

Success essentials of Yiwu Small Commodity Market

Yu Han

Bachelor's Thesis

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| Author(s) Yu Han | | | |
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| <p>Abstract</p> <p>The objective of this thesis was to find the success factors of Yiwu Small Commodity Market. Beside this main objective, the historical reasons of Yiwu Small Commodity Market's formation also have been analyzed. The purpose was to integrate the historical reasons and internal reasons together to get more comprehensive analysis results of Yiwu market.</p> <p>During the process of research, interviews of five shopkeepers in Yiwu Small Commodity Market were done. The interviews were held in April 2013 by telephone. The purpose was to gain knowledge of the success factors, background and personal opinions of Yiwu Small Commodity Market. The target was to combine the interview results and the theoretical structure to find the answer to the research problem.</p> <p>Michael Eugene Porter's diamond model has been used as the theoretical part. Diamond model provides the key structure for the main part of the thesis. Literature and official internet resources were also used during the information gathering.</p> <p>The results show that the factors which contribute to Yiwu Small Commodity Market's success could be various for instance the governmental support, related industries, competition, demand conditions and so forth. However, due to the fierce competition from the international and domestic market, Yiwu market still needs to improve the competitive edge.</p> | | | |
| Keywords | | | |
| Yiwu Small Commodity Market, successful essentials, diamond model | | | |

CONTENTS

| | | |
|---|---|----|
| 1 | INTRODUCTION | 5 |
| 2 | MICHAEL EUGENE PORTER'S DIAMOND MODEL..... | 7 |
| | 2.1 Factor conditions, related and supporting industries | 7 |
| | 2.2 Demand conditions, firm strategy, structure and rivalry | 8 |
| | 2.3 Chance and Government..... | 9 |
| 3 | THE CAUSES OF THE FORMATION OF YIWU SMALL COMMODITY MARKET | 10 |
| | 3.1 Research methods..... | 10 |
| | 3.2 Research implementation | 11 |
| | 3.3 Historic circumstances | 13 |
| | 3.4 Industrial accumulation and bedding..... | 14 |
| | 3.5 Local needs | 15 |
| 4 | KEY FACTORS CONTRIBUTING TO YIWU SMALL COMMODITY MARKET'S SUCCESS | 17 |
| | 4.1 Factor conditions..... | 18 |
| | 4.2 Demand condition | 23 |
| | 4.3 Supportive and related industries..... | 25 |
| | 4.4 Firm strategy, structure and rivalry | 31 |
| | 4.5 Government..... | 33 |
| | 4.6 Chance..... | 34 |
| | 4.7 The interaction mechanism of the diamond system | 36 |
| 5 | CONCLUSION | 38 |
| | REFERENCES..... | 39 |

APPENDICES

- Appendix 1 Translated interview transcript
- Appendix 2 Chinese interview transcript

1 INTRODUCTION

This thesis is for the Bachelor's degree of Business Administration in Savonia University of Applied Sciences. The research is about the successful essentials of Yiwu Small Commodity, which located in China.

The Yiwu Small Commodity Market was founded in 1982 and developed rapidly during the next three decades. China Commodity City has two markets. They are the International Trade Mart which has 5 districts and Huangyuan Market. Yiwu has plenty of leading industries for instance knitting products, socks, craftworks and so on. Yiwu market now has more than 4.3 million square meters of business area, 63,000 operators, and more than 400,000 kinds of products. (Yiwu China Commodities City Group Official Website 2012)

The motivation for the author to write this thesis is the incredible development of Yiwu during the 30 years. 30 years ago, Yiwu was just a small town, but now the Yiwu Small Commodity Market is the biggest small commodity market in the world. (Yiwu International Trade City 2013)

The research problem is the successful essentials of Yiwu Small Commodity Market. Qualitative method will be used during the research process. The historical and literary materials will mostly be used. Also the interview used as a part of research. In the most important part of this thesis—successful reasons of Yiwu Small Commodity Market, the diamond Model will be apply to analysis and research. The diamond model was invented by Michael Eugene Porter. The diamond model uses for the analysis of why a particular industry has a strong competitive force. (Porter, M, E. 2002)

2 MICHAEL EUGENE PORTER'S DIAMOND MODEL

Diamond model is an analysis tool of why a nation has the strong competitive forces which rose by Michael Eugene Porter. He divided the factors into 4 parts, firm strategy, structure and rivalry, factor conditions, supportive and related industries and demand condition. In addition, he also mentioned two variables which are the chance and government. (Porter, M, E. 2012)

In this thesis, the author mainly used the Michael Eugene Porter's diamond model as a tool to analysis the competitiveness of Yiwu Small Commodity Market. The factor conditions, related and supporting industries, strategic, structure and rivalry, demand condition are the four endogenous variables plus the chance and policy of the two exogenous variables. The four endogenous variables can be controlled by the nation or the company itself. The chances are uncontrollable, and the impact of government is also very significant for an institution. (Porter, M, E. 2012)

2.1 Factor conditions, related and supporting industries

Porter divided the factor conditions into the basic primary factors and advanced factors. The basic factors refer to the natural resources, climate, geographic location, unskilled worker, capital resources and so on. The advanced factors mean the infrastructure for example communication, information, transportation, and the well-educated human resources and research institution. Porter thought the importance of the primary factors has reduced because of the international companies can gain them through the global markets. However, the advanced factors need the investment of human resources and capital. It is hard to have the advanced factors from the external environment, and the companies have to create the advanced factors by themselves. (Porter, M, E.2012)

During the real competition environment, the abundant natural resources and cheap costs always lead to the low effective resources allocation. However, the negative factors for instance lack of natural resources, labour shortage and adverse climate will produce the development of the industries. (MBA Library 2013) Yiwu is a good example to prove this.

The supportive and related industries refer to the sectors which can provide raw materials, intermediate accessory products, logistics, etc for the leading industries. For

the national competitive advantage, the supportive and related industries and the competitive industries are in the relationship of solidarity. Porter pointed the phenomenon of industry cluster. The competitive industry won't be alone, and it must be developed together with the other supportive and strong industries. (Porter, M, E.2012)

The domestic suppliers are indispensable in the process of industrial innovation and upgrading, which is its biggest advantage. A competitive industry needs the world-class suppliers and the close cooperation with the upstream and downstream industries. On the other hand, a competitive domestic industry is usually driving the competitiveness of related industries. (MBA Library 2013)

2.2 Demand conditions, firm strategy, structure and rivalry

The demand conditions refer to the needs of the customers from the domestic and international of a certain industry or product. Demand conditions can be divided into the domestic and international demand conditions. For the domestic conditions, it is the motive power for the development of a company. (Porter, M, E.2012)

The characteristics of the local customers are very significant. If the local customers' have the high expectation and lots of requirement even in the international market, the industries' competitive advantages will be stimulated. The reason is quite simple, if the company can satisfy the pickiest customers, the other customers are easier to handle. (MBA Library 2013)

Firm strategy and structure are differently in different nations and companies. This factor has been highly influenced by culture, and provides advantages and disadvantages for particular industries. For example, the family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies. (Recklies, D. 2001)

Porter pointed out that the motivation is very important to promote the enterprises' international competitive forces. The momentum can come from the international demand, pressure from the local competitors and the thrust of the market. The most important factor to create and remain a competitive advantage is the domestic strong competitor. Porter argued that, it is in the contradiction with many traditional concepts. Generally, it is be widely accepted that the strong domestic competition will cause the over consumption of resources. The other opinion support the idea of there is no

need of domestic competitor for the international companies. Porter pointed out in his study of 10 countries the strong domestic competitors also exist in the internationally competitive industries. In the international competition, the successful industry should have the innovation and improvement in the domestic market, then the oversea market could be the expansion of its competitiveness. (Porter, M, E.2012)

2.3 Chance and Government

Opportunities are scarce. The opportunity could affect the other four elements and makes changes. Porter pointed out, for enterprises' development the opportunities could be for instance technology-based inventions, traditional technical fault, external factors lead to a sudden increase production costs (such as the oil crisis), significant changes in financial markets or foreign exchange rates, sharp increase in market demand, major government decisions and war. The opportunity often provides new competitors to gain an advantage and make a loss of the original competitor advantage. Only the manufacturers who can meet the new demands can grasp the development opportunities. (MBA Library 2013)

According to Michael E. Porter, the government must play their roles well so that it can be the power of expand the diamond system. The government can create the new opportunities and pressures. The direct investment of the government should be unable to engage for the enterprises, this is, external costs. For instance infrastructure development, opening up the channels of capital and cultivating the ability to integrate information. (Porter, M, E.2012)

Concerning the other main four factors, the government's impact for the demand is the government procurement. But government procurement must be strict standards and be the pickiest customers. The process of procurement should be conducive to competition and innovation. In the formation of industrial clusters, the government should strengthen it. The most significant role in the industrial development for the government is to make sure that the domestic market keep in the lively competitive status and make the competition specification. (MBA Library 2013)

Porter believes the protection from government will delay the formation of industry competitive advantage and keep the enterprises in the situation of lack of competition. (Porter, M, E.2012)

3 THE CAUSES OF THE FORMATION OF YIWU SMALL COMMODITY MARKET

Yiwu small commodity market is located in Zhejiang province. Yiwu is a city which built up on the market. (Honest Agent 2013) The research started from the formation reasons which will help to get the answer of successful reasons of Yiwu. The formation reasons will be analyzed from three aspects for example historical reasons, local demand, and industrial accumulation.

In the following subchapters, the research methods and research implementation will be briefly introduced as well.

3.1 Research methods

During this research process, the qualitative research method had been used. The most common qualitative research methods are for instance in-depth interviews, group discussions and observation. (Mack, N., Woodsong, C., MacQueen, M., K., Guest, G., Namey, E. 2005)

Qualitative research is often used to describe the intangible factors. For example, qualitative research can describe the behaviours, opinions, relationships and emotions. The advantage of applying qualitative research is it can provide the complex textual descriptions of experiences. (Mack, N., Woodsong, C., MacQueen, M., K., Guest, G., Namey, E. 2005)

The literature and professional internet resources had been used during the research as well. For the theoretical part the main research had been done through the information combination of the literature, and the analysis part used the professional internet resources and statistics.

The research has the two characteristics below:

Theoretical research and historical facts statement combined. This thesis always bases on the historical materials and makes the theoretical research so that can get the practical conclusion. The successful reasons also have the connection with its historical background.

Literature and interview combined. In the process of studying this topic, not only of the relevant literature collection, absorption, digestion, but also a lot of information investigation. Mastery of a wide range of material, strive for objective, comprehensive, innovative study the successful reasons of the Yiwu Small Commodity Market.

3.2 Research implementation

During this research, the research problem is “what are the successful essentials of Yiwu Small Commodity Market”. The author got the answer through the interviews to the five operators in Yiwu Small Commodity Market.

Five shopkeepers were interviewed which have businesses in Yiwu Small Commodity Market. Xu Yuewen is the one who operating the women clothing. Zhu Chunmin operates the educational toys in Yiwu. Bao Lvfang is the shopkeeper of Huabin Office Supplies. Lu Jinquan has the frame business in Yiwu. Furthermore, Ye Shulan has the business of automobile accessories which named Wangshun Automobile Accessories.

The interviews were done from 9th of March, 2013 to 18th of March, 2013 and took through telephone. The questions had been prepared before the interviews, and the records also be written down by the answers. The interview scripts can be found in the appendix 1 and 2 in both of English and Chinese languages. The interviewees are the five shopkeepers in Yiwu Small Commodity Market. They are operating the women clothing, frame, educational toys, automobile accessories and office supplies separately. The five shopkeepers been chose intended in different industries so that can perhaps get more comprehensive results.

The questions were designed based on the theoretical structure of this thesis. They were asked from the aspects for example government, Yiwu Fair and competition.

The first question is “When did you start to have business in Yiwu Small Commodity Market? What are you mainly selling?” This question was been prepared to distinguish the different operators so that can get different viewpoints of Yiwu.

Then the next two questions are “What is the biggest benefit/obstacle Yiwu Small Commodity Market brought to you?” This question is indirectly to ask their opinions about the successful factors of Yiwu Small Commodity Market. Because the small

shops are the indispensable parts of Yiwu Small Commodity Market, their benefits will contribute to the prosperous of the market. The answers are also being given from different aspects, like the large flow of people, supporting industries and internal competitions.

The fourth question is “Which point do you appreciate most concerning the management of Yiwu Small Commodity Market?” The question was trying to get the research of the successful factors from the management aspects. However, the results show that Yiwu has the good management system such as anti-counterfeiting, credit card system, shops display and training for the shopkeepers.

The fifth question is “What attracted you to invest in Yiwu?” This is also the question asking about the successful factors because of the attractive reasons could be attract both of investment and purchase. This question is especially from the operators’ points of view for the market’s capital and investment sourcing.

The sixth question is “Does the Yiwu Fair enhance or weaken your competitiveness?” The question was been design from the aspect of Yiwu Fair. This question also could provide the answer of Yiwu market succeed reasons.

The next question is “Have you take other commodity market into account? Why?” This question was started from the satisfaction of Yiwu Small Commodity Market. Most of them don't want to move, or if they want, they also want to move to another commodity market. These shows even there were the strong competition in Yiwu, but the shopkeepers are still quite satisfy with Yiwu Small Commodity Market and they still can gain profits from their business.

The last question is “Do you think the government gave you enough supporting?” This question was designed by the government factor of the diamond model. Even they feel the government gave them enough supporting, but because of the culture reason, perhaps it was still hard for them to describe how they get the enough supporting. However, some of them gave the answers like the foreign investment, tax reduction and reform and opening policy.

The detailed interview script can be found in the appendix 1 and 2 in both of English and Chinese.

3.3 Historic circumstances

The governmental policy change refers to the reform of the economic system. Since 1979, there were two big changes of rural economics in China. One is the implementation of the contract responsibility system and its popularization. So that the farmers can work for themselves, just hand over some profits to the government and the rests of grains can be sold in the free market. The policy helped the formation of modern Chinese free market. It changed the institutional structure of the rural economical system. The directly result is brought the growth of the agricultural productivity, and make farmers obtain more benefits from the new system. (Zheng, Y., Yuan, Y., Lin,C. 2002)

The second change started in 1983 in full swing of the rural economic structure transformation. This policy allows farmers to engage in the secondary and tertiary industry to seek new profit opportunities. (Zheng, Y., Yuan, Y., Lin,C. 2002)

Yiwu locates in Zhejiang province of China, this province has the wicked natural resources since the ancient time, and the area of Yiwu is even worse. The land of Yiwu is high acidity, mountainous and not suitable for plants, therefore the poverty of Yiwu for a long time. The most productive product is the sugarcane, but it cannot be the main food. (Honest Agent 2013)

This wicked natural condition led the local people turn to do the business in the very early time. So that emerged the original business exchange activities. It is Yiwu comparative disadvantage in agricultural production, prompting farmers to choose the specialization of small commodities. Those engaged in the “sugar-for-chicken feathers” activities are the early commodity business operators. (Honest Agent 2013)

Yiwu people have a long tradition history of doing business, from Qianlong period of Qing Dynasty (around 1750). Yiwu people have started to use the paper, sugar or other cheap acquisitions to exchange the chicken feather and the other useful things. It is called the business of “sugar-for-chicken feathers”. The chicken feathers are very good for make the manure for the poor mountainous land. But the brown sugar is very easy to get since they have the native crop sugarcane, so that they started this primitive business spontaneous. This is the Yiwu old business mode. (Honest Agent 2013)

This extremely primitive and simple barter in Yiwu stretched for hundreds of years of history and cultivated the Yiwu business spirit. Even though, China still has a very long closed-door past. However, since the opening-up policy appeared, the Yiwu Small Commodity Market developed very rapidly. (Zheng, Y., Yuan, Y., Lin, C. 2002)

Furthermore, Yiwu has the business culture since 300 years ago therefore the entrepreneurship had been cultivated. The Yiwu entrepreneurs were willing to take the risks and to establish new enterprises in the beginning of industry development. Because the other production factors can be solved in a short time for instance the capital, equipment and the labour forces. But the entrepreneurs who can adapt to the market economy are very rare. Especially in the modern China, the political and economic systems were in a major shift. The existence of the entrepreneur resources which can adapt to the changes directed the set up of the innovative market. (Wang, Z. 2004)

Meanwhile, the Yiwu entrepreneurs were full of the courage of adventure. With the business culture and inner information system, they accumulated the abundant experiences and advanced sales network system. The effort and hardworking of the Yiwu merchants did promoted the formation of Yiwu Small Commodity Market.

3.4 Industrial accumulation and bedding

As the growth of the general merchandizes and the rise of the demand, the Yiwu's merchants sold away from near and far, south reached Guangdong, west to Hunan and the north to Xuzhou. Since 70s, with the development of the coastal town enterprises and the individual processing industry, this group needs their own sales channels. Then, the Yiwu merchants joined them and expanded their business area meanwhile. So that even Yiwu doesn't have a strong industrial base in the beginning, but they still established a great professional commodity sales team and grasped a wide range of sales network. It is this team, became the one of the biggest small commodity markets in the world. (Lu, L., Bai, X. 2000)

The Yiwu transaction mode of "sugar-for-chicken feathers" has another advantage, which is the group advantage. For the reasons of local culture and custom, the Yiwu's professional merchants have the tradition to exchange the business information. It is a very natural way to exchange the business information, and the information flowed

effectively. So in fact there existed the commodity information gathering centre which can share the business information. (Lu, L., Bai, X. 2000)

Furthermore, the members of the business group are not isolated. They strengthened the cooperation during the process of collecting the information, purchasing, transportation and sales. In order to effectively reduce the cost, they enhanced the cooperation between each other and decreased the distance of the business. They are organized to promote the market trading system and the formation of industry cluster. (Lu, L., Bai, X. 2000)

The invisible information centre promoted Yiwu's business even in the beginning time Yiwu was strongly lack of industrial supporting. These initial trade activities provided the capital for the future development.

3.5 Local needs

After the founding of new China and before the reform of economic system, the rural commodity sales depend entirely on the rural supply system under the planned economy system. But the price system and the selling places are lack of flexibility. People can only purchase the certain goods in the certain place. This kind of operation is very difficult to meet the needs of local citizens which are relatively sparse in the rural areas. (Xinhuanet 2002)

After the reform and opening up policy, the rural income level has rapidly improved. The rural residents need a plenty of necessities to improve their living standards. This led to the increase of the rural residents' demand of commodity types and quantity. Since then, they have the ability and desire to purchase the basic staffs. (National Bureau of Statistics of China 2008)

Due to the needs of the rural market is quite dispersed, and the original state-owned, collective commercial channels are split apart, neither has the scale advantages, there is no advantage of operating range. Therefore, to the development of rural commodity market, there was a great the need for a centralized wholesale channel. (Xinhuanet 2002)

These three major factors for the emergence of Yiwu small commodity market provide the human resources, marketing, network resources, original capital and the

development opportunity. They influence and interaction each other and give the birth of Yiwu small commodity market. The development was specially flourishing since the reform and opening up of Chinese economy, even though in the beginning the goods are just the tiny stitch commodities, the entrepreneurs didn't gave up and grasped the business opportunities of the country and the world. They nurtured a number of characteristics of professional and large-scale market. (Zheng, Y., Yuan, Y., Lin,C. 2002)

From the above reasons we can get a general picture of Yiwu. Yiwu's economic development conditions are not superior, but lack of abundant natural resource, industrial base, strong direct investment from government and adequate foreign investment. The sterile natural and economical backgrounds lead the local people to become the businessman for living. The entrepreneurs of Yiwu applied their business culture and knowledge to expand their business for many centuries until they establish the worldwide market—Yiwu Small Commodity Market. (Zheng, Y., Yuan, Y., Lin,C. 2002)

Nowadays, Yiwu market area reaches 4.3 million square meters, more than 62,000 commercial stores and attracts altogether 40 industries, 4,000 categories of commodities. The turnover for many years has among the nation's top. The products were exported to five continents around the world more than 215 countries and regions. Yiwu settled the slogan of "small commodity, large industry; small businesses, large clusters", and has nurtured the leading industries of clothing, knitwear, jewellery, colour printing, zippers and other competitive industries and products. Yiwu market has developed into the international centre for small commodities, information centre, R & D centre and exhibition centre. (Yiwu China Commodities City Group Official Website 2012)

4 KEY FACTORS CONTRIBUTING TO YIWU SMALL COMMODITY MARKET'S SUCCESS

Over the past 30 years, Yiwu small commodity market has made remarkable achievements. From the open market to fixed bazaar, from the sole trade to trade linkage, Yiwu has grown into an industrial cluster with a strong competitive force. Yiwu Small Commodity Market has become a business miracle in China. Many scholars have the research about its successful reasons from many aspects such as governmental behaviours, business culture, international trade, etc. (Sina 2012)

According to Michael Eugene Porter's Diamond Model, there are six factors contribute to the development of a region's industry cluster development. Among them, the decisive role of the four endogenous variables are local production factor conditions, demand conditions, supportive and related industries and firm strategy, structure and rivalry. Chance and government are the two exogenous variables for the industry cluster development. Each of the key elements of the diamond system is interdependent, because the result of each of them is based on the effect of the inner cooperation. In addition, diamond system is an interactive system. Every factor can strengthen and change the affection of other factors. In this thesis, the author would use this theoretical framework, analyzes the reasons for the success of Yiwu small commodity market. The figure 1 below shows the four factors and the interactive relationships. (Porter, M, E.2012)

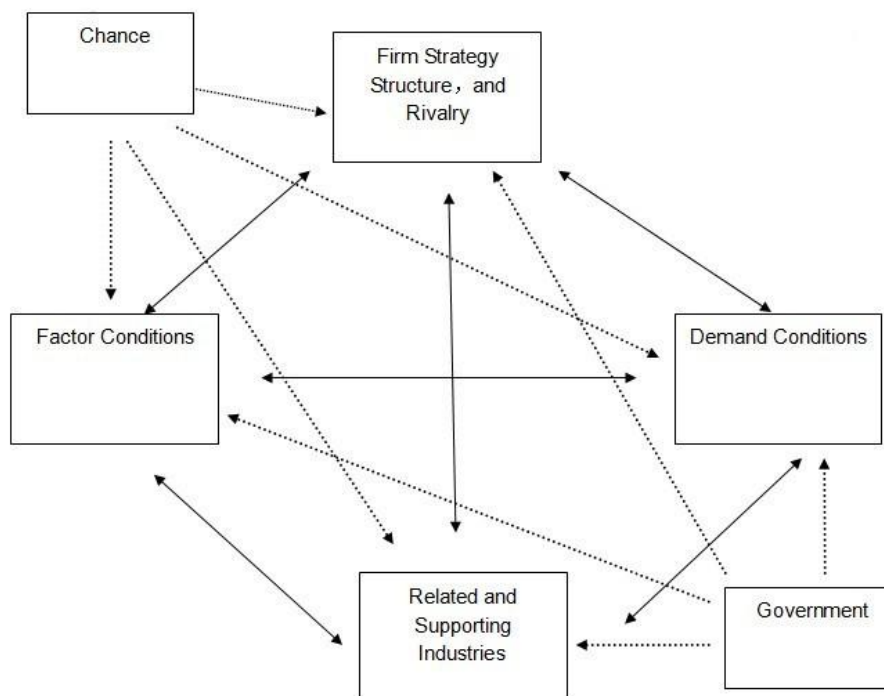


FIGURE1 Diamond Model (Porter, M, E.2012)

4.1 Factor conditions

According to Michael Eugene Porter, he divided the factor conditions into the primary factors and advanced factors. In the primary factors, there are the nature resources, climate, geographic position, unskilled labour forces, capital and so forth. The advanced factors are including the modern communication technology, information system, transportation and the other infrastructure, and also concluding the well-educated human resources and research institution. (Porter, M, E.2012)

Natural resources

Zhejiang Province which Yiwu city located is a province has very dwindling natural resource. There is almost nothing can rely on the natural resources. The people are more than the land can afford is especially serious in Yiwu. Not only this, the local land acid is very strong, it doesn't suit the development of planting industry at all. The most productive crop is the sugarcane. However, the sugarcane cannot regard as food. The scarce natural resource forced the Yiwu people choose another way to survive which is operating a business. Natural resource was the main reason for the formation of business culture in Yiwu, and also the successful reason of Yiwu. (Honest Agent 2013)

Human resources

Based on the business culture, Yiwu accumulated the entrepreneur resources for a long time. The culture even built up the invisible information centre. They exchanged business information and learnt from each other also. There was quite a lot of invisible information for example the management knowledge, transaction skills and so on. The tradition formats the local people has the suitable marketing idea which can adopt to the free market. These backgrounds led the Yiwu merchants got the advantages in the beginning of the 80s of China. (Neoglory Group 2008)

They created the favourable business environment and also helped them to increase their operational management capabilities especially the operational ability. Yiwu Small Commodity Market got the strong support from the private capital. All of these also attracted more and more people to have a business in Yiwu. (Neoglory Group 2008)

Combine the interview content we can see that more and more talent employees gather in Yiwu. (Shopkeeper 5, 2013) In addition, the prosperity of the Yiwu Small Commodity Market leads to it has the advantage in the elite search process. On the one hand, Yiwu's main industries are the food, textile, plastic products industries which the capital and technology has the lower barriers to entry. Yiwu needs a lot of basic labour to support the industries, and the local supply has been far from satisfying the requirements. This demand attracted many labour forces gathered in Yiwu. On the other hand, with the development of industry, the talents which should has the capabilities of science, technology and management are becoming more and more vital, and these resources are relatively scarce. For the concentrated and diverse talents demand in Yiwu, in order to improve the employment probability and save the cost of personal search, a lot of people looking for employment opportunities in Yiwu. The formation of a specialized labour market and the talent market helped the local operators to greatly reduce the search costs. (Zhejiang Economic and Trade Network 2011)

Capital

In most of the cases, the rapid development of an area always relay on the strong capital supporting from the external. However, through the analysis of the formation background of Yiwu Small Commodity Market, Yiwu was exogenous considerable lack of capital. For the whole Zhejiang province, the foreign investment accounted for the proportion of direct investment and investment in fixed assets are significantly below the national average. During the nine provinces in eastern China, Zhengjiang province just ranked the 4th of the nine according to the National Economic Census in 2004. (MBA library, 2003)

Meanwhile, in the beginning of China's reform and opening up policy, the local government still kept the conservative attitude. (Yiwu International Trade City 2013) The governmental investment was also insufficient for the development in the beginning time. Thus, the capital which Yiwu market required during the development only can rely on the private individuals' investment. The strong competition and the enthusiasm of get more profits has been stimulated by the situation during the operators, but the speed and scale of the accumulation of personal capital still cannot meet the needs of rapid development of the market. So the local government increase the investment first which encouraged the local market a lot. (Yiwu agent service centre for investment project approval 2012)

On the other hand, the government established the Foreign Investment project. Based on this purpose, the government made a plenty of policies and laws to attract the foreign investment. When they expanded the attract investment scale, they focused on comprehensively improve the quality and level of utilization of foreign capital and explicitly the investment target as well. Especially for the global top 500 enterprises, large international buyers, foreign offices in Yiwu and institutions. They putted the effort to get the investment project of more than \$ 10 million. At the same time, they expanded the channels of investment to the universal merchants for example the local citizens. (Yiwu agent service centre for investment project approval 2012)

For the Foreign Service Project, if the registered capital reached \$ 1 million, the government can provided the reward of 0.03 Yuan/ 1 Dollar. For the Foreign Industrial Project, the actual use of foreign capital per year reach 1 to 2 million dollars, 2 to 3 million dollars and more than 3 million dollars can get the reward of 0.01, 0.02 or 0.03 Yuan/ 1 Dollar. For the global top 500 enterprises, when the actual use of foreign capital reaches 5 million dollars, the government can gave 500,000 Yuan for the extra reward. (Yiwu agent service centre for investment project approval 2012)

Infrastructure

Transportation should be regards as the most important factor in the infrastructure which supports the local economic in many aspects. In the transportation, there are the railway, highway, aviation and water transportation. In Yiwu, the main transportation industries are the railway, highway and aviation. (Zhejiang Daily 2013)

Nowadays, the highways and roads had leaded to the formation of the 10-minute economic circle in Yiwu. The trunk highway passes through the Yiwu area. Jinhua-Quzhou highway, Yongjin express way has been completed, so that Yiwu to Ningbo Port and Hangzhou(the capital city of Zhejiang province) will be shortened to about more than one hours and only around two hours to Shanghai. (China Yiwu Government 2013)

Shanghai-Kunming railway line runs through the territory of Yiwu. This railway links many big cities such as Shanghai, Kunming and Jinhua. It just takes 2.30 hours from Yiwu to Shanghai by the railway. (China railway customer service centre 2013)

Yiwu Airport has opened 14 airlines to Guangzhou, Shenzhen, Shantou, Xiamen, Haikou, Shanghai, Beijing and other cities. (Feeyo 2013)

Based on this convenience transportation, Yiwu developed the easy connection with the main biggest cities for example Shanghai, Shenzhen, Hangzhou and so on. The well developed transportation system provided a great support for Yiwu.

Telecom services include the telecom broadband network, radio and television broadband network which formed the international information communication network. Yiwu Small Commodity Market has been set up information networks companies. They input the main commodity information to the computer information network. They founded for example "Yi Zhou", an e-commerce sites which provides online trading services platform. (Excellent Chinese Enterprises Websites Navigation 2013)

The Yiwu postal service network has covered the urban and rural areas. The network combines the cash flow, information flow, and logistics together and provide the postal letter and fast courier service. (China Yiwu 2007)

Yiwu logistics industry started in the shipment of industry for the less-than-truckload distribution. LTL freight logistics service in Yiwu logistics industry has a central situation. It was in the country's first to form a series of management systems industry. In May 1985, Yiwu--Pukou Railway agent was established, marked the Yiwu logistics industry derived from traditional transport. In 1989, Yiwu City has a total of 59 forwarding companies which can provide the service of the flow of goods to 19 provinces, 56 cities. The annual transport capacity was approximately 90,000 tons. In 1997, there were 100 transportation lines, the annual logistical volume reached to 30 million tons. In 2000, there were 222 forwarding companies, and opened the new national railway lines. The international freight reached 12,000 TEUs, and the annual transport capacity reached to more than 1 million tons. In the end of 2007, the business direct accessed to the country's 30 provinces, more than 250 large and medium cities. The logistic in Yiwu covered the country's most of the developed regions level cities and towns. Transportation volume was more than 5 million tons in 2007. There were 6 railway transportation lines opened. Air cargo and mail volume increased year by year, in Yiwu air cargo forwarding companies operating around hundred. (Yiwu City Logistic Office 2010)

Around the market, there are plenty of hotels. There are also quite a lot of entertainment industries based on the prosperous of Yiwu. The stores and supermarkets provide the basic needs for the guests and local residents. The Yiwu's government also built up some buildings for the foreign investors in order to provide the best living op-

tions for them. The water and power system are complete in Yiwu since many years also. The drinking water in Yiwu can meet the national standard level. The electricity system is quite completely based on provide the 220V electricity as well. (International Yiwu 2012)

Yiwu has the advanced facilities with the province's first-class City Center Hospital, Traditional Chinese Medicine Hospital and Maternal and Child Health Hospital. There are more than 3,500 existing health technicians to provide comprehensive health, epidemic prevention, medical examination, medical and ambulance services for the public. (Baidu Library 2010)

Yiwu has the strong educational facilities. They have 22 national and provincial schools. There are 11 million students in the primary and secondary schools of Yiwu. The enrolment rate of the high school reaches 90.7% and 42% for the university enrolment rate of school-age population. There are also many schools opened just for the foreign language speakers. It is very convenient for schooling for children of the foreign business people and the personnel from other places in China. (Baidu Library 2010)

Hardware facilities

The market set up special foreign trade commodity centre, introduces goods from 18 countries and more than 80 foreign trade, Sinotrans and foreign service agencies. The central air-condition, broadband, telephone has installed to each commercial spaces. Cars can directly access to each floor. In 2003, it opened June Yiwu China Commodity Digital City, and just over one year, it has developed more than 3,000 members, more than 500,000 kinds of goods online, and over 100,000 hits per day. With the establishment of food and beverage, telecommunications services, atrium leisure, transport logistics, financial leasing services, the world's largest and most modern market became a collection of shopping, tourism and leisure in one of the international business district. The construction of hardware facilities has speed up the pace of the market for catch up with the international standards. (Baidu Library 2010)

As can be seen from the above condition, Yiwu has a comparative disadvantage in natural resource and financing resources. However, Yiwu made the miracle that creates the factor conditions instead. Yiwu market has fully developed its unique human resource, complete infrastructure and supporting services, as well as different

sources of capital. They formed a solid foundation for the development of the commodity market.

On the other hand, the lack of natural resources is the static competitive disadvantage. But it can be a dynamic competition advantage as well. According to the statistics, the start of market-oriented reforms and advance speed is inversely proportional to the agricultural resource conditions. (MBA Library 2013)

More cultivable land per capita for regions, such as Quzhou and Huzhou areas of Zhejiang province, the regional market of start and promote speed is slower than the ones which lack of natural resources. The plenty of local agricultural resources made the region inert, this leads to the lack of economic development efficiency. In terms of competition, the importance of this type of production factors has been getting lower and lower. Since the Yiwu's comparative disadvantage in agricultural production, it made the local poor and backward. Meanwhile, this stimulates their courage to reform, risk-taking market awareness, and long engaged in the operating activities of the commodity and innovation in the field, in order to achieve the adverse factors of production to the creation of new competitive advantage. It decreases the opportunity cost for the local farmers turn their roles from farmers to smaller suppliers. (Baidu Library 2010)

4.2 Demand condition

In this thesis, the demand condition could be divided into the scale and quality. The demand amount will encourage the enterprises to increase the production, but also will attract more competitors join this industry. Concerning the importance, the demand quality perhaps is more important than the demand amount. The critical customers will force the enterprises chose the innovation so that can get more competitiveness than the competitors.

The small commodities are the necessary goods for people daily use so that there will always exist the demands. With the increasing average income and living standard of Chinese people, the demands of small commodities were continually increasing as well. The situation expands the market for the small commodity's production and trade. The developed countries' industrial structure, product structure, corporate structure has significant changes. The labour-intensive industries, labour-intensive aspects of technology-intensive industries are speeding up the transfer to China and

the other developing countries. Developed countries have paid attention to the development of high-tech industries. Small commodity production often does not get the enough attention, but their life is inseparable from the small commodity. The oversea markets are expanding and have the high demands as well. (Yin, S. 2010)

The well developed transportation, logistical system and network system of Yiwu all could enhance Yiwu's competitiveness. The worldly demand information could be soon grasped by Yiwu Small Commodity Market. Even Yiwu is a place which seriously lack of the production factors, Yiwu still can get the factors in a short time and in a cheap price with the convenient logistics. Furthermore, the global information and transportation system also probably lead the marketing and demands increasing continually.

Innovation played an important role during the development. Because of the improvement of the living standard, people have higher requirements of the quality, types and functions of the small commodities. In order to meet the increasing customers' requirements, the Yiwu enterprises have to set up the innovative strategy. The companies should apply the new and advanced technologies, invent new products and more sales channels. The idea is not only beneficial for the branding of the individual company, but also the industry's development and updating and promotes the industry's competitiveness. (Peoples network 2006)

Many famous brands were born in Yiwu area. Town Dacheng, which named the "hometown of shirts of China", has many famous brands for example Nengdali, Aoge and Wanshida. In the developing process, many companies determined to expand their product lines and product assortment. For example the clothing industry, many enterprises changed expanding their assortment. In the beginning, most of them just have the shirts, but now they have suits, jackets, T-shirt and so on. This strategy provided more options for the domestic and international customers and increased the sales. (China Yiwu 2007)

Credit transaction is an advanced stage after the barter trade and money transaction. If during the transaction, the both sides are trustworthy. Since the credit system settled, the transaction can continue in the next time in an easy way. This mode of trading very likely reduces transaction costs and improve the efficiency of the transaction, increasing the speed of logistics, and make transactions can continue. (Shopkeeper 3, 2013)

In Yiwu market, credit trading is gradually becoming a major way of trading. First is the operators' access system. In order to improve the quality of new admission business entities, the operators should accept the management system, must bid for the Industry and Commercial Business License and Trading Card of Yiwu. They also need to attend the training to learning relevant laws and regulations. The second is the Credit Card of Yiwu system. Credit card is another shopping voucher in case of quality problems, so that the consumers (merchants) can apply exchange or return the goods to the operator. Operators must be clearly marked the prices. The third is the management system of the listed commodity. The listed goods are classified into 3 classes. The first class goods could easily lead to the danger to life, property security or politically wrong goods. This category of goods should be firmly controlled and take records. The second category of goods may affect the safety of the public security. The inspection of the origin of the goods and the relevant documents are needed. The third category of goods is the products except the class 1 and class 2. It requires the operators prepare the relevant documents for the contingent inspection. (110 Legal Advice Webpage 2006)

There are also many other terms in the credit system, which all of them contributed to the good credit of Yiwu.

International standard also required since Yiwu has the international market. There are many oversea Yiwu international commodity distributing centre for instance in Panama Cologne, Dubai, United Arab Emirates and Chile. Yiwu merchants spread around the world and formed a huge market network. They spread the products information to the world and bring the information back to Yiwu. This active operation mode made Yiwu become more and more international. (Xinhuanet 2012)

Combine all the information above, we can get the knowledge of demand conditions from the scale and quality aspects. The scale increased by the marketing expanding of domestic and international. The quality also increased by the strong domestic and international competition by through different ways such as innovation and improved the services.

4.3 Supportive and related industries

The related industries and supporting industries of Yiwu have the complete supporting services which lead the improvement of industry and commerce and the prosper-

ous of the exhibition industry, and other benefits. The developed related industries and supporting industries create advantages for Yiwu in several aspects. First of all, they are efficient, early, rapid deliver the most cost-efficient raw materials, products, and information. Second, they provide the advantage of innovation and upgrading. Because of Yiwu and the related and supporting industries are close to each other geographically, the interaction has the effect of mutual benefit and self-reinforcing. (Porter, M, E. 2012)

Exhibition industry

The Yiwu Expo began in 1995. After 10 years of development, Yiwu Expo's level, size and participate rate of businessman was increasing every year. Since the Meihu Exhibition Centre enabled in 2001, they got a incredible development. In the next year it has been upgraded to be the international exhibition holding place which co-operated with the Ministry of Commerce of China. The Yiwu Expo led the development of the local specialized exhibition. According to statistics, in 2001, they hold 11 specialized exhibitions, 12 exhibitions in 2002, 13 fairs in 2003 and increased to 17 fairs in 2004. The 18th China Yiwu International Commodities Fair which hold in 2012 October, there were 2892 companies from 30 provinces of China and 63 foreign countries. The international standard stands reached to 6000 and the area expanded to 180,000 m². The volume of transaction during the fair is 16.34 billion Yuan, and the foreign transaction was 1.54 billion dollars which take the portion of 61.6% of the total transaction volume. (China Yiwu International Commodities Fair 2013)

At the present, Yiwu specialized exhibition has the following two characteristics:

The specialized services. The conference hosts mainly are the exhibition services companies. The Yiwu exhibition industry really formed to an industry since Yiwu has the policy that the exhibition services companies can organize the professional exhibition as long as they got the appropriate operational licenses. This leads to a number of exhibitions services companies can be in the equal competition environment and constantly development. In the recent years, this fair industry is blooming like the small commodity market. The large numbers of the companies promoted local conferences move toward the standardization, specialization and internationalization. (China Yiwu 2009)

A number of brand professional exhibitions. For the reason of the prosperous of Yiwu Small Commodity Market and the development of the clothing, hardware and home

appliances, jewellery, socks and woollen toys, zipper and printing. In order to highlight these industries, Yiwu Small Commodity Market organised many specialized expos, for example the stationary goods expo, toys and gift exhibition and so on. Take 2012 as example, the hardware and home appliances exhibition attracted 120 countries and more than 45,000 trade representative and the purchaser. According to the statistics, in the whole year's specialized exhibition in 2012, the hardware and home appliances expo area exceeded 30,000 m² and more than 1,100 companies. The volume of transaction broke the point of 1 billion Yuan. (China International Hardware & Electrical Appliances Trade Fair 2013)

Yiwu has been called one of MICE cities with most development potential in China. In the future, Yiwu exhibition industry will be internationalization, specialization, marketization and branding. They will focus on both exhibition and conference, strengthen the policy guidance, integrated exhibition resources, regulate the exhibition market and optimize exhibition environment. (China Yiwu International Commodities Fair 2013)

As we all can see, the increasing competition in the worldly market makes the exhibition is more and more important. The exhibition as a business platform, offers a stage for the companies and market to present the products, technology, have trades, collect information and expand the market. The exhibition industry has many functions such as providing products information and transaction. They were all could contribute to the prosperous of Yiwu.

Through the exhibition, the enterprises can present their brands, advertise their products by the information channel and network advertisement channel which Yiwu Fair offers. The enterprises can directly contact with the target customers in the shortest time, then send the products information to the certain customers and get the instant feedback from the customers.

Exhibition is the centre of communication and trade for the producers, wholesalers and distributors. The enterprises can set up the relationships with the stakeholders and build up the enterprise overall image. Exhibition can highly reduces the processes of connect the producers, wholesalers and distributors. It is also reduce the marketing cost for the companies. (Imosi 2012)

Through the research for the exhibition part, the results show that most of the operators can collect much information about the competitors, distributors, customers and

potential customers. They can get the newest products, invention and the trend from all over the world. This reliable information can help companies to adjust their strategies.

Exhibition is cheaper and effective than the other promotion like the personal selling, public relations and advertisement. Customers could know the brands and products in a short time. It is more effective and low cost so that the enterprises can reduce the operating cost and better for the price strategy.

The Yiwu exhibition attracted many international companies to have their own stands and many purchasers came to visit and order. The exhibition accelerated the internationalization of Yiwu.

Manufacturing Industry

Based on the Yiwu's prosperous, the main products and businesses are the small commodities so that the manufacturing industry grown up. The manufacturing industry cultivated the leading industries and products such as clothing, knitting, crafts, colour printing and zipper, even on the global scale. (China Yiwu International Commodities Fair 2013)

The knitted hosiery industry is the main industry and has over 60,000 hosiery machines in 2006. The tens of thousands of the world's most advanced hosiery machines contribute about 50% of the country's total production. (China Yiwu Cultural Products Trade Fair 2006)

The clothing industry in Yiwu became one of four major domestic shirt production bases. Dachen and Suxi are known as the "shirt hometown of China". (China Yiwu International Commodities Fair 2013)

The toys industry produced the inflatable, plastic, plush toy products which had sold to dozens of countries and regions. (China Yiwu International Commodities Fair 2013)

The crafts industry includes jewellery, decoration and photo frame are the competitive crafts industries. The Yiwu businessman also made the production equipments increasingly modern and the styles tend to be popular in the world. (China Yiwu International Commodities Fair 2013)

Since 1992, Yiwu has begun the build of the economic development zone. After the implementation of the completion of the development of first to third phase of Yiwu economic development zones, the area reached to 10.6 km². There were 387 industrial enterprises until 2007. In the end of 2007, the total industrial output value was 14.26 billion Yuan. Yiwu bred many famous brands for instance Langsha Socks, Niannianhong furniture, Huahong craft, Wei Hella chain, Wangbin frame and Clock-wise underwear. There are a large number of backbone leading scale enterprises, for instance Langsha was named the "China Famous Brand". The fourth phase of Yiwu with 22 square kilometres has started in 2003. The local government has also been actively applying the 2 national projects of 100 km² for the Export Processing Zone and Development Zone which as a leader in cluster development for China Commodity manufacturing base. (Yiwugou 2009)

Trade and industry linkage

There were existed 4 stages for the formation of the trade and industry linkage.

In the first stage from 1978 to 1992, the market has not been formed, mainly are the personal mobile direct marketing. There were already quite many small family workshops. They produce the products and sell by themselves. Normally, the production and the operation owners are the same person. (Guang Ming Online 2009)

When the time went to 1993 until 1997, the relationship of trade and industry has turned to be the professional market and massive economic relay on the industry. The "opening market" has developed to the early specialized market. The industries got the initial formation of a massive industrial belt and interregional specialization. (Guang Ming Online 2009)

The third stage was from the early 1998 until 2002. The urbanization also promoted the market for its well developed. The specialized market has been developed sharply and has the international market as well. The township enterprises have booming at that time, especially the SMEs. The industry organizations gradually transition to the modern enterprise system and the professional operation as the companies' main objective. During this period, the development of industry became an important factor to promote the trade development. (Guang Ming Online 2009)

The last stage is since 2003 until 2013. In 2001, China access of WTO and got a significant position in the international trade. Yiwu set up the strategy of take Interna-

tionalization as its main object. In the domestic market, Yiwu Small Commodity Market--the professional market has become the country similar goods distribution centre and sales centre. The market even expanded the international trade. Enterprises continued to grow and develop as well. The usage of information technology to improve the ability of innovation becomes the new goal of the enterprise development. At this time, the trade and industry has tightly linked and promoted each other in many respects. The trade and industry linkage has a strong impetus to the development of commercial and industrial interaction in Yiwu from many aspects. (Guang Ming Online 2009)

By the analysis of Yiwu, the Yiwu Small Commodity Market perhaps improved the competitiveness of local industry from 3 aspects. First, because of the Yiwu market has countless kinds of products. It can provide the huge choosing opportunities, save the time and energy for the customers. This convenience also attracts more and more customers and purchasers, and it also expanded the market.

Meanwhile, the specialized market is also the centre of information, and the concentration of the customer helps the manufacturers can more accurately grasp the current supply and demand trends. The displaying of products provides the opportunities of know the competitors' products and newest technologies in the shortest time. It is in support of the enterprises adjust the production and operation strategies in order to improve their own competitive forces.

Third, the cooperation of market and industry can support the enterprises to present the newest products and support the timely and effective spread of the new product's information. The market could be the production companies' presentation stage. This cooperation also highly reduces the marketing cost for the production companies. Especially the cooperation with the exhibition, it can get the remarkable achievements for the companies. Yiwu provides customers with first-hand business opportunities. Customers can found the business opportunities in Yiwu and get a competitive advantage. These new product information attracted many customers.

The Yiwu Small Commodity Market also cultivated the local leading industry. Based on the advantages, Yiwu gradually built up two industrial economic development zones, and nurtured the advantageous industries and products such as clothing, knitting, crafts, colour printing, zipper. (China Yiwu International Commodities Fair 2013)

Furthermore, Yiwu's trade and industry linkage likely can reduce the costs. It makes production enterprises and market geographically closer so that can reducing the circulation of products, greatly reduce the cost of transportation, enterprises also easier access to low-cost advantage. The products have the possibility to sell at a lower price and attract more customers.

Since the combination of trade and industry, the linkage became the virtuous cycle for the promotion of economic development. On the one hand, the market's strong throughput effectively promoted the structural adjustment of the industry to constantly adapt to the demand, and greatly accelerate the speed of industrial upgrading and replacement. On the other hand, the market has the support of the local industry and the steady stream and a wide variety of product supply. These provided a solid material foundation for the further prosperity of the market. (Baidu Library 2010)

4.4 Firm strategy, structure and rivalry

Through the interview we can get the information that most of the companies are the private enterprises. (Shopkeeper 1, 2013) This leads to Yiwu's development should thanks to the non-governmental forces. The entrepreneurship and investment are mostly from the individual behaviour of market operators and business owners. Local businesses are also family workshops or family business. This corporate structure generates it has the following advantage:

The initial financing channels. Family business in the early days, by virtue of the specific genetic connection between the family members and their social network resources, company can quickly gathered the initial capital. Family commonality of interests and objectives will make the whole family whole-heartedly work selflessly in the early days, so it can gain a competitive advantage in a very short period, and rapid completion of primitive accumulation of capital. (51paper 2006)

Low costs management. In the beginning of the company build up, the family members has the trust first, so it is very harmony already during the organization. The understanding and trust are much higher than other enterprises and no need the extra monitoring and control so that the management cost could be minimum. (51paper 2006)

Fast decision. Because of they are family business, so that the decision making could be very fast. There no exist the higher authority referrals and the discussion of board. Only need the family group get the unified opinion, sometimes even the parents can make the decision. (51paper 2006)

Same goals. When consider the whole family's interests, normally the interests of consistency will make all the family members are very sensitive about the changes in the external environment. Especially the information of the market changing will deliver to every member of the enterprise. In practice, because the influence of the information interaction among the members, it is very easy to reach the consensus about the policies and implementation. Meanwhile, the same family goal is also lead the members to work harder and maximum the benefits of the company. (51paper 2006)

Effective network of organization. The public relationships of the family members can make a huge network. Especially in China, public relationship is very important for a company. This network can highly reduce the risks and the costs. (51paper 2006)

Due to the limited demand in the domestic market, the strong market competition eventually forces the manufacturers to seek a broader international market, and strive to be famous overseas for better, efficiency and higher profit. Thanks to the test of their fierce domestic market competition, the strong manufacturers are more likely to succeed in foreign markets. (Imosi 2012)

During the research, some of the interviewees spoke highly of the products management of Yiwu. In the market inside, Yiwu Small Commodity Market use the management method of put the same types of goods in the same area for customers to choose and buy. There are quite a lot of stands and similar products in the same area, so that the operators face the directly competition. Thus, how to create a greater advantage to attract customers has become a common goal of all operators. This competitive pressure stimulates the aspirations and actions of the operators to improve and innovate. (Shopkeeper 2, 4, 2013)

They try to find ways to use advanced technology to reduce the cost of procurement, transportation, inventory, and many other aspects of the product to have the price advantage and improve product quality to meet the different customer demand. Introduce new products to create the first-mover advantage, provide better after-sales

service and more additional services to increase customer satisfaction. Price advantage would be the most important strategy for these shopkeepers. (Qudao 2013)

Their competition is not just for market share, including human resources, technology, and the right to “show off”. When a manufacturer succeeds in the market, it will lead to more competitors enter into the market. When some strength became widely applied in the market, the competitiveness of the market has also been improved. However, for the single operator, the original advantage has become widely known and used so that he can no longer rely on its leading position. No operator has a permanent advantage. The pressure of competition will always make the operators begin a new round of innovation. (Qudao 2013)

Such competition in the market leads to the continuous improvement and upgrade, and provide the market with a steady stream of power.

4.5 Government

In order to promote the development of Yiwu Small Commodity Market, in recent years, Yiwu’s government implements a series of actions to create a good environment for Yiwu market. (Dongyang News 2010)

The government promoted the real economy, uses the industry to develop the commerce and supports the competitive industries. Yiwu’s government expanded the economic development zones and accelerated the development speed. The standard factories have been enlarged. The government took firmly control of the production quality and also encourages the companies or products with the high-technology. They also encouraged the usage of advanced technologies and international standard production equipment so that promoted industrial updating. They used the impact of famous brands to lead the other enterprises to set up the modern enterprise system in order to improve competitiveness. (Dongyang News 2010)

Accelerate the urbanization speed. Yiwu implemented the new strategic of the urban development: Take the city as the centre, constructed three vice cities and an outskirts of functional areas. The fast-track connects them in order to form the group coordinated city. Yiwu’s government constructed many projects for instance the sports centre, garden, international logistic centre and so on in order to accelerate the urbanization. The city government also attaches great importance to the construction of the

urban landscape, and strive to create a good living and leisure environment. (Dongyang News 2010)

Yiwu International Expo also holds with the governmental support. The fairs attracted billions of customers every year. Since the Yiwu Commodity Fair held in 1995, the companies from Korea, Japan, Thailand, America, Europe and Africa joined the fair and brought a significant effect. (China Yiwu International Commodities Fair 2013)

Improve the investment environment. In the recent years, Yiwu's government started to improve the investment environment for the foreign capital. A lot of policies have been published. At the same time of enlarge the investment scales, the local government focus on the quality and standard of the foreign investment. The emphasis is attracting the project which more than 10 million dollars, also the global 500 enterprises, large international purchaser and the other foreign institutions. In addition, Yiwu's government in accordance with the business city's features and international conventions, actively take the role of management of foreign institutions in Yiwu. (Yiwu agent service centre for investment project approval 2012)

From the research, we can see that Yiwu's government also firmly cracks down on counterfeit goods and controls the taxation system so as to create a fair and orderly environment.

In the free market, government is very importance still. Government should follow the natural principles in the free market and according to the needs, give the guidance and provide services and protection. During this process, government plays a very vital role.

4.6 Chance

Chance is the booster of Yiwu's succeeded. Especially the several political changes in China provided the successful essentials for Yiwu. However, chances are the external factors which the market itself cannot control.

Reform and openness

The reform and openness policy led the big chance of China's political and economic system. Chinese society changed from the planned economy system to the free market economic system. Since then, goods can be exchange and flow freely in

the market, and the commerce and trade had been grown to prosperity. This policy allows private enterprises and directly emerged the Yiwu Small Commodity Market. (Zheng, Y., Yuan, Y., Lin, C. 2002)

Two economic system reforms

Since 1979, there were 2 major changes have taken place in China's rural economy system. First is the implementation and popularization of the household contract responsibility system. It increased the agricultural productivity and farmers got the benefits from the institutional change. The second change is the rural economic structure transformation. This policy allows farmers participate in the second and third industries so that they can get more benefits and freedom from the non-agricultural industries. (Zheng, Y., Yuan, Y., Lin, C. 2002)

The local government

In the beginning, the local government applied the policy of forbidden the free market. There was even punishment for the private commercial activity. Then, the local government loosed the policy, but still don't encourage the private commercial activity. In the beginning of 80s, Yiwu's government chose the positive policy which encouraged the business activities. Since that time, Yiwu Small Commodity Market got the appropriate soil to grown up. (Yiwu International Trade City 2010)

Since 1984, Yiwu's government published a lot of policies which all beneficial for the Chinese and international merchants. The local government also has many policies which improved the Yiwu's environment, business environment and investment environment. These actions obviously promoted the prosperous of Yiwu Small Commodity Market. (Yiwu International Trade City 2010)

WTO

Since China joined WTO in 2001, it has the significant influence for Yiwu Small Commodity Market especially beneficial for its internationalization. This leded Yiwu rapidly expanded its international markets. The pressure from the international competition also became a force to promote the innovation and improvement. (Peoples Network 2002)

In this case, the governmental policies could be the chances for Yiwu. No matter the implementation of the household contract responsibility system, the reform and openness policy, the local government's policy, or the access to WTO, they are all

the chances which only can rely on the government. They were probably promoted the development of Yiwu Small Commodity Market.

4.7 The interaction mechanism of the diamond system

In the diamond system the main factors are the factor conditions, strategy, structure and competition, related and supporting industries and demand condition. These four factors are not isolated to the competitiveness of the commodity market to play a role. It is an interactive system, each of the key elements is interdependent, and any of the effects are based on the co-ordination of the other conditions.

The interaction of the four factors can be show from these aspects:

Factor conditions and strategy, structure and competition. In the small commodity market, the competitions between the operators are very strong. In the beginning of development, perhaps the shopkeepers focus on the initial development and not so much requirement of talents. However, the interview shows they indeed need the group of people nowadays. (Shopkeeper 5, 2013)

Therefore, they need more competitive advantages through the ways for instance more talents, more convenient communication mode, faster logistical system and huge capital. For this demand of Yiwu, the talents gathered in Yiwu, the hardware and software of the market went to optimum, the investment of government and foreigners has increased, the services of finance and communication is going to complete. These all promoted the increasing, expanding and updating of the production factors. Meanwhile, the improvement of production factors provided the support for the competition.

Related and supporting industries and strategy, structure and competition. The products competition is most important content in the small commodity market competition. Without the manufacturing industry, it is very hard to get various, high quality, high performance and good brand products. In Yiwu, the strong competition which happened in the market will also has the influence to the manufactures' competition and development. The fast turnover rate of goods requires the manufactures have more effective organization and operation. The demand of new products stimulates the enterprises keep innovation also. The oversea markets require the products should

meet the international standards. These pressures provided enough motivation for them development.

From the analysis above we can get the conclusion that the inner competition of the market activates the interaction, especially important for the diamond system.

5 CONCLUSION

Yiwu Small Commodity Market had a rapid development and great achievement in the past 30 years. The market grown up from the door to door selling to nowadays support one city's economic. It has become one of the biggest small commodity markets in China, and also has a big influence in the world. Yiwu made the miracle that change "Made in China" to "Made in Yiwu".

In this research, interviews which belong to the qualitative research had been taken in March of 2013. The authors interviewed 5 operators in Yiwu Small Commodity and got lots of useful information which helped a lot during the analysis of Yiwu's successful reasons. During the thesis, many economics and historical literature had been searched for the data gathering. Especially the combination of business analysis and the reality are indeed the precious practical study. They all strengthened my professional knowledge of my major—International Business.

Combine the interview and literature study, I got the answer of my research problem—what are the successful factors of Yiwu Small Commodity Market. I chose Michael Eugene Porter's diamond model to write this thesis. The diamond model provides a good structure for my analysis. This thesis explains the competitive edge and the formation reasons of Yiwu Small Commodity through several aspects. For instance, historical reasons, political policies, human resources and other factors contributed to the success of Yiwu. The reform of the economic system and the reform and openness provided Yiwu the huge business opportunities. Furthermore, the linkage of trade and industry also supports Yiwu's expanding. The historical reasons led the formation of Yiwu Small Commodity Market and cultivated the local business culture.

My suggestion of the future research study of Yiwu market can start from the improvement of the market because of nowadays there are many commodity markets existing as the competitors. The improvement study could be very useful for Yiwu Small Commodity Market's future development.

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Appendix 1 Interview transcript

Translated interview transcript

1. When did you start to have business in Yiwu Small Commodity Market? What are you mainly selling?

Shopkeeper 1: I started the clothing business in Yiwu since the reform and opening up policy occurred 30 years ago. Our shop mainly engages in women clothing for example shirts, mini-shirts, dresses, pants and coats.

Shopkeeper 2: Since 1990, I operated elastic balls and other educational toys.

Shopkeeper 3: Our shop mainly sells the Mickey and Barbie school bags, stationery set, stationery, markers and other office supplies. I joined Yiwu Small Commodity Market in 2001.

Shopkeeper 4: I joined Yiwu Small Commodity Market in 2000 and I sell frames.

Shopkeeper 5: Our shop named Wangshun Automobile Accessories since we entered into Yiwu market in 2000. We sell many automobile accessories for example Car horn, wiper blade, car lamp, car locks, tail pipes, automotive air compressor, license plate frame, care products, etc.

2. What is the biggest benefit Yiwu Small Commodity Market brought to you?

Shopkeeper 1: In Yiwu Economic Development Zone, there are many clothing manufacturers. This saves the costs of logistics and transportation for me. Because of the strong competition during the manufacturers, it also reduced the cost.

Shopkeeper 2: There are many toys seller in Yiwu, the competition leads to the updating of the products. This requires us to get the latest products and purchase channels in order to meet the customers' requirements.

Shopkeeper 3: With the improvement of living standard, students also want the fashion school supplies. In Yiwu, the shops which sell the same type of products gathered in the same area. However, this highly increased the competition. They are the two reasons require us to pursuit fashion products. Customers prefer to buy the good quality product with the low price, not only the low price. However, the quality is very easy to distinguish in Yiwu cause the obvious comparison.

Shopkeeper 4: As my point of view, the biggest advantage to have business in Yiwu is the strong competition. Competition will force the sellers to make innovation and keep progress.

Shopkeeper 5: Yiwu has a big flow of people, and most of people are coming with cars. When our shop provides the inexpensive goods and with good quality, many people who were not intended to buy but still will purchase several goods when they leave.

3. What is the biggest obstacle Yiwu Small Commodity Market brought to you?

Shopkeeper 1: It is very difficult to improve the company's image, and hard to establish a famous brand. For clothing, brand is very significant. In Yiwu, there are too much same kind of clothing shops. It is very hard to be outstanding among them.

Shopkeeper 2: In Yiwu, mostly the operation is very passive. The shopkeepers can only wait the customers choose the shops.

Shopkeeper 3: The location of the store is very important. The shops which located in the centre and the entrance of the market are easily be noticed by the customers. But some shops which stay in the corner are very difficult to develop.

Shopkeeper 4: For the frame business, cause many customers come to Yiwu just search for the cheap products and the quality of frame is hard to tell before usage. These lead to all the frame sellers are use the price strategy but lower the overall quality.

Shopkeeper 5: In Yiwu, the brand franchisees easier access to preeminent human resources. The talents are more inclined to vote resumes to these dealers. The small and medium operators cannot provide the high salary and good working environment so that it is hard to get these people.

4. Which point do you appreciate most concerning the management of Yiwu Small Commodity Market?

Shopkeeper 1: Yiwu market has done very well of the crackdown and punishment for the fake and shoddy products.

Shopkeeper 2: Yiwu placed all the similar shops on the same storey. This design provides convenience and saves time for the customers.

Shopkeeper 3: The credit system ensured the rights and interests for the customers. This is easier to cultivate customer loyalty.

Shopkeeper 4: Yiwu placed all the similar shops on the same or nearby storey. It is easy to manage and control.

Shopkeeper 5: Each operator who wants to have a business in Yiwu Small Commodity Market should have the basic training. This training includes basic business

law, commodity city internal regulations and so on. It had provided the study opportunity and highly improved the overall operators' quality.

5. What attracted you to invest in Yiwu?

Shopkeeper 1: I am the local Yiwu people. In 90s, there was the business trend so that I chose to have the business in Yiwu.

Shopkeeper 2: It is easy to access the latest and cheapest commodity nearby Yiwu. Yiwu has become the biggest small commodity market in the world, so that "Yiwu" is the well-known brand already. This had highly reduced the marketing cost.

Shopkeeper 3: The merchants from all over the world come to Yiwu. Yiwu has more business opportunities.

Shopkeeper 4: In Yiwu Economic Development Zone, we can get the lowest ex-factory price and also reduces transportation costs.

Shopkeeper 5: The huge flow of people in Yiwu and Yiwu Fair.

6. Does the Yiwu Fair enhance or weaken your competitiveness?

Shopkeeper 1: Weakened. The clothing industry is not an emerging industry. The presentation of a small number of products cannot improve the competitiveness of our shop. It is very difficult to have a fitting room in the exhibition, even there was, and there were few participants try on clothes during the fair. So that sales during the exhibition are also not very satisfactory.

Shopkeeper 2: Enhanced. Every time the participation in the fairs increased the sales. We also can introduce our educational toys to the customers directly.

Shopkeeper 3: Enhanced. Even all the office supplies are more or less the same, but fair is still a kind of advertising for our shop. Each exhibition has thousands of exhibitors and increases the chances of success.

Shopkeeper 4: Enhanced. It is the advertisement of our shop. During the fair, there would be more tourists to visit Yiwu market and our stands so that increased the sales. During the previous exhibition, we gained more stable customers as well.

Shopkeeper 5: Enhanced. Because of we take the price strategy, there will be more retail sales in the exhibition.

7. Have you take other commodity market into account? Why?

Shopkeeper 1: No. I am the local people and not willing to move.

Shopkeeper 2: No. The sales are not so bad, and if I move to other markets, there will be competition also.

Shopkeeper 3: No. My child is studying in the local school, so that it is not convenient to relocation.

Shopkeeper 4: Yes. I want to go back to hometown to do other businesses. The frame business is not particularly good in recent years.

Shopkeeper 5: No. This year's sales are pretty good, and I want to maintain my business for more several years.

8. Do you think the government gave you enough supporting?

Shopkeeper 1: Yes. In the early nineties, the government gave us the opportunity through the opening of free market. There are also a lot of preferential policies in recent years for the new franchisees.

Shopkeeper 2: Yes. Around the time of 1990, the demand was highly exceeding the supply. At that time, the operation of business was very easy compare with nowadays. In recent years, the local government had attracted many foreign investors to come to Yiwu which improved our sales also.

Shopkeeper 3: Not bad. For the first few years of new franchisees, the tax and rental were relieved by many local policies.

Shopkeeper 4: Yes. Nowadays, the infrastructure of Yiwu is very functional and attracted many investors, buyers and tourists.

Shopkeeper 5: Yes. Yiwu is a city which built on the Yiwu Small Commodity Market. Government supported our shopkeepers quite a lot.

Chinese interview transcript

1. 请问你什么时候开始进入义乌小商品市场的？现在主营什么？

店主一：从改革开放开始，有 30 年历史了。我们商铺主要经营女装。主要是半身裙，短裙，连衣裙，短裤和大衣。

店主二：自从 1990 年开始，我们经营弹力球等智力玩具，在义乌有 23 年光景。

店主三：我主要销售米奇芭比书包，文具套装，文具盒，水彩笔等办公用品，我 2001 年加入义乌小商品市场的。

店主四：我们商铺的商品是相框。我是 2000 年进驻义乌小商品市场的。

店主五：我们旺顺汽车用品主要经营汽车喇叭，雨刮器，汽车灯类，汽车锁，尾喉，车载充气泵，车牌架，扶手箱，护理用品等。店主从 2000 年进入义乌小商品市场的。

2. 义乌小商品市场给你带来的最大的益处是什么？

店主一：义乌经济开发区有许多服装生产厂家，在义乌做生意节约了去厂家挑选服装的成本。因为厂家之间的竞争，也降低了我们进货的成本。

店主二：在义乌有许多做玩具的商家，竞争促使了产品的更新，要求我们商家了解最新产品的进货渠道从而满足顾客的需要。

店主三：现在人们的生活水平提高了，学生在学习用具上也追求时尚。因为在义乌小商品市场，同类别商品的商家都聚集在一起以供顾客挑选，加大了竞争性。所以要求我们要卖时尚的产品。客户更喜欢买性价比高的产品，而不仅仅是便宜。在义乌，质量的好坏很容易对比出来。

店主四：我觉得在义乌做生意的好处在于激烈的竞争。竞争让商家们保持不断进步。

店主五：在义乌有很大的人流量，大部分来义乌的人都是开车来的，当我们的店铺提供物美价廉的商品时，许多人原本不是来购买汽车用品的，但是也会购买一些。

3. 义乌给你带来最大的阻碍是什么？

店主一：难提高公司形象，难以建立品牌效应。对于服装业，品牌效应非常重要。在义乌，有许多同类别的服装经营者，很难在他们之中脱颖而出。

店主二：在义乌，经营很被动。只有等待顾客来挑选商铺。

店主三：选址很重要。在义乌小商品市场，有些商铺在最中心或入口处的位置就很容易被顾客发现。有些商铺处在死角位置上就很难发展了。

店主四：对于相框生意来说，因为很多顾客来义乌就是为了购买便宜的产品，而相框的质量又很难在使用之前判定，所以就导致了卖相框的商家都在比价格而降低了整体质量。

店主五：在义乌，品牌特许经营商更容易获得好的人力资源，因为优秀的人才更偏向于向这些商家投简历。中小型的经营者不能够提供高薪和好的工作环境，就很难得到这些人才。

4. 在义乌商品城对商铺的管理方面，你最欣赏哪一点？

店主一：义乌在打假方面做的非常好，会严惩假冒伪劣。

店主二：义乌市场将所有同类商铺放置于同一层，整齐划一。方便了顾客的挑选，节省了时间。

店主三：信用卡制度保证了顾客的权益。这样更有利于培养顾客忠诚度。

店主四：经营同种类商品的商家位于同一楼层或者相近的区，这样非常方便管理。

店主五：每个进驻义乌小商品城的商家都要接受培训，包括基础的商业法律和商品城内部规定等等。给许多没有文化的商家提供了学习的机会，提高了整体素质。

5. 什么吸引了你来义乌投资？

店主一：我是当地人，90年代有做生意的潮流。

店主二：靠近义乌很容易接触到最新最便宜的商品。义乌小商品市场是全球最大的小商品市场，义乌这个名字本身已经是一个著名商标。这也大大减少了市场营销的费用。

店主三：全球各地的商客都来义乌采购，这里有更多的商机。人流量大。

店主四：在义乌经济开发区有最低的出厂价，而且也降低了运输费用。

店主五：义乌的人流量和会展。

6. 义乌会展增强了还是减弱了你的竞争力？

店主一：减弱了。服装行业不是一个新兴的行业，少量的产品展示并不能提高我们商铺的竞争力。在会展中很难有试衣间，所以会展中的销售额也不是很理想。即使有试衣间参展者也很少试衣服。

店主二：增加了。每次会展都会提高销售额，而且可以直接向感兴趣的顾客介绍我们的益智玩具。

店主三：增加了。尽管办公用品都是大同小异的，但是会展依然是对我们商店的一种广告和展示。每次会展都有成千上万的参展者，无疑增加了成功的几率。

店主四：增加了。会展是对于商铺的一种广告。在会展时，有更多的商客来参观，增加了销售额。在会展中我们也增多了一些稳定的客户。

店主五：增加了。因为我们采取价格优势，在会展中会有更多的零售销售额。

7. 有没有考虑选择其他的小商品市场？原因是什么？

店主一：没有。我是当地人，不愿意搬迁。

店主二：没有。在这里的销量还不算差，而且在其他市场也有竞争。

店主三：没有。小孩在当地上学，搬迁不方便。

店主四：有。想回老家做点别的生意。相框生意近些年不是特别好。

店主五：没有。今年的销售还不错，还想维持几年。

8. 政府给予的支持足够吗？

店主一：够。在改革开放初期，政府给予的自由市场给了我们很大的机会。在近些年给予其他新的加盟者也有很多优惠政策。

店主二：够。在 1990 年左右时还是供小于求的状态，那个时候生意比现在好做。政策全面开放。近些年，当地政府吸引了许多外商来义乌，也提高了我们的销量。

店主三：还不错。在来义乌小商品市场投资的前几年，有税收减免的政策。对于店铺租金也有减免的政策。

店主四：够。义乌市现在基础设施一有尽有，也吸引了许多投资者和采购者。

店主五：够。义乌市是建立在义乌小商品市场上的城市，政府大力扶持我们。