

TASSY GOLD Case Study

1540 Words

Australian Firm
Outsourcing: Vietnam
Marketing: France

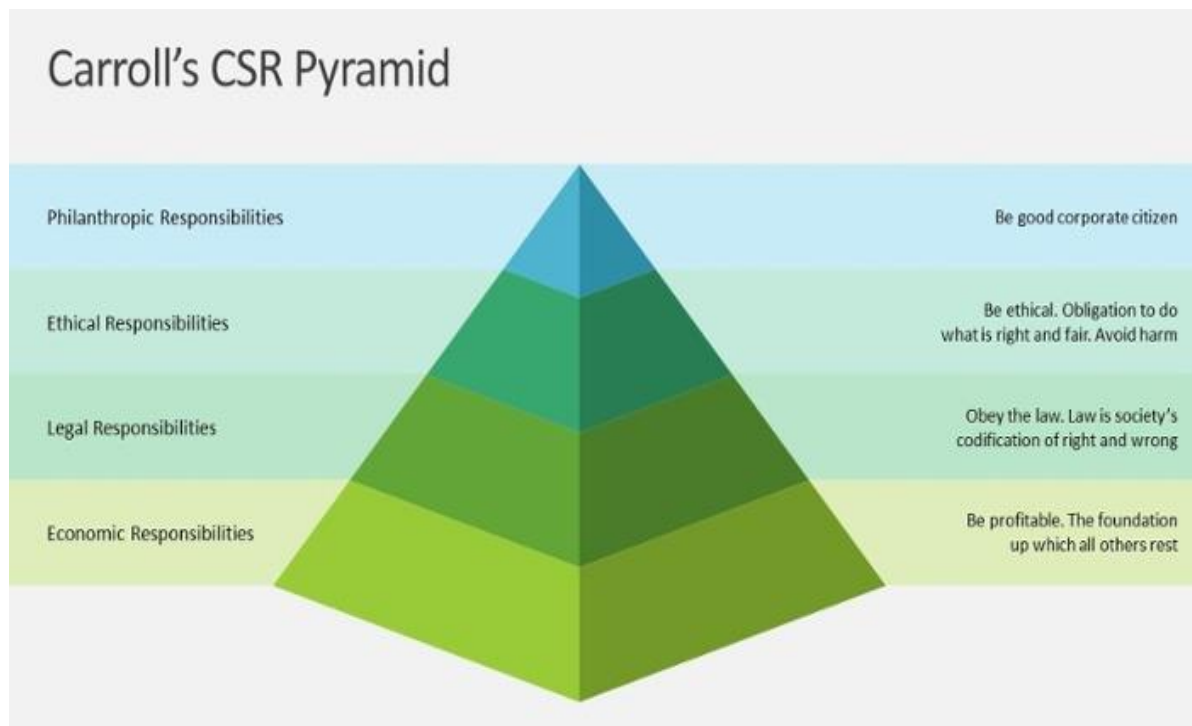
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1.Introduction

Tassy Gold (TG) is evaluating using their premium wool and outsourcing apparel production in Vietnam for the French market. Due to increased demand outsourcing is needed to improve profitability. This report addresses corporate social responsibility (CSR) focusing on environmental and ethical issues of outsourcing in Vietnam. Social and cultural consumer behaviour elements of the French market will be examined, with marketing implications to consider. Lastly, the International marketing manager will recommend appropriate strategies to succeed.

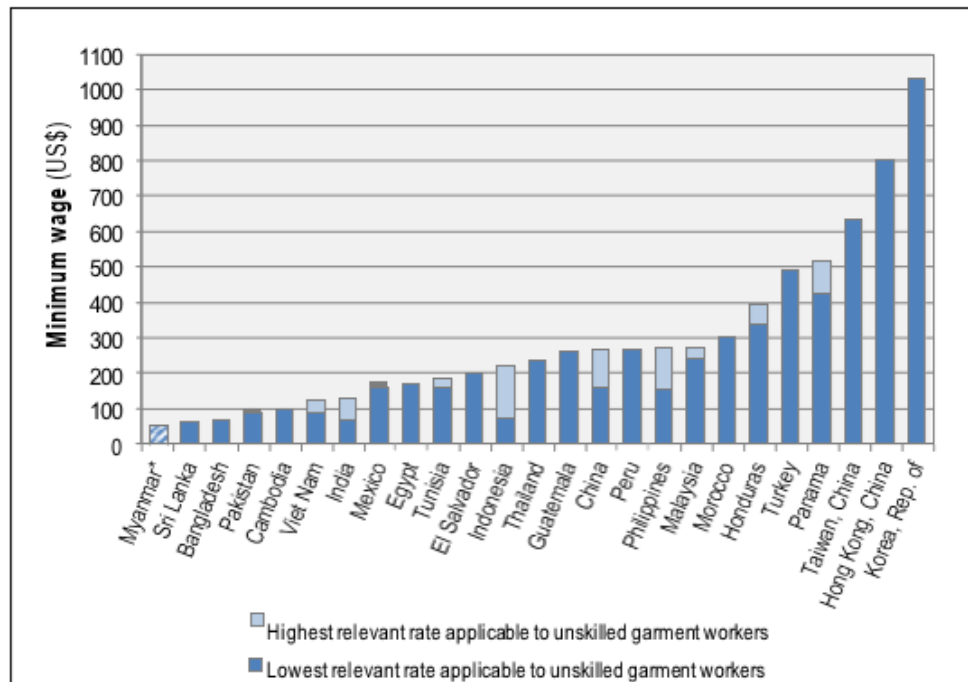
2. Identification of case ethics issues

Vietnam produces 18.6% of textile exports worldwide (Thao, 2014) totaling \$20 billion in 2013 (International Trade Administration, 2016). With 1.3 million garment industry workers (National resources defense council, 2016) it is ideal for standardised labour intensive apparel manufacturing (Fletcher and Crawford, 2017, p,83). TG can capitalize on factor endowments through market size, industry expertise and cheap labour (International Trade Administration,2016). However, a trend towards ethical consumerism and concerns about unethical practices grew after the Rana Plaza collapsed in Bangladesh, killing over 1,100 employees. This unsafe building contained apparel factories, including Zara and Gap, and CSR practices are under scrutiny (Guillermo, Jimenez and Pulos, 2016). Consequently, fashion consumers place higher value on greener products that provide ethical guarantees (Battaglia, Testa, Bianchi, Iraldo and Frey, 2014). Carroll's model of CSR (Figure 1) shows firms have ethical and philanthropic duties towards society (Carroll, 2016). Furthermore, a study of French and Italian fashion firms showed positive correlations between competitiveness and CSR practices within (i) ethical production management; (ii) environmental considerations; and (iii) customer value creation (Battaglia, et al, 2014). To ensure sustainable CSR practices Section 2 analyzes ethical production and environmental considerations.

Figure 1

2.1. Ethical – Exploitation of Workers

Vietnam is renowned for garment factories with sweatshop conditions, and women comprise of 80% of the workforce (International Labour Organization, 2018). Some employees are subjected to verbal, sexual and physical abuse. They have poor living conditions, suffer from malnutrition, work notoriously long hours, above the accepted standard (Better Work, 2018) and are underpaid earning circa \$70 US per month. Unfortunately, the Vietnamese General Confederation of Labour often fail to protect these workers' rights, resulting in more industrial strikes in Vietnam than any other Asian country (Siu and Chan, 2015). According to (Transparency International, 2018) Vietnam's corruption level is high and businesses pay government bribes to ignore issues that exploit workers, and the environment. Although Vietnam is moving towards a market economy, as a centrally planned economy it still has higher levels of state control, and government owned assets. However, this does not stop foreign direct investment as wages are about half those of China (Siu et al, 2015) (Figure 2).

Figure 2 Minimum monthly wages in the clothing industry in 2014, selected countries

* Temporary rate for industrial zones, currently under review. Source: ILO compilation based on national sources. ILO Regional Office for Asia and the Pacific/Regional Economic and Social Analysis Unit, 10 Feb. 2014.

Non-compliance levels with wage and benefits payments in factories assessed by **Better Work** (selected countries' baseline)

2.2. Environmental – Pollution in Mekong River

The Mekong River runs through Vietnam and most apparel production occurs in factories situated nearby. Rapid industrialization and inadequate waste management programs, is increasing the dumping of waste from agriculture and manufacturing (Nguyen, 2012). Dyeing in apparel production requires vast amounts of water and toxic chemicals, and 80% of wastewater flows back into the ecosystem untreated (UNESCO, 2017; NRDC, 2016). The textile industry pollutes around 200 t of water per tonne of production, and cotton crops account for over 25% of global pesticide use (Nagurney and Yu, 2012). This adversely affects the ecosystem and humans since water is used for transportation of goods, irrigation and drinking water (Wilbers, Becker, Nga, Zita, Sebesvari and Renaud, 2014). Unsafe levels of arsenic have been found in the water which leaches into the ground effecting food supply, especially rice crops (Thy, 2012). Moreover, inadequate sanitized water contributes to 8.5% of deaths from diarrhea in Southeast Asia (WHO, 2013). Lastly rising energy consumption, has increased reliance on coal-powered electricity. Consequently, Vietnam's greenhouse gas emissions are amongst the fastest growing worldwide (World Bank, 2008).

3. Social cultural and consumer behaviour of France

Australia is the leading exporter of wool worldwide, comprising of 5% of total output (de Silva, 2014) and high demand increased production by 5.3% in 2015, raising export values by 14% (Davis, 2017). This competitive advantage, coupled with Frances cooler climate, and reputation as a fashion capital (Battaglia, et al. 2014) makes it an attractive market for TGs premium woollen skirts. The target market (TM) is high-fashion conscious Millennial females, which comprise of 47% of luxury buyers (Shullman, 2016). Moreover, according to (Nielson, 2017) 55% of Millennials worldwide are willing to pay higher prices for perceived “premium goods”.

The TM highly value ethical and philanthropic firms and realize the global apparel industry has a negative impact on the environment (Dickson Loker, and Eckman, 2009) Additionally, studies show women are more sensitive to environmental and ethical issues (Niinimäki and Hassi, 2011, Battaglia, et al. 2014) with a positive correlation between a firms CSR practices, and purchase intentions (Öberseder, Schlegelmilch, Murphy and Gruber, 2014). Moreover, human rights are of paramount concern (Abdeen, Rajah and Gaur, 2016). A study showed 36-50-year old women consume the most ethical fashion (Battaglia, et al. 2014) and are motivated by a ‘guilt free’ conscience (Lundblad, and Davies, 2016). However, 95% believed brands did not communicate enough about CSR practices (Battaglia, et al. 2014). Another barrier to purchase was the perception that ethical fashion brands are not as stylish (Achabou, and Dekhili, 2015; Lundblad, and Davies, 2016). Hence, TG should increase CSR practices and enhance the value proposition by communicating high-fashion style, to differentiate from competitors. Fashion brands made or designed in France are perceived as more stylish and higher quality, which heavily influences purchase choice (Achabou, et al, 2015). Therefore, TG should collaborate with French fashion designers advertising the label as ‘designed in France’ and primarily use social media (SM) to communicate with the TM. SM is the most common online activity, and as earned media is more economical than traditional advertising (Solomon, Bennett and Previte, 2013) and Millennials prefer Facebook as an image centric platform (Southgate, and Millward, 2017; Chitty, Luck, Barker, Sassenberg, Shimp, and Andrews, 2017 p312).

3.1. Country of Origin Effect

As a developed country, French consumers have a good opinion of Australian brands. The TM are most interested in the country-of-origin (COO) of raw materials, and where products are made (Achabou, et al, 2015). COO can become a stereotype based on inferences across products, and a common market belief is that goods made from natural materials are of higher quality (Solomon, et al,p.270). Since Australia is the largest wool exporter fetching premium prices (Davis, 2017), this indicates positive COO towards TGs raw material (wool). However, as a developing country Vietnam has negative COO from ‘sweatshop’ associations in the apparel industry and high corruption, which reduces perceptions of quality (Bayraktar, 2013; Fletcher,et.al,2017p.83). Therefore, quality control should be strictly monitored to mitigate negative COO (Fletcher et al, 2018). Additionally, TG should enhance the Australian ‘premium wool’ attribute on packaging. Lastly, ‘designed in France’ labelling will prove beneficial as consumers are usually bias and evaluate their own countries’ products more favourably (Bilkey, and Nes,1982).

4. Recommendations

As mentioned CSR practices improve firm performance and have a positive influence on consumers purchase intentions (Öberseder, et al. Gruber,2014). Moreover, the TM are ethical consumers who expect sustainable production (Niinimäki et al, 2011). Therefore, before outsourcing production in Vietnam CSR practices should be adopted within the ethical and environmental issues outlined.

4.1. Ethical Responsibilities

Carroll’s CSR pyramid states that firms have economic, legal, ethical and philanthropic responsibilities (Figure 1). Although ethical duties are not mandatory, society expects them (Carroll, 2016). This includes avoiding harm and providing good standards within the workplace (International Labour Organization, 2018). Hence, TG will offer above minim wages which is linked to a 5.9% increase in firm profitability (Better Work, 2018). To avoid ‘sweatshop’ conditions stated in Section 2.1; workers will participate in the Better Work program to educate staff, and ensure good working conditions are met and maintained. As Better Work is a not-for-profit organization affiliated with the (ILO,2018), corruption should reduce, protecting employees’ rights. Additionally, Australian management will visit apparel factories in Vietnam to ensure quality controls are met within production.

Short 'day in the life' style videos will be posted on Facebook, as the TM prefers this platform (Southgate, et al. 2017). Apparel factory employees in Vietnam will share the positive impacts that have occurred for them and their community. Moreover, reducing 'guilty feelings' consumers may have about purchasing TGs products manufactured in a developing country, which is a primary motivator for ethical consumerism (Lundblad, et al, 2016).

As previously mentioned the TM expect green products with ethical guarantees. However, 95% of French of fashion consumers believe brands do not communicate enough about CSR practices (Battaglia, et al. 2014). Therefore, to increase awareness and provide ethical guarantees TG should use certified organic cotton, which like wool is biodegradable (Commissioner for sustainability and the environment, 2015) as well as low impact dyes. This will curtail waste in the Mekong river and reduce the firms' carbon footprint (McFarlane, 2017). Once these changes are made in the supply chain the firm can apply for organic certification from (The global organic textile standards, 2016) and include the (GOTS) label on apparel and packaging.

Figure 3



4.2.Philanthropic Responsibilities

Consumers expect firms to engage in philanthropic conduct (Carroll, 2016) and studies link philanthropy with improved credibility and brand equity (Hur, Kim, and Woo, 2014). According to (Charity Navigator, 2018) 5% of charitable donations are from firms. Therefore, TG will donate 5% of profits across two charities. Firstly, (Conservation International, 2017) as they run environmental projects to protect the Mekong river. Donations will be focused around the fresh water ecosystem program to reduce water pollution, and improve water sanitation. Secondly, (OXFAM International, 2018) which provides aid programs in Vietnam to improve the livelihoods of workers in urban areas, particularly women.

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