tr>
<td><strong>Product Strategy</strong></td>
</tr>
<tr>
<td><strong>R&amp;D Expenses</strong></td>
</tr>
<tr>
<td><strong>Structure</strong></td>
</tr>
<tr>
<td><strong>Decision Making</strong></td>
</tr>
<tr>
<td><strong>Production, Service</strong></td>
</tr>
<tr>
<td><strong>Labour</strong></td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
</tr>
<tr>
<td><strong>Risk profile</strong></td>
</tr>
<tr>
<td><strong>Capital Structure</strong></td>
</tr>
</tbody>
</table>

The strategy approach of EFSA is cost and differentiation mixed. Eliza Wang essentially tries to replicate the successful business model of the American fashion schools that she experienced in the US for EFSA. In order to provide an extremely differentiated education product, she has invested highly in hiring highly skilled instructors and building first class teaching facilities. However, because its organization
is comprised of employees from various backgrounds with different values (for example, while instructors of EFSA all have an international education and working experience, some of the local Chinese employees only received an education in China, and never travelled abroad), the structure of EFSA cannot be decentralised. Due to the affects of such an organizational structure and culture, EFSA tends to be risk neutral in decision-making, and its marketing strategy tends to be conservative.

If EFSA intends a differentiation strategy, which is likely preferred by the industry, then those problems are raised in the places on the Strategic Fit Grid towards the cost side, such as structure, decision-making, marketing, and risk preference. The greatest weakness for a differentiation strategy according to the grid is marketing. A differentiated brand needs a differentiated way to communicate with its target customers, which requires a large investment on advertising and events. However, the present marketing strategy could go either way, which is a reflection of EFSA’s internal divisions over strategic direction (discussed more fully in the Internal Analysis). If a low cost strategy is the way that EFSA chooses to go, which is very likely (again as described later), it will not be as cost effective as other low cost companies given its higher fixed cost that arises from investment in highly skilled instructors and from facility construction. Another major problem for a low cost company is that it must work much harder to create a sufficient customer base that will allow it to achieve a cost profit margin. What is worse, EFSA will have difficulties switching back once it goes for a low cost strategy because its differentiation capabilities will be weakened.

During the following sections of this strategic analysis, I will try to determine what kind of strategy is favoured by the modelling industry. I will appraise whether the
differentiation strategy is appropriate for EFSA, what kind of components the school requires to be competitive in the local modelling industry, and what are the internal capabilities needed to make the strategy work.
2: EXTERNAL ANALYSIS - FIVE FORCES ANALYSIS

2.1 Chapter Purpose

This chapter’s purpose is to evaluate key success factors in the modelling industry using Michael E. Porter’s Five Forces Model (Porter, 1979) and to undertake a competitive analysis for EFSA in order to draw conclusions regarding its opportunities and threats. Based on my findings, I will suggest strategic options for EFSA to be successful in China’s modelling industry.

2.2 Threat of New Entrants

According to Michael E. Porter in “How Competitive Forces Shape Strategy” (1998), “New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources”. In order to protect themselves from those new entrants, existing companies are expected to retaliate, which creates an entry barrier and increases the difficulty for new entrants into the industry. “The barriers present and the reaction from existing competitors that entrants can expect” determines the “seriousness of the threat of entry” (Porter, 1998).

The threat of new entrants for China’s modelling industry is strong. Modelling is perceived as a beautiful business. Some will think that those tall, skinny, and pretty girls wearing luxury apparel look arrogant, alien, and unapproachable. However, in reality, the modelling business is not that hard to approach.
2.2.1 Capital Requirement

According to a report from the Southern Metropolitan Journal in 2007, a girl opened a modelling agent in Haikou city during her third year in Hainan University’s Advertising Program. She had an office downtown and 36 university students working as part time models for her (Southern Metropololitan, 2007). More recently, Mr. Zhang Bin-bin started a modelling training school just upon his graduation from a Modelling Program in Zhongyuan Engineering College in 2009. He rented a training room with 200 square meters and already had 20 students before his school opening. The initial investment for Zhang’s modelling training school totalled to approximately $6,000, which is a small capital investment when compared to the luxury identity of the modelling business (Liu G.-R., 2009).

Zhang’s modelling school opened in Zhengzhou, which is a city remote from the economic centre of China, the initial investment for starting a modelling school in Shanghai or Nanjing will be much higher. However, from the cases discussed above, it is not hard to find that the entry barrier of the modelling industry in China is relatively low. In other words, the threat of new entrants to the industry is strong. A new entrant could open a modelling agency/school while lacking much experience or professionalism, and do not even require a robust financial capability to start up the business.

2.2.2 Access to Top Models

While the ability to enter the modelling industry may not be contingent on possessing abundant financial backup, incumbent companies with solid industry experiences and reputation usually have more access to top models, and they therefore enjoy greater marketing advantages. Take New Silk Road Models Broker Co., Ltd (NSR)
for example. NSR, founded in 1989, is the first and best-known modelling company in mainland China. It also operates the New Silk Road Modelling Training School in major cities in China. Representing 400 models, NSR has contracts with 90% of China’s top models, which endows NSR a reputation of "the cradle for top models" (CCN Matthews Newswire, 2006). According to the Mint Global Export Report, the revenue for NSR in 2006 was $305 million, which amounted to approximately 42% of the total revenue for China’s modelling industry (Mint Global, 2009).

2.2.3 Economies of Scale

As for the modelling education industry, different types of schools vary in their scales. For example, the Shanghai Dong Hua University modelling program only recruits around 25 students each year, while the Dalian Model Art School – a modelling school in Dalian city – recruits 200 students every year. However, in China’s modelling industry, larger modelling agencies/schools do not have lower unit costs (i.e., costs per model/student) because they usually invest more on signing top models, building/renting teaching facilities, and hiring better instructors. Thus, economies of scale are not a factor in the industry and thus do not pose a barrier to entry.

2.2.4 Experience and Learning Effects

Deborah Wang, the Creative Director of EFSA and the daughter of Eliza Wang, has worked in the modelling industry since she was 13. In her opinion, it might be easy for models or agencies to get into the business, but it is difficult to succeed. Regularly, the longevity of a modelling business is short, because small agencies are usually inexperienced and do not have much access to top-models, which makes it harder for
small agencies to survive the competition. It is common to see new entrants putting much effort into an advertising and public relations campaign, while well-known modelling agencies can benefit from their existing customers accumulated over years. Mr. Li, Xiao-Bai, the CEO of NSR, said in an interview that 70% of NSR’s business was actually initiated by their customers (Wang, 2003). Another factor adding to the difficulty for new-comers is that the professional longevity of models is short. Modelling is a youth job. Everyone involved in the modelling business, from models to model agencies, is trying to squeeze out as much as they can within the limited longevity of their business. This undoubtedly increases the competitive tension for new entrants who might not have many ideas on how to make business work.

2.2.5 Product Differentiation

In the modelling education industry, modelling education is the “product” produced by modelling training schools or universities. There is a significant difference between training products offered by modelling schools and modelling programs provided by universities/colleges.

University modelling programs generally are flawed because the educational focus is seriously disconnected from both what is happening and what is needed in the modelling industry. Xiao Yue, a model who graduated from a college modelling program in Dalian city said that the program offered by the college was concerned primarily with the cultivation of academic knowledge that was not quite related to modelling. After graduation, it took her a whole year to correct the posing techniques taught in college, and to re-establish a “real” catwalk that actually was performed in shows (Xin Hua Net, 2007).
According to Gong Hai Bing, one of the earliest male models in China, catwalks taught in colleges/universities were similar. Models were not trained to adjust their walks according to apparel styles or different scenarios. All of them had to be retrained for a certain period before they could “walk” on real runway shows (Xin Hua Net, 2007).

Although modelling schools are providing relatively more practical training, they fail to keep pace with the most up-to-date fashion mainstream in international markets, and they fail to develop in their students' distinctive personalities that will set them apart. Whilst some of the models still performed the catwalk that was outdated decades ago, many of them thought that professional models just needed to keep fit and look good (Xin Hua Net, 2007). However, in reality, to be a professional model means much more than merely looking good. Models need to have their own personalities to make the wearing of apparel come alive so that they can be distinguished from peers. Even though modelling schools realized the problem and tried to foster personalities amongst students, they had neither the technique nor experience to properly influence their students in that way.

Modelling education may differ in the training offered by modelling schools and programs in universities/colleges; however, generally the education product could not be perceived as differentiated. Because models receiving education from both types of schools lack distinguished personalities, the education products are somewhat homogeneous. Thus, incumbent schools/universities fail to install a brand identification barrier (Porter, 1998), which could provide new entrants with significant opportunities if the new entrants could offer differentiated education products.
2.2.6 Switching Cost

Although the economic cost of switching from an established modelling agency/school to a new entrant may not be necessarily high (as long as there is no contract breach involved), students of modelling schools, or customers of modelling agencies, have to deal with the opportunity cost that might be incurred when they decide to switch.

Through years in the industry, well-known modelling agencies/schools usually have accumulated concrete operational experiences, strong access to top models, and significant brand awareness in the industry. For an advertising company, the category of the model (as illustrated in Table 1.1) they are going to hire should be commensurate with the commercial value of the products they are going to advertise. Usually, famous models are signed with big modelling agencies such as NSR, Galaxy, and Baystar. The greater access to top models possessed by big modelling agencies is the reason why most high-end commercial brands prefer to cooperate with them. If switching from a big modelling agency to a new entrant, then commercial brands may have to face the danger of brand degradation and the potential economic loss incurred by this.

From the perspective of students, not only can a reputable modelling training school provide the techniques they need to excel in a modelling career, but also a well-recognized training school can provide more contacts with big modelling agencies. This facilitates a potentially much more successful career path. Therefore, the opportunity cost directly related to the students’ career development is the main factor that inhibits students from switching to industry new-comers.
2.2.7 Access to Distribution Channels

The distribution channels for modelling programs in universities or modelling schools can include model agencies, film/TV performance agencies, modelling schools, and fashion magazines. The optimal scenario for modelling school students upon graduation is to be signed by big model agencies and to start their careers as professional models.

It is a fact that modelling programs in China are very popular, especially for those renowned ones. For example, the Beijing Institute of Clothing Technology, a university specializing in modelling performance and fashion design, planned to recruit 40 students for its modelling program in 2008 and received over 500 applications (Ye, 2008). However, those popular programs with students may not be popular with model agencies. An insider from the Beijing Institute of Clothing Technology revealed that only 10% of their modelling program graduates could pursue work as professional models, while the rest had to transfer career paths to work as fashion designers, modelling instructors, or fashion magazine editors (Ye, 2008).

Compared to modelling programs in universities/colleges, modelling schools are supposed to have better and larger distribution channels because of their more market-oriented training system. Some of the big-name modelling schools have their own distribution channels – the best students will have a chance to be signed by their own brand modelling agencies. Using the New Silk Road Modelling Training School (NSR) as an example, the NSR modelling training school has three major distribution channels: the NSR modelling agency, the NSR modelling training school, and modelling programs in some other universities.
NSR primarily selects contract models through its two large annually held model competitions: the New Silk Road National Model Competition and the New Silk Road International Model Competition. Usually, contract models are chosen from the top ten winners of these two competitions. The NSR modelling school has 28 classes each year, including a full-time program (one month), and a part-time program (two months). Supposing each class had 20 students, and all the students went for the two model competitions, it turns out that even if all the top-ten winners were selected, only 3.5% of NSR students would have a chance to be signed by NSR’s agency (20/28*20=3.5%).

Due to the lack of a strong distribution network, it is hard for modelling schools or university modelling programs to have their students signed, even for those big name modelling schools having distribution affiliation with agencies. Therefore, it will be even harder for new entrants to gain access to distribution channels, which creates a high entry barrier for new-comers.

### 2.2.8 Industry Regulation

The modelling industry in China is extremely unregulated. Although the modelling industry started during the tail end of China’s “planned economy period” in the late 1970s, it did not have its own organization – the China Professional Modelling Committee (CPMC) – until 1998. CPMC is affiliated with, and is under the authority of the China Fashion Designer Committee (CFDC), which is the organizer of the largest fashion events in China. Because the major supplier of models, CPMC, and the major demander for models, CFDC, live under the same roof, this incurred conflicted regulations within the industry.
There are around 7,000 contract models in China; however, no more than 500 of them exclusively pursue runway show and advertising modelling. Others still need to work part-time in nightclubs to afford living expenses (Zhang, 2005). The turnover of runway and advertising modelling is no more than $5,880,000 (RMB ￥40,000,000) per year (Zhang, 2005), while the total estimated industry annual revenue is $730 million (Yu, 2005). Due to the insufficient market demand, only agencies in Beijing manage to live solely by modelling commissions from fashion shows, advertising, fashion events etc., while agencies in other cities (including Shanghai) still need to search for new revenue sources (Zhang, 2005). Due to the difficult situation in the modelling industry, many models choose to represent themselves and do not have contracts with any model agencies. Some of the contract models even secretly make deals with customers so that they can save commission fees despite the fact that agencies already have invested a great deal on models to promote their reputations in the industry.

The absence of strict regulations makes the entry barrier for the modelling industry low. In order to grab more profit from this irregular market, some customers even do business with agencies without legal licences.

That said, the government is trying to establish standards, for example on the ratio of students to teachers. According to the newest standard stipulated by China’s Ministry of Education, the optimal ratio of students to teachers for art schools/colleges should be no more than 11:1 (Ministry of Education, 2004). However, due to the gap between the large population base that need education and the scarcity of education resources, many art schools in China still could not reach the standard, and some even have a ratio as high
as 20:1 (Wu, 2009). As for new entrants into the modelling education industry, it is even harder for them to reach the average level.

Eliza Wang plans to recruit 18 instructors for her school. It turns EFSA’s ratio of students to teachers into 10:1, which is ahead of the optimal standard required by the Ministry of Education in China’s Government.

2.2.9 Guanxi

“Guanxi” is the Chinese version of networking. Because of the differences in culture heritage and political structure, doing business in China essentially varies from any other parts of the world; it especially differs from Western countries. While the Western way of doing business tends to be profit oriented, the Chinese way of doing business is more relationship oriented. Chinese people value the establishment of relationships through business. They tend to do business with people they think they can trust. In order to convince the Chinese that you are trustworthy, you need to slow down a little to first establish a relationship with them, which is a process of establishing “guanxi” in the Chinese market.

The reason I put “guanxi” in this chapter is because, from my point of view, “guanxi” is a key success factor in China’s modelling business. Having a “guanxi” relationship with particular powerful interest groups, especially having “guanxi” with Chinese government organizations, makes doing business much easier. The big achievements that NSR has made so far cannot be separated from its strong “guanxi” with China’s government. New Silk Road Models Broker is 50% owned by China Garments Co., LTD (Mint Global, 2009), while 34% of China Garments is co-owned by
government sole-invested corporations, those being the China Hengtian Group Co., Ltd and the China Great Wall Asset Management Corporation (see Figure 2.1).

Figure 2.1 China Garments Ownership Structure.

Source: China Garments, 2009

2.2.10 Summary

According to the analysis made above on the threat of new entries, the modelling industry in China is a homogeneous market lacking proper regulation. Hence, the industry inherently favours companies that offer differentiated products. Even though it may not be necessary for new-comers to have strong financial capital to enter into the market, the incumbent ones with top-model resources, well-recognized industry reputation, and “guanxi” do enjoy significant competitive advantages. Due to the lack of demand and access to distribution channels, only a limited number of modelling students can be signed by well-known modelling agencies, while the rest have to change their career path. Therefore, the key success factors for companies in the modelling industry
are: differentiated products, abundant industry experiences, strong financial capability, and access to distribution channels. In addition, an extensive “guanxi” with government groups will equip companies with great advantages.

2.3 Threat of Substitutes

“By placing a ceiling on prices it can charge, substitute products or services limit the potential of an industry” (Porter, 1998). Normally, “the more attractive the price-performance trade-off offered by substitute products” (Porter, 1998), the more threat they could cast on the industry’s profit potential.

The threat of substitutes for modelling schools is strong. A typical student of modelling schools will satisfy criteria such as a taller than average height, good-looking appearance, and a satisfactory body shape. However, there are some other schools attracting “beautiful” students as well, such as flight attendant training schools and TV/Film Performance programs in universities/colleges. These schools present other options for those students that qualify for modelling school, and therefore are close substitutes for modelling school.

2.3.1 Availability of Close Substitutes

Flight Attendant Schools

There are 29 flight attendant training schools in China; four of them are in Shanghai and one is in Nanjing. These include the Flight Attendant Training program in Shanghai University of Engineering Science, the Shanghai Vocational School of CAAC, Shanghai Communication Polytechnic, Shanghai Liguang Training School, and the Flight Attendant Training program in Nanjing University of Aeronautics and Astronautics (Civil
Aviation Information, 2006). Flight attendant programs in flight attendant schools or universities usually last three to four years with a tuition fee of $1,470 (RMB ¥10,000) per year. Flight attendant schools do not have as strict a requirement on height as modelling schools. The ideal height for female students of flight attendant schools ranges between 5.3 ft and 5.6 ft, while for male students it ranges between 5.7 ft and 6 ft. Usually a flight attendant school or program is operated as one of the departments of universities/colleges. The eligible students for these schools are normally high school graduates, and therefore are around the age of 18.

**TV& Film Performance Program in Universities/Colleges**

There are four universities/colleges providing TV & Film Performance programs in Shanghai and one in Nanjing. These include Shanghai Theatre Academy, Shanghai Dong Hua University, Tong Ji University, Shanghai Normal University, and Nanjing Art College. The height requirement for female students is 5.3 ft and above, and 5.6 ft and above for male students. TV & Film Performance programs in these universities/colleges usually last three to four years, with tuition fees of $1,470 (RMB ¥10,000) per year. As with flight attendant schools, the qualified students for TV & Film Performance programs are normally around 18 years old.

Because the flight attendant schools and TV & Film Performance programs height and body shape requirements is relative looser than that of modelling schools, good-looking students usually are inclined to take those schools as secondary choices after modelling training schools. If such students could not gain admittance to the modelling schools they dream of, they will try to get into flight attendant schools or TV & Film Performance programs in universities/colleges.
For these three types of schools, the student target segments may be slightly different. For example, modelling school students are relatively younger. However, their student targets overlapped in the female 5.6 ft and above, male 5.9 ft above, with ages around 18 segments. Therefore, these three types of schools are directly competing on this overlapping section (see Table 2.1).

Table 2.1 Student comparison among modelling, flight attendant, and performance schools

<table>
<thead>
<tr>
<th>School Type</th>
<th>Target Student</th>
<th>Age</th>
<th>Height</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modelling School</td>
<td>Good appearance, tall with nice body figure</td>
<td>12-24</td>
<td>5.6 ft +</td>
</tr>
<tr>
<td>Flight Attendant</td>
<td>Around 18</td>
<td>5.2 - 5.6 ft</td>
<td>5.7 – 6 ft</td>
</tr>
<tr>
<td>TV &amp; Film Performance</td>
<td>Around 18</td>
<td>5.3 ft +</td>
<td>5.6 ft +</td>
</tr>
</tbody>
</table>

2.3.2 Price-Performance Trade off for Substitutes

The salary income of a flight attendant is relative to his/her flight hours – how many hours he/she has worked in a month. Different air companies have different salary payment standards as well. Usually, the salary level in foreign air companies is significantly higher than that in China’s air companies (see Table 2.2).

Table 2.2 Salary Categories for Flight Attendant

<table>
<thead>
<tr>
<th>Air Company type</th>
<th>Air Line</th>
<th>Salary Base</th>
<th>Subsidy/hr</th>
<th>Flight hrs</th>
<th>Total Salary/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Air Companies</td>
<td>Domestic</td>
<td>RMB ¥ 2,000</td>
<td>RMB ¥ 20/hr</td>
<td>120</td>
<td>RMB ¥ 4,400 (USD $650)</td>
</tr>
<tr>
<td></td>
<td>International</td>
<td>RMB ¥ 2,000</td>
<td>RMB ¥ 80/hr</td>
<td>160</td>
<td>RMB ¥ 14,800 (USD $2,176)</td>
</tr>
<tr>
<td>Foreign Air Companies</td>
<td>International</td>
<td>USD $ 1,000</td>
<td>USD $ 50/hr</td>
<td>60</td>
<td>USD $ 4,000</td>
</tr>
</tbody>
</table>

Source from: (Chinanet, 2007)
A flight attendant working in a foreign air company earns as much as $4,000 a month, which is commensurate to the monthly income of a “Category A” or even “Super A” model in China. Considering the “investment” on flight attendant programs, including monetary investment and opportunity cost, $1470/year for four years, is equivalent to those in modelling programs in universities, plus the fact that flight attendant’s income is more stable than a model’s, the substitute threat from flight attendant schools is strong.

Compared to a flight attendant, the career development for Film & TV performance school students is not that positive. The difficult life for Film & TV performance students is observable from an interview with Liu Xiao Wen, a recent Film & TV performance program graduate. According to her, she only captured one starring opportunity in a low budget film with a payment of around $2,200 within six months of the interview (China Culture Daily, 2009). The investment on TV & Film Performance programs in Universities is $1470/year for four years, which is the same as modelling programs in universities. However, the average price-performance trade-off for the Film & TV program is far lower than that of the flight attendant program. The substitute threat from the Film & TV program is low.

2.3.3 Summary

Substitutes for modelling schools can be flight attendant training schools and TV & Film Performance programs in universities/colleges. They compete for students with modelling schools on the overlapping segment of female students of 5.6 feet in height and above and male students of 5.9 feet height and above that are about 18 years old. Although students commonly are inclined to make modelling school their primary choice for schooling, the threat of substitute from flight attendant school is strong because it has
a very good price-performance trade off. In order to reduce the threat of substitutes, modelling schools may lower their price to increase the price-performance ratio. Nevertheless, considering the luxury identity of the modelling business, I will not suggest schools adopt price strategy. Instead, I will recommend that a key success factor for modelling schools involves focusing on the enhancement of distribution channels to facilitate a better career future for students than the alternative choices can offer. Another way to reduce the threat from flight attendant programs is to integrate a flight attendant program to acquire a new profit generator, which is a key success factor for modelling schools.

2.4 Power of Suppliers

“Supplier can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services” (Porter, 1998). School offers education programs; therefore, teachers as education providers are education suppliers for schools. The bargaining power of suppliers in the modelling education business is strong. My argument concerning the bargaining power of suppliers is based on two factors:

1) As mentioned earlier in this chapter, China is short of education resources. The student to teacher ratio in art schools is generally higher than what is required by the Ministry of Education in China.

2) In the modelling education industry, one major reason why the students are performing such similar catwalks and lacking distinguished personalities is due to most modelling instructors lack of experience and proper delivery
techniques. The scarcity of qualified modelling instructors increases the bargaining power of suppliers.

Most of EFSA’s instructors had worked with Eliza Wang; some had worked with Ms. Wang since her first company in Taiwan – Eliza Couture. Through all those years working together, they established solid working relationships and friendships along the way. Because of the economic boom in China that started in 1979, many professionals with overseas working experiences decided to reside in China for greater career development. Some of Eliza Wang’s past colleagues moved to China during this period as well, and now they reside in Shanghai.

The instructors of EFSA usually have worked in America for big brands in the fashion industry, such as Ralph Lauren, Calvin Klein, and Ford Models. Eliza Wang pays her instructors according to the American industry standard, which is far higher than the average salary in China. Therefore, it is difficult for those instructors to find an alternative job with good pay like EFSA. Combined with the good working experiences and relationship they had with Eliza Wang in the past, the instructors of EFSA would be inclined to maintain the working relationship and fully commit to the jobs they are assigned. However, on the other side, EFSA needs the expertise and experiences of those instructors to ensure the education quality of EFSA and to keep its core competency advantage over its competitors.

Although EFSA already has a good team of instructors, it is not necessary for Eliza Wang to stop looking for qualified instructor candidates to further solidify EFSA’s supplier sources (i.e. the teachers that supply a service), and maintain a high-quality level of education.
2.4.1 Summary

The bargaining power of qualified modelling instructors is strong in the modelling education industry. However, if modelling schools can offer premium salaries relative to the industry level, they will be able to attract better-qualified instructors and therefore enjoy a competitive advantage on the quality of the programs they can produce. Modelling schools can in turn incur a higher profit margin by charging their students a premium price for the quality education that they will receive. Therefore, another key success factor for a modelling school is the provision of a premium instructor salary to ensure high quality level of education. At the same time, sourcing alternative instructors is also a key success factor for reducing supplier power. Moreover, Ms. Wang’s long and solid relationship with her instructors, which is “guanxi, will reduce supplier power for the reason that instructors will be more willing to work for her if they are offered the same salary conditions offered by EFSA’s competitors. Therefore, “guanxi” with suppliers is a key success factor in this section as well.

2.5 Power of Buyers

Powerful buyers “can force down prices, demand higher quality or more services, and play competitors off against each other – all at the expense of industry profits” (Porter, 1998). Buyers in the modelling education industry are students who will receive modelling training in modelling schools/universities. The power of buyers for the modelling education industry is weak.

Together with the enormous growth of the entire modelling industry over the last 30 years, the Chinese population’s perception towards models has been revolutionized. In the first years, the traditional Chinese group viewed models as indelicate because models
needed to reveal their arms and legs to the audiences when showing designers’ apparels. Within several decades, the majority of Chinese people now see “model” as a synonym for “beauty”, “fashion”, and “wealth”. Furthermore, modelling has become a profession that is admired and embraced by a young generation nurturing “star” dreams. The target student group consists of young, good looking and tall individuals aspiring to be “fashion icons” in the future.

2.5.1 Buyer Group

Age

Modelling is a profession of youth. A model with an age over 25 is deemed as “old”, and therefore unsuitable to work as a model. Most of the “old” models chose to transfer their career path to other fashion areas such as hosting, TV/Film performing, or starting their own modelling agencies. In order to be working professionally as a model, young individuals need to start training as models as early as possible. Therefore, the target age group of modelling school students falls into the 10 to 24 ranges.

Gender

The modelling industry is “gender unequal”. The reality that female audiences are more willing to spend money on apparels and cosmetics makes fashion brands focus more on female groups, and this gives female models more working opportunities than male models. Generally, out of every ten female models that are booked for a show, only two or three male models have the opportunity to be in the show. Competition within male models is even tougher. The survival rate for male models is 1:100,000, which means only one out of 100,000 will succeed as a professional model (Shanghai Online,
Since female models are more frequently seen in the fashion industry, a larger base of female students is needed to be recruited. Therefore, female students should be the target group for modelling schools.

**Population Base**

The target group population (female, aged 10-24) for modelling schools in China is estimated to reach 139 million in 2010, which is calculated according to data collected from Euromonitor International report on China Future Demographic (Euromonitor International, 2009).

**Lifestyle**

The buyers of modelling schools are young girls. Most of them are still in their teens. According to the China Consumer Lifestyles Report from Euromonitor International, teen consumers tend to “spend on anything which will best speak for teenager’s image” (Euromonitor International, 2009). Teen consumers are at the phase of seeking self-identity; therefore, “brand identity becomes of vital importance”, and “fashion clothing and shoes will continue to be a huge market for this age demographic” (Euromonitor International, 2009).

Due to the Chinese government’s one-child policy, the target demographic of modelling schools is mostly the only child in the family. This special group has the same characteristics as Generation Y in other parts of the world, such as an emphasis on immediate gratification, big expectations for the future, and an obsession with achievement (Kotler, Keller, & Cunningham, 2006). Other than that, they are “more spoiled” because they are an “only child”, and they get complete parental attention. Even
though they do not make money, they can access a great amount of disposable money through the family, including grandparents.

2.5.2 Summary

The target buyer group of modelling schools consists of juvenile girls bearing “dazzling” celebrity dreams. They crave to be distinguished/ recognized. They have great expectations for the future, but are not interested in waiting and working extremely hard for years to have their dreams come true. Instead, they are looking for a “cool” and quick way to be successful.

This group is at the stage of forming self-recognition. However, their self-images largely are affected by the fashion “image” created by advertising. Their decision-making is easily influenced by what has been applauded by the media. Therefore, the power of this group is weak considering that most of the time they tend to think in the same way.

Thus, the key success factor for attracting this female group is to launch an impressive marketing campaign to influence their choice of schools by invoking their imaginations about modelling and showing how the modelling training offered by schools would help them succeed in the modelling world.

2.6 Rivalry

According to Michael E. Porter, the intensity of rivalry amongst existing competitors is related to factors that include the number of competitors in the industry, industry growth, product differentiation, fixed costs for product manufacturing, and exit barriers (1998). Although the modelling industry in China is growing, because it is
fragmented and suffers from a lack of product differentiation rivalry within the modelling industry is high.

2.6.1 Major Competitors

Even though the fashion sense in Nanjing is relatively low, there is still one university (Nanjing Normal University) and one college (Nanjing Art College) providing modelling training programs in Nanjing city. Considering that Nanjing is geographically close to the most fashionable city in China, Shanghai (it takes less than an hour from Nanjing to Shanghai by bullet train), schools having modelling training programs in Shanghai will compete with EFSA on student resources. They include: Fu Dan University, Shanghai Dong Hua University, and Shanghai University of Engineering Science.

The modelling program in Shanghai Dong Hua University is the most reputable amongst them. Considering that EFSA will recruit students nationwide, the largest modelling school in China, NSR, is a strong competitor as well.

Shanghai Dong Hua University Modelling Program

The Shanghai Dong Hua University Modelling Program started in 1984. It is one of the earliest universities to offer modelling programs in China. The Dong Hua Modelling Program is famous for having two top model graduates: Ma Yan Li and Xie Dong Na. It is also famous for strict admission requirements. In 2007, they were the first to adopt a 3D Body Scanner to collect body datum for recruiting students. Other than the body features and appearance requirements, students are required to pass the National Academy Examination (Art Category) for admittance. Last year, the Dong Hua
Modelling Program recruited 25 students out of 180 candidates, which means only one out of seven applicants were admitted.

Even though Dong Hua has a star instructor Wang Yi Qun, who successfully trained Ma Yan Li and Xie Dong Na, it still lacks an experienced instructor crew and a systemized modelling education structure. Moreover, Dong Hua was not able to produce any other top models after Ma and Xie. Although Ma and Xie were top models in the 90s, they are no longer active models.

New Silk Road Modelling Training School

New Silk Road, the most renowned modelling training school in China, is located in the Northern city of Harbin. Its full-time program lasts one month, while the part-time program lasts two months. NSR opens around 30 classes every year with a production capacity of around 600 models per year. Claiming to be the cradle of top models in China, New Silk Road only has nine modelling instructors, and the most “experienced” one was a top ten winner of the NSR national model competition in 2001. If judging instructor qualifications and program length, the training quality of New Silk Road is questionable.

It is a fact that NSR is the biggest and the most successful modelling school in China; however, its success can only be attributed to its strong financial capability and “guanxi” resources with China’s government. Leveraging on that, New Silk Road makes great use of its first mover advantage and establishes its number one status in China’s modelling industry. Even though NSR is positioning itself as a high-end modelling school in China, its strategy cannot be deemed as differentiated.
2.6.2 Summary

Due to the low entry barrier and low differentiated products, and because the modelling business is a “youth” business, the modelling education industry in China is highly competitive. However, the ones with strong financial capability, and “guanxi” resources still managed to establish significant industry status by taking first mover advantages. The modelling industry in China is in a growth stage, which means first mover opportunities are still available for players. Therefore, the key success factors for modelling schools are concrete financial backup, substantial “guanxi” networks, and proactive marketing strategies aiming to seize the first mover position.

2.7 Industry Attractiveness

According to the 5 forces analysis I have done so far, the modelling education industry in China has a low entry barrier with high supplier power, strong substitute power, and intense rivalry. It seems that success in China’s modelling education industry is no easy feat; however, because of the weak customer power, combined with the large buyer base and fast industry growth, the overall industry has great growth potential for firms that have or can obtain key success factors.

2.8 List of Key Success Factors

From the discussion above, there are nine key success factors for modelling schools that include: a strong financial capability, a “guanxi” relationship, an aggressive marketing campaign, access to distribution channels, differentiated products, experiences and expertise, premium salaries for instructors, integration of a flight attendant program, and new instructor sourcing. However, considering that EFSA has both low cost and
differentiation characteristics, it is possible that low cost will also be a key success factor for modelling schools if they are appealing to the customers who put high value on lower prices. Therefore, I will incorporate low cost into the key success factor discussion below.

In order to quantitatively summarize the key success factors for modelling schools in China, I will list and mark each key success factor in the sequence of relative importance: 3’ means very important, 2’ means important, and 1’ means less important.

2.8.1 Very Important Key Success Factors (3’)

Very important key success factors include financial capability, “guanxi”, an aggressive marketing campaign, and access to distribution channels. I consider these key success factors (KSFs) to be so significant that each KSF is mentioned at least twice in separate KSF analyses. Another important key success factor to consider is differentiated products. The capability to offer differentiated products would enable a company enormous opportunities in China’s homogenous modelling industry.

2.8.2 Important Key Success Factors (2’)

Important key success factors include: experiences and expertise, premium salaries for instructors, and the integration of a flight attendant program. Differentiated products are founded on extraordinary experiences and expertise. Hence, schools need to recruit experienced instructors, and they need to offer competitive salaries to keep those excellent instructors.

Because of the exceptional price-performance trade-off for flight attendant schools, combined with the fact that the threat from a substitute is strong, it is essential for modelling schools to integrate flight attendant programs to diminish the threat from
substitutes. The flight attendant program could become a new revenue source for modelling schools.

Low cost will be an important key success factor because if a company can be successful in its differentiation strategy, a low cost company will also have chances to win in the market.

2.8.3 Less Important Key Success Factors (1’)

In response to the strong power of suppliers, it is better for modelling schools to continue to source alternative instructors to balance the relationship. However, sourcing for new instructors is necessary, but not as imperative as other key success factors. Therefore, it is a less important key success factor.

2.9 Competitive Analysis

In this section, I will compare EFSA to its major direct competitors (Shanghai Dong Hua University and New Silk Road) regarding key success factors. Each competitor’s ability to achieve key success factors will be rated on a 5 points scale according to my opinions on the industry. If I rate the key success factor as 5, it means the school/university’s ability for this key success factor is very strong. Vice versa, if I rate the key success factor as 1, it means the school/university’s ability for this key success factor is very weak (see Table 2.3).
Table 2.3 Key Success Factors Rating

<table>
<thead>
<tr>
<th>Key Success Factors</th>
<th>EFSA</th>
<th>NSR</th>
<th>Dong Hua</th>
</tr>
</thead>
<tbody>
<tr>
<td>3’: Financial Capability</td>
<td>1</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>3’: “Guanxi” with Government</td>
<td>1</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>3’: Marketing Campaign</td>
<td>1</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>3’: Distribution Channel</td>
<td>5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>3’: Differentiated Products</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>2’: Experience and Expertise</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>2’: Premium Instructor Salary</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>2’: Integration of Flight Attendant Program</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2’: Low Cost</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1’: New Instructors Sourcing</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Overall Rating (∑ KSF Rating*Scale Points)</td>
<td>64</td>
<td>77</td>
<td>56</td>
</tr>
</tbody>
</table>

Amongst the ten key success factors, compared with its competitors, EFSA is weak in “very important factors” such as financial capability, “guanxi”, and marketing campaign and weak in the “important factor” of low cost. It is significantly stronger in the “important factors” of experience and expertise, and premium instructor salary. In order to provide differentiated products, EFSA needs a strong financial capability to offer premium instructor salaries and to keep those “intelligence assets”. On the other hand, EFSA also needs substantial investment on its marketing campaign to enlarge its brand awareness in China and to attract more students. According to Ms. Eliza Wang, EFSA already has invested $13 million on its teaching building and facilities construction, but it is still far from enough to back up such a big project.

EFSA is an international team. It has unparalleled professional expertise, but it lacks the experience to run a business in China. As formerly introduced, in order to avoid various unnecessary troubles and to make the venture run smoothly, a strategy is required that will help the company circumvent these disadvantages. “Guanxi” can play a key role...
in this area. The success of NSR is an example of how, and to what extent “guanxi” will facilitate the business in China.

EFSA has an advantage over its major competitors in distribution channels because EFSA can send students to American Art Colleges to study. Additionally, Eliza Wang is actively engaged in the creation of more work opportunities for students. Fashion shows will be frequently held in school. Modelling agencies, advertising companies, TV & Film agencies will be invited to present and to select students they think have potential.

None of the three schools/universities currently have flight attendant programs, while flight attendant programs will be a new profit generator for modelling schools. I rate all three of them “1” on this key success factor.

According to my analysis in Bukszár’s strategic grid, EFSA is designed to be a differentiated modelling school, which naturally will make it weak in low cost.

The three schools are not assigning much effort for new supplier sourcing. Therefore, I rate EFSA 1 in “new instructors sourcing”, which is the same rating for NSR and Dong Hua University.

### 2.9.1 Overall Rating

NSR scores highest amongst the three modelling schools in its overall rating. It does significantly better on very important key success factors such as finance, guanxi, and marketing campaigns, which enable NSR to stand out from the others. NSR’s strategy leans towards low cost, and it relies on its financial capability and guanxi with government to make up for its weakness in differentiation. However, once there is a
strong differentiation competitor also having strong financial capability and a guanxi network, NSR will gradually lose its competitiveness in the industry.

2.9.2 Opportunities

“Opportunities” arise along the key success factors that EFSA scores better on than its competitors. “Best opportunity” for EFSA would come from a very important key success factor where EFSA scores much better on this than its competitors. “Least opportunity” for EFSA is a less important key success factor and EFSA scores slightly better on this than its competitors. The best opportunities for EFSA are distribution channels and differentiated products, whilst the second best opportunities for EFSA are experience and expertise, and a premium instructor salary.

- **Distribution Channels**- EFSA’s students will have opportunities to further study in first class fashion schools in America such as FIT and Parsons School of Design. This is the unique advantage EFSA has.

- **Differentiated Products**- EFSA determines to train its students to excel in the international fashion industry, which is extremely differentiated compared with its competitors who are still teaching the outdated catwalk.

- **Experiences and Expertise**- Eliza Wang, together with EFSA’s instructors, has a great record as the trainer of international model pageant winners, such as Universal Chinese Super Model Search, Miss Asian World Pageant, the Tournament of Roses and Miss Hong Kong. In addition, Eliza herself is the trainer of the first model team in China. None of its competitors can compete with EFSA on its unparalleled experiences and expertise.
Premium Instructor Salary- Instructors in EFSA are paid according to the American industry standard which is much higher than the local average salary level. Therefore, its premium salary is highly competitive in the local talent market.

These are all differentiation opportunities that are in line with EFSA’s strengths on the differentiation side of Buckszar’s strategic grid. Therefore, EFSA is well set for a differentiation strategy.

2.9.3 Threats

“Threats” for EFSA arise from the key success factors on which EFSA scores less highly than its competitors. “Highest threat” for EFSA would be a very important key success factor where EFSA scores much lower on this than its competitors. The “lowest threat” for EFSA is a less important key success factor and EFSA scores slightly less than its competitors do. Therefore, the highest threats that exist for EFSA are financial capability, guanxi with government organizations, and its marketing campaign, while the second highest threat for EFSA is the integration of a flight attendant program and the least threat for EFSA is new instructor sourcing.

Financial Capability- EFSA needs solid financial capability to enable its differentiation strategy. In order to impress its target audience, the marketing campaign also requires from EFSA much investment in that field. On the other side, since low cost is also a key success factor, a low cost strategy could be beneficial to EFSA regarding to its low financial capability.
However, the whole company and all the opportunities relate to a
differentiation strategy according to Bukszar’s strategic grid.

- **Guanxi**- EFSA has an established connection with the Nanjing Municipality
  Government and the Zhejiang Province Government, but local governments
  are not able to give EFSA the sufficient support it needs to compete with
  NSR, which has extensive guanxi with China’s government. This is a
differentiation opportunity.

- **Marketing Campaign**- Ms. Eliza Wang has the assets of successful
  experiences in model training in America and distinguished expertise in the
  fashion industry. Other modelling schools do not possess these assets.
  However, she needs an aggressive marketing campaign to promote awareness
  of EFSA, and to inform the Chinese population about her background and the
  unique strengths of EFSA. This is a threat to differentiation.

- **Integration of flight attendant program & New Instructor Sourcing**- All three
  schools score equally poorly on the “integration of flight attendant program”
  and “new instructor sourcing”. However, considering that both factors are
  important key success factors, if EFSA integrates flight attendant programs
  and does more work on new instructor sourcing, this would give EFSA an
  advantageous opportunity over its competitors. Otherwise, if EFSA’s
  competitors integrate a flight attendant program and source new instructors
  while EFSA does not, those key success factors would turn out to be two
  more threats that EFSA will have to deal with. This is a new differentiation
  opportunity.
2.9.4 Strategic Options

According to the competitive analysis made above, the differentiation strategy of EFSA enabled it with opportunities in this homogeneous modelling market. Therefore, it is wise and imperative for Eliza Wang to adopt a differentiation strategy for her school. In the section below, I will examine strategic options on how to make use of these opportunities and figure out a way to deal with threats to make EFSA successful.

2.9.4.1 Create New Profit Generator-Expand

As discussed above, financial capability is a very important key success factor for modelling schools. EFSA is relatively weak in this area. In order to address this threat, EFSA needs to create a new profit generator and look for an investor to sustain its expansion plan.

*Increase tuition fee* - The EFSA modelling program is highly differentiated: exceptionally professional instructors, an optimal ratio of students to teachers, all-English teaching classes, and opportunities to receive education in the United States. Furthermore, EFSA’s modelling program saves two-year opportunity costs for its students, which is extremely valuable for this “youth” industry.

Nottingham University Ning Bo is an all-English teaching university in Ningbo city in China. It charges $9,000 tuition per year, ten times the tuition normally charged by public universities in China. In return, its students will receive the same degrees as students who graduate from the University of Nottingham in the UK. However, because the expense is still lower than studying overseas, the student enrolment of this university will reach 3,500 within four years (Chinese Education Journal, 2008).
Therefore, Eliza Wang does not charge as much as she can for her high quality modelling program. She can at least raise the tuition fee twice as much as she charges now, which would mean $5,294 per year instead of that same amount over two years. Considering that $5,294 is still much lower than the amount charged by other schools of a similar genre, the price is quite safe and reasonable.

**Recruit twice per year**- Ms. Wang is recruiting students for her program, which is going to start in September this year. Her target number for the first students from all five programs is 180. EFSA has 16 classrooms of different functions such as a model training room and, dancing room. One of the biggest classrooms can accommodate 80 students at a time. EFSA also has a dormitory for students who come from across the nation. Thus, it is realistic for EFSA to recruit twice per year. Besides, the large base of target group with the estimated population of 139 million in 2010 guarantees the feasibility of twice the students recruiting. However, recruiting twice per year does not necessarily dilute the ratio of students to teachers. All that EFSA needs to do is to arrange the schedule of each class and instructors’ shifts.

**Integrate flight attendant program**- Other than the reason I mentioned above, another important reason I suggest that EFSA should integrate a flight attendant program is because the all-English teaching education and the excellence of EFSA in social etiquette (social etiquette is one of Eliza Wang’s calibres as well) will give its students outstanding advantages when they graduate. Foreign air companies are famous for their good pay; however, they also are well known for their strict selection standard that demands excellent English language proficiency and extremely good etiquette. If EFSA
integrates a flight attendant program and equips its students with strong competencies in these two areas, flight attendant program will become a solid profit source for EFSA.

Enlarge student base- Because of its international instructor team and all English teaching environment; EFSA can expand its student base to foreign residents of China, such as the Taiwanese group in China. As reported by Epoch Times, up until 2006, there were already 500,000 Taiwanese employees residing in the greater Shanghai area (including Shanghai, Nanjing, and some other cities near Shanghai), leaving 50,000 Taiwanese children’s educational demands needing to be addressed. Most Taiwanese parents preferred to send their children to international schools or Taiwanese schools. On average, international schools charged $21,000 tuition per year and Taiwanese schools charged $14,000 tuition fee per year. Only parents at a senior management level could afford such expensive tuition fees; the rest sent their children to Chinese public schools (Jiao, 2006). Therefore, the gap between the education desires of Taiwanese parents and the expensive tuition prices charged by international or Taiwanese schools is an opportunity for EFSA. In addition, Eliza Wang’s legendary fame amongst the Taiwanese population will further ensure EFSA’s success in the Taiwanese demographic as well.

Moreover, Eliza Wang may consider recruiting international students overseas. Her tuition fee may be a little higher than local modelling schools, but when it comes to the international spectrum, her tuition fees are much lower and this gives EFSA a price advantage.

Seek an investor- If EFSA decides to execute all of the above options, then it will need to launch a marketing campaign that bombards people in order to attract large awareness so that it can charge premium tuition fees and recruit twice per year.
Meanwhile, the new dormitory will be constructed so that EFSA has the capacity to accommodate the enlarged student base. All of those plans require EFSA to invest a large amount of money and seek an investor to make everything happen given its weakness in financial capability.

2.9.4.2 Build “Guanxi” through Government Investment

“Guanxi” is somewhat like an invisible hand in China. Nobody talks about it in public occasions, but everybody knows that they will need “guanxi” if they seriously want to make their business work.

In order to leverage “guanxi” power into business, EFSA needs to follow NSR’s example by absorbing investment from government owned corporations to establish “guanxi” with China’s government groups. At the same time, government investment will provide a quality financial source for EFSA. However, EFSA should be cautious concerning how many percentage shares they will allow the government to possess. EFSA is a privately owned and profit-oriented corporation. The way they handle business and the corporate culture will significantly differ from government owned groups. In order to avoid unnecessary conflicts, the total percentage of government owned shares should be kept to a reasonable level.

Eliza Wang’s strong “guanxi” network with celebrities and nobilities in Taiwan can be used to benefit her business in China as well. If she manages to create one more distribution channel for EFSA by introducing students to work in modelling agencies in Taiwan, this would even sharpen her distribution advantage amongst other competitors.
2.9.4.3 Other Alternatives

Other alternatives of EFSA are second choices next to the expansion strategic options written above. My recommendations on other alternatives are less differentiated. Instead of creating a larger revenue base, other alternatives aim to explore profit within China’s mainland market.

Major China cities are briefly categorized as tier one cities and tier two cities. Tier one cities comprise Beijing, Shanghai, Guangzhou, and Shenzhen. When tier one cities are the major forces driving China’s economy forward, the income levels and the cost of living in tier two cities are lower than tier one. There are 10.38 million people in tier one cities with household income of over ¥5,000 per month, and 8.62 million in tier two cities with household income of over ¥3,500 per month (KPMG, 2008). However, because of lower labour and property costs combined with an increasingly efficient transport link and the development of world-class infrastructures, tier two cities are becoming increasingly attractive for foreign investment and have huge consumption potential (Euromonitor International, 2009). Tier two cities include Xi’an, Tianjin, Shenyang, Harbin, Chengdu, Dalian, Chongqing, Wuhan, Hangzhou, Nanjing, and Fuzhou.

EFSA’s biggest competitor, NSR, has a modelling school in the tier two city Harbin and has agent branches in the tier one cities of Beijing and Guangzhou. Some other major competitors such as Donghua and Beijing Institute of Clothing Technology are located in the tier one cities of Shanghai and Beijing.

Considering the large economic potential for tier two cities, and the congested competition in tier one cities, EFSA needs to lean towards the exploitation of tier two
cities rather than tier one cities. This will give EFSA a first mover advantage in tier two cities, and this will avoid direct rivalry with major competitors in tier one cities. EFSA can negotiate with local hotels and use their meeting rooms, which are not booked, so that they are willing to discount them for long-term bookings. Therefore, this alternative strategy will not involve major capital expenditures. EFSA will also take the students on fieldtrips to EFSA Central every once in a while so that students can see the elaborate home-base plant.

An alternative strategy is less competitive than expansion strategies because they do not make the best use of EFSA’s international experience and expertise strengths. It is still limited to slicing the existing pie rather than creating more opportunities by enlarging the pie. More importantly, the homogenous nature of the modelling industry favours a differentiation strategy. A less differentiated strategy fails to capitalise on an opportunity endowed by the industry, and hence it is inferior to an expansion strategy. Furthermore, if EFSA does not go for differentiation, it will get in trouble with the elements of Bukszar’s grid because the school is structured for a differentiation strategy.
3: INTERNAL ANALYSIS

3.1 Chapter Purpose

The purpose of this chapter is to utilise Crossan, Fry, and Killing’s Diamond-E framework in order to conduct an internal analysis of EFSA. I will analyse EFSA’s internal capabilities on management preference, organization, and resources, and identify what will be required to carry out the strategic options that I recommended in Chapter 2. If there are any gaps between these two, I will make recommendations aimed at closing the gaps and present an implementation plan to make the strategy options work.

3.2 Management Preference Analysis

It is managers that implement strategies. Their preferences when making decisions directly determines what kind of strategies would be adopted, how the strategies would be implemented, and to what extent the strategies would be achieved. Kenneth R. Andrews says (as cited in Crossan, Fry, and Killing, 2005), “to be implemented successfully over time, any strategy must command the creativity, energy, and desire of the company’s members. Strategic decisions that are economically or ethically unsound will not long sustain such commitment” (Crossan, Fry, & Killing, 2005). Therefore, the implementation of strategy options seriously needs to consider management preference.

In this section, I will analyse EFSA’s management preference on decision-making if EFSA wants to achieve the strategic options in Chapter 2. Then I will identify the gaps
between what EFSA can offer and what will be required to implement the strategies, and will make recommendations to close the gaps.

3.2.1 Management Experience

3.2.1.1 Management Team

The board of directors, including the Chairman of the board/CEO Eliza Wang, the General Manager (GM), the CFO, and shareholders, makes management decisions in EFSA. The management group of EFSA is divided into two parties in terms of inclinations towards decision-making. One is the “international team”, which is represented by Eliza Wang, and the other is the local team, which is represented by some of the shareholders. Whilst the international team who have overseas experiences prefer to manage EFSA in accordance with what they have experienced overseas, the local team believes that EFSA can only be successful by doing everything in a local way. Commonly, the international team tends to be open-minded and thinks out of the box, which means they are differentiation strategy oriented; whereas, the local team tends to be conservative and price sensitive, which means they are cost strategy oriented. As the head of the board, Eliza Wang’s management preference plays a major role in EFSA’s strategy decision-making. However, due to a lack of local business experience, Eliza Wang is not confident about her judgment, and the local team always influences her decisions.

3.2.1.2 Eliza Wang’s Concern

Eliza Wang is as open-minded and creative as an artist as she is ambitious and dedicated as an entrepreneur. She has a great vision for her school – to be one of the top
art schools in Asia. Even though Eliza Wang’s management preference is absolutely differentiation oriented, she has concerns. In order to have sufficient financial backup to expand her school, Eliza Wang wants to ensure that the school is profitable during its initial stage. Despite her ultimate goal of establishing the best art school in Asia, Eliza Wang’s current management preference is inclined towards low cost.

Based on the analysis so far, all the industry and competitive opportunities are geared towards differentiation, and EFSA is structured for differentiation according to the strategic fit grid in Chapter 1. If EFSA chooses a low cost strategy, then, first, the industry-based opportunities will be either lost or compromised. Second, all the elements on Bukszar’s grid where the school was tilted towards differentiation, such as highly skilled labour and a large investment on equity, will become weaknesses for a cost strategy. This means that either EFSA will have a great deal of trouble because costs will be too high to compete with low costs, or EFSA will have to make significant changes to lower the costs by either dismissing the expensive instructors, or by selling out the teaching buildings. Therefore, it is better for EFSA to stick with differentiation rather than lean to the low cost side.

3.2.2 Required Versus Existing Experience

Based on the research and analysis so far, EFSA needs to adopt a differentiation strategy to be successful. The implementation of a differentiation strategy requires an innovative team that has the fortitude to be pioneering and ready to make changes, which varies greatly from what was applauded in traditional Chinese culture: being mediocre and playing it safe. Therefore, my strategic options require the management team to have international experiences, whereas the present management team is greatly
affected by the local team that does not have much international experiences and cannot realize the limitations to their perceptions and values.

3.2.3 Gaps and Solutions

The gap between the required management preference and the existing management preference is big. While it is unrealistic not to include the local team in the management group, it is also not an easy job to implement a differentiation strategy based on the existing management’s preference for a low cost strategy. Some may argue for a low cost strategy in the short run to address Eliza Wang’s major concern on revenue at present and adopt a differentiation strategy in the long term. However, the problem of a “combo” strategy is that the combination strategy “traps the school in the middle” between cost and differentiation. When traditional decisions and status quo strategies have been opted for, and structures and personnel suitable for cost strategy have been utilised, the whole company will face huge challenges if they decide to adapt to a differentiation strategy without significant changes in the organization.

To reframe the problem from another perspective: when there is a lack of financial backup, which could be due to investing heavily in a physical plant, it is easy to understand why senior management prefers a cost strategy. It is because they need to control expenses and save money. One solution for closing the gap involves going public and selling shares so that EFSA can gather money in a relatively short time. Another solution is to find a government or private investor. Nonetheless, attracting investment from either government or from private investors requires better guanxi with government and investors. Therefore, what EFSA needs to do first is to establish a relationship with
government or potential investors. Once they get enough investment, they will have the financial capability to back up a differentiation strategy.

One more solution for closing the gap is to implement a less differentiated alternative strategy. Nonetheless, as analysed above, the alternative strategy is not sufficiently competitive. Furthermore, the alternative strategy does not utilize the core competencies that EFSA has and its competitors' lack. Hence, EFSA cannot exclude the possibility that competitors will copy its strategy once they see the success of EFSA. What makes it even worse is that competitors such as NSR may have stronger financial capabilities and a stronger guanxi network. They can do much better than EFSA on cost approach if they decide to go for the same strategy as EFSA. Unless Eliza Wang meets irresistible difficulties, she still needs to opt for the differentiation strategy as her first choice, and the alternative strategy should only be her backup plan.

In the next sections, I will lay out an organization and resource plan based on differentiation strategy (expansion and guanxi), which is more competitive, and I will make a cost and benefit analysis for an alternative strategy that is more likely to satisfy the existing management preference.

3.3 Organization Analysis

In this section, I will analyse the feasibility of EFSA’s organizational structure if EFSA wants to achieve the strategic options in Chapter 2. Then I will identify the organizational gaps between what EFSA already has and what will be required to implement the strategies, and I will make recommendations to close the gaps.
3.3.1 Organizational Structure of EFSA

The organizational structure of EFSA consists of four departments: the Education Department which is responsible for Faculty Administration, Education Quality and Student Services, the Business Department which is in charge of the business of Eliza Coffee, the Shopping Mall and Theatre etc., the Marketing Department which primarily focuses on marketing campaigns and brand management, and the Finance Department. All four departments are supposed to report to the General Manager; however, the General Manager of EFSA only has marketing experiences in the electronic manufacturing industry, and is not that familiar with the education section and some other businesses running at EFSA. Hence, only the marketing department reports to the General Manager; the other departments directly report to Ms. Wang.

3.3.2 Required Organization versus Existing Organization

The implementation of a differentiation strategy requires a highly efficient organization to support its fast growth-rate. The existing structure of EFSA has redundant
layers, and, therefore, the decision-making process takes longer than should be expected. For example, the General Manager actually functions more like a marketing director than as a general manager. He does not carry out responsibilities as a general manager to develop organization strategies and lead each department in achieving organizational goals. In most of the cases, it is Eliza Wang, the Chairman of the Board, who takes on the burdens of her general manager.

The organizational structure of EFSA is missing an important part: a Human Resources Department with a strong manager. A differentiation strategy needs talented people to realize the goals, and, hence, requires a highly efficient Human Resources team that includes innovative employees that can motivate morale in the office. What is more important is that a healthy and fresh organization calls for a Human Resource team to periodically evaluate employee performance and to make management recommendations based on the results of the evaluation.

Furthermore, marketing plays an important part in affecting people’s perceptions of EFSA. If Eliza Wang decides to go for a highly differentiated strategy, EFSA needs to shape and communicate its brand in a highly differentiated way, which requires an exceptional professional marketing team to help achieve that goal. However, the present marketing team is cost strategy oriented instead of differentiation strategy oriented. Thus, they are order takers rather than the sellers of dreams – selling the dream to the kids who are customers. They do not have the capability or professionalism to persistently generate an extraordinarily impressive marketing product in a relatively high volume and of consistent quality.
In addition, in order to establish and maintain a good “guanxi” with government, the public relations (PR) function needs to be built into the organization.

3.3.3 Gaps and Solutions

Figure 3.2 Suggested Organizational Structure of EFSA

EFSA’s structure has too much redundancy to effectively make management decisions and is incomplete to effectively operate as an entity. In addition, the marketing team is not professional enough to handle the differentiation-branding task of EFSA. The solutions for closing the organizational gap involves incorporating a Human Resource Department, reassigning the present General Manager to the Marketing Department, and contracting out some important marketing campaigns to a qualified international advertising firm that has successful branding experiences for high-end brands.

As for the public relations (PR) function, I would not recommend adding an independent PR department to the whole organization because PR functions can be somewhat overlapped with those of marketing department, and it is difficult quantitatively to evaluate PR performance. Besides, currently the scale of EFSA business is not sophisticated enough to allow PR independent from other departments. I am not
going to suggest the development of a sub-department under the marketing department either. Despite some similarities with the marketing function, PR has a very different role from marketing in its responsibilities and department goals. If these two are combined, then conflict could not be eliminated. Additionally, an added-in sub-department will inevitably augment organizational redundancy. Therefore, my recommendation on guanxi is to assign the PR task to the Executive Secretary who will directly report to the Chairman of the Board. At the same time, the Executive Secretary will share Eliza Wang’s heavy burdens by assisting her in organizational management and group development planning. The suggested organizational structure of EFSA is shown in Figure 3.2.

3.4 Resource Analysis

3.4.1 Marketing Resources

EFSA’s marketing budget is RMB ¥ 100,000 ($14,706). However, that is not enough for an impressive marketing campaign. Normally, an international advertising firm’s charge for its marketing services is in the millions of Ren Min Bi. Therefore, the marketing campaign budget for EFSA should increase to RMB ¥ 1,000,000 ($147,059) in order to establish EFSA as a high-end brand. This is likely out of reach if financial capability is an issue; thus, this brings us back to the first step of finding an investor.

3.4.2 Operational Resources

If EFSA recruits twice per year and integrates a flight attendant program, and considering that programs in EFSA take two years to complete, then there will be 864 students studying in EFSA every year (36*(5+1)*2*2=864). The dormitory of EFSA can
accommodate 300 students with the price ranging from RMB ¥1,800 to ¥2,500 per year (not included in the tuition). Ninety percent of the students that applied for EFSA are not from Nanjing, which means around 780 students will live in a dormitory. If the average dormitory construction cost per student is RMB ¥2,400 ($353) according to the requirements of the China Government Ministry of Education on dormitory standards, enlarging dormitory capacity to 780 will cost an extra USD $169,440 ($353*480=$169,440). Meanwhile, EFSA will receive USD $151,765 revenue per year by charging students rental fees.

3.4.3 Human Resources

EFSA also needs to hire an Executive Secretary (or promote a qualified candidate within the organization), a Human Resource Manager, and three to four flight attendant instructors according to my strategy projection. The average market price for these talent assets is around $120,000 per year ((1+1+3)*$2,000*12=$120,000).

3.4.4 Financial Resources

In order to achieve all of the strategic options mentioned above, the total amount of financial resources that EFSA needs to possess is $436,499. The benefit that can be generated by implementing this differentiation strategy is $2.3 million per year (432*$5,294≈$2.3 million), plus the dormitory revenue of $151,765. The financial projection for the next five years by implementing this expansion strategy is shown in the table below.
### Table 3.1 Five-Year Financial Projection of EFSA

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>$147,059</td>
<td>$147,059</td>
<td>$147,059</td>
<td>$147,059</td>
<td>$147,059</td>
</tr>
<tr>
<td>Operation</td>
<td>$169,440</td>
<td>---</td>
<td>---</td>
<td>$169,440</td>
<td>---</td>
</tr>
<tr>
<td>Human Resource</td>
<td>$120,000</td>
<td>$120,000</td>
<td>$120,000</td>
<td>$120,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>Total Investment</td>
<td>$436,499</td>
<td>$267,059</td>
<td>$267,059</td>
<td>$436,499</td>
<td>$267,059</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$2,438,773</td>
<td>$2,438,773</td>
<td>$2,438,773</td>
<td>$3,271,253</td>
<td>$3,271,253</td>
</tr>
<tr>
<td>Marginal Revenue per Dollar Invested</td>
<td>$5.59</td>
<td>$9.13</td>
<td>$9.13</td>
<td>$7.49</td>
<td>$12.2</td>
</tr>
</tbody>
</table>

Note: In “Year 4”, I made my projection based on the assumption that student size will increase to 600 per year, which means 1080 out of 1200 students will live in campus. Therefore, EFSA invests another $169,440 to accommodate extra 300 students. This will increase total revenue to USD $3,271,253.

#### 3.4.5 Cost Benefit Analysis of Alternative Strategy

EFSA currently has a sales team comprised of 500 sales women/men. Each of them has an average of five years recruiting experiences for schools, colleges, and universities. They will receive RMB ￥3,000 ($441) for each student they successfully recruit for EFSA. Excluding Nanjing, they will be assigned to the other ten tier two cities to recruit students according to my suggestion. Therefore, the marginal revenue per dollar invested of the alternative strategy will be: $(2,647*180+$316*0.9*180)/($441*180+$14,706) = $5.6.$

#### 3.5 Summary

It shows that the present management team of EFSA prefers a low cost strategy according to my analysis on management preference, which means my recommendations on strategic options in Chapter 2 would encounter impediments when it comes to
implementation. However, by laying out an organization and resource plan based on
differentiation strategic options of expansion and guanxi, and through the cost and benefit
analysis of alternative strategy which is more likely to be accepted by a management
team, it turns out that a differentiation strategy not only caters to industry preference, but
also yields a much higher marginal revenue on investment than low cost alternatives by
making the best use of EFSA’s strengths and creating new profit sources. Therefore, it is
in EFSA’s ultimate interest to implement a differentiation strategy, despite the present
management preference for a low cost approach.
4: FINAL RECOMMENDATION

4.1 Alternatives

Based on Chapter 2’s key success factor analysis, it is clear that EFSA needs to adopt a differentiation strategy to succeed in China’s modelling industry, and it is currently structured to support such a strategy. However, due to the dominant management preference on low cost strategy, the implementation of what I have suggested in strategic options on expansion is bound to encounter resistance from the management team. For that reason, I have made alternative recommendation on targeting the second-tier cities in China. Nonetheless, just as what I have concluded in Chapter 3, even though the alternative strategy may be more appealing to the present management preference of EFSA, it fails to exploit EFSA’s core strengths and cannot exclude the threat of imitation from its competitors once they see the success of EFSA. The “combo” strategy is also flawed in the reason that inertia and fear to change would be the biggest obstacles for an organization to adapt to a differentiation structure when they are already so used to the low cost structure, and because the current differentiation-oriented capabilities, like high paid staff, would not be cost competitive in the short term. By making profitability comparison between the expansion strategy and the low cost alternative, the five year financial projection further demonstrates that differentiation strategy will facilitate a better and a steadier growth for EFSA, as illustrated by the significantly higher marginal revenue ratio. Therefore, to ensure future success, a
differentiation strategy in particular, expansion and guanxi are the optimal choices for EFSA.

4.2 Timeline

Dormitory construction is the most time-consuming project amongst my strategic recommendations for expansion. It may take about 10 months or even longer to build a dormitory. Compared to building a dormitory, recruiting instructors is easier. It may take three months. When the dormitory is under construction, EFSA should start its marketing campaign because marketing takes some time to produce an effect. Based on my estimation on the time each recommendation might take, the strategy implementation timeline is illustrated in the graph below.
4.3 Conclusion

This paper has presented a comprehensive analysis on the modelling section of Eliza Fashion School of Art and the China modelling industry. It identified the internal capability gaps within the school, and it offers strategic recommendations for EFSA to achieve its goal of becoming a top art school in Asia.

Given the industry’s preference for differentiation, and EFSA’s extraordinary expertise in modelling, this paper’s main conclusion is that EFSA should adopt a differentiation strategy and shape its image in a differentiated way. The strategy incorporates EFSA’s core competency of superior experiences and exceptional distribution channels, and closes the gaps of financial capability and guanxi through recommendations on generating new profit sources and seeking an alliance with the Chinese government.
The findings in this paper are intended as an orientation among EFSA senior management when it develops the blueprint for the school’s next stage. As the writer of this paper, the best accolade I will expect is to see the great success of EFSA, and I, together with this paper will have this honour to be a part of it.
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