Causes of Sales Decline in Home Textile SMEs: A Multi-Diagnostic Case Study in China's Industrial Cluster

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ABSTRACT

In the context of a rapidly evolving global home textile sector, intensified competition, shifting consumer preferences, and accelerating digital transformation have exerted unprecedented pressure on small and medium-sized enterprises (SMEs). Many such firms continue to face persistent challenges in maintaining stable sales performance, even when operating within major industrial clusters with strong supply chain foundations. This study focuses on diagnosing the underlying factors leading to sustained sales downturns among home textile SMEs, using a representative enterprise located in Nantong, China's core home textile production region, as a case study. By employing a multi-tool diagnostic framework that incorporates semi-structured interviews, SWOT analysis, Fishbone (Ishikawa) diagram, and risk assessment matrix, this research systematically identifies internal and external constraints affecting organizational performance. Grounded in the Resource-Based View (RBV), Dynamic Capabilities Theory and Porter's Competitive Advantage Framework, this study systematically unpacks the intertwined internal and external drivers of sales decline. Findings reveal that fragmented marketing execution, insufficient employee professional training, underdeveloped digital marketing capabilities, and weak integration between online and offline sales channels represent the most critical barriers to sustainable sales growth. Grounded in the Resource-Based View (RBV), this study proposes a structured dual-path intervention framework that emphasizes the optimization of employee competency development and the enhancement of digital marketing systems. The findings contribute both practical insights and a replicable diagnostic model for home textile SMEs seeking to improve operational stability, market responsiveness, and long-term competitiveness under resource constraints.

Keywords: Home textile SME, sales decline, digital marketing

INTRODUCTION

The global home textile industry operates within a landscape defined by uneven economic recovery, fluctuating consumer demand, rising production costs, and intensifying cross-border competition. As consumer lifestyles evolve and purchasing behaviours shift toward online channels, traditional manufacturing enterprises, particularly SMEs, face growing pressure to adapt their operational and marketing systems. Despite persistent global demand for daily-use textile goods, the gap between large-scale enterprises with strong capital, brand, and technological advantages and SMEs with limited resources continues to widen. Within the Asia-Pacific region, which remains the global hub for home textile production and export, China has maintained a stable position in international trade through its complete industrial chain, efficient manufacturing capacity, and extensive distribution networks.

Nantong, located in Jiangsu Province, has emerged as one of the most influential home textile industrial clusters in China and even globally. Supported by a high concentration of manufacturers, integrated supply chains, mature logistics systems, and long-established export channels, Nantong's home textile sector has achieved remarkable growth in output value, enterprise scale, and international market coverage (Nantong Municipal Bureau of

Statistics, 2024). However, aggregate industrial development does not necessarily translate into stable performance for every enterprise within the cluster. Many SMEs, despite having reliable product quality and production capacity, struggle to translate operational advantages into sustainable sales growth. In many cases, sales volumes fluctuate sharply or enter continuous decline, creating risks to cash flow, profitability, and long-term survival.

In contrast to large enterprises that can afford comprehensive marketing teams, advanced digital systems, and widespread brand promotion, most home textile SMEs rely on simplified organizational structures, traditional sales models, and limited promotional methods. Although such enterprises may invest in product development, equipment upgrades, and quality management, they often lack systematic marketing planning, professional employee training systems, and data-driven operational capabilities. Consequently, even well-designed products may fail to achieve expected market performance, resulting in inventory backlogs, low customer conversion, and weakened market positioning.

Existing academic studies have explored various dimensions of SME development, including digital transformation, marketing strategy, employee training, and operational efficiency (Coreynen et al., 2017).Vial (2021) proposed that digital transformation extends beyond technology adoption and requires comprehensive organizational change. However, most existing research tends to focus on single factors in isolation rather than exploring the interactive and cumulative effects of multiple constraints. Furthermore, context-specific investigations centered on China’s home textile industrial clusters remain relatively scarce, creating a gap between theoretical frameworks and practical needs. Few studies provide integrated diagnostic tools or actionable improvement paths that account for the limited capital, human resources, and technical infrastructure typical of SMEs.

Against this background, this study adopts a case-based diagnostic approach to explore the complex factors contributing to sales decline in home textile SMEs. By combining qualitative evidence from internal stakeholders with structured analytical tools, this research aims to identify core constraints, clarify their causal relationships, and propose a theoretically grounded and practically feasible improvement framework. This study does not disclose specific intervention implementation processes or empirical results, thereby ensuring independence and originality for subsequent doctoral research while providing valuable insights for industry practitioners and policymakers.

LITERATURE REVIEW

The operational challenges faced by manufacturing SMEs have long been a topic of concern within business and management research. Within the home textile sector, which combines characteristics of labour-intensive manufacturing, consumer-oriented production, and global market dependency, SMEs face unique pressures related to market adaptation, brand building, and digital transformation.Trainor et al. (2014) argued that social media capabilities improve customer relationship performance and marketing effectiveness.. Marketing capabilities include the ability to identify consumer demand, position products appropriately, design effective promotional strategies, integrate sales channels, and maintain stable customer relationships. For SMEs lacking strong brand recognition, such capabilities often determine whether high-quality products can achieve satisfactory market penetration.

Herhausen et al. (2020) suggested that digital marketing capability is essential for improving customer engagement and organizational competitiveness. Digital channels provide SMEs with relatively low-cost opportunities to expand market reach, interact directly with consumers, monitor market trends, and optimize promotional effects. However, successful digital marketing requires professional skills, consistent content management, data analysis capabilities, and coordinated implementation across departments. Many traditional manufacturing SMEs continue to rely on outdated promotional tools, passive platform management, and generic content that fails to attract or retain consumer attention.

Employee competency and training systems represent another critical determinant of SME performance (Garavan et al., 2016). In enterprises with limited organizational scale, frontline employees, sales teams, and marketing staff directly shape customer experience, promotional effectiveness, and market responsiveness. Employees who lack sufficient product knowledge, communication skills, digital tool literacy, or consumer insights will struggle to convey product value or adapt to changing market demands. Despite the widely recognized importance of staff training, many SMEs prioritize short-term cost control over long-term capability development, resulting in inconsistent service quality, weak strategy execution, and low organizational agility (Barney, 1991; Garavan et al., 2016).

The Resource-Based View (RBV) serves as a key theoretical foundation for understanding SME competitiveness. RBV emphasizes that enterprises achieve sustainable competitive advantages by owning and developing valuable, rare, difficult-to-imitate, and non-substitutable internal resources and capabilities (Barney, 1991).From the resource-based view of the firm, heterogeneous internal resources are the core source of enterprises' long-term competitive edge (Wernerfelt, 1984). .For home textile SMEs, tangible resources such as production equipment and raw material supply are often less differentiating than intangible capabilities, including marketing expertise, employee skills, organizational coordination, and digital operational systems. Such intangible capabilities directly influence how effectively an enterprise can respond to external changes, satisfy consumer expectations, and maintain stable sales performance.

Complementing RBV, Dynamic Capabilities Theory addresses a critical limitation of static resource logic (Teece, 2007): sales decline arises when SMEs lack three core dynamic capabilities (Rohani et al., 2021). Sensing capabilities fail to capture shifting online consumer preferences and competitor moves; seizing capabilities cannot integrate online-offline channels to convert market opportunities; transformative capabilities are absent to upgrade employee digital skills and marketing systems over time (Liu et al., 2024).

Although existing literature has established the individual importance of marketing capabilities, digital transformation, Verhoef et al. (2021) argued that digital transformation requires the integration of organizational capabilities, technology, and strategic management and employee training, few studies integrate these elements into a unified diagnostic framework tailored to home textile SMEs. Furthermore, few empirical investigations focus on the industrial cluster context of Nantong, where SMEs operate within highly competitive regional ecosystems while facing global market pressures (Jiangsu Provincial People's Government, 2021). This study addresses these gaps by using a multi-tool diagnostic method to explore the combined effects of internal capability deficits and external environmental challenges.

RESEARCH METHODOLOGY

This study adopts a case study design supported by a multi-method diagnostic framework, consistent with participatory action research principles (Koshy, 2005). Case study methodology is particularly suitable for exploring complex, context-dependent organizational problems, as it allows in-depth investigation of real-world scenarios, integration of multiple evidence sources, and systematic analysis of causal relationships. Purposive sampling was applied to select the case firm following three strict criteria: (1) it meets national medium-sized manufacturing SME standards with balanced domestic and export business; (2) it recorded three consecutive years of sustained sales decline, representing the mainstream dilemma of Nantong home textile SMEs; (3) complete internal operation, sales and financial archives are available for multi-source verification. Firms with extreme single-channel reliance or abnormal ultra-high/low output were excluded to avoid sample bias. By focusing on a single representative SME, this research achieves detailed contextual understanding while maintaining practical relevance for similar enterprises within the same industrial cluster.

Data collection combines primary qualitative evidence and secondary organizational information. A standardized semi-structured interview protocol was pre-designed covering marketing execution, digital operation, staff training, inter-departmental coordination and competitive threats. A total of 12 interviews with senior managers, marketing supervisors and frontline sales staff were fully audio-recorded and transcribed verbatim. Two independent coders conducted open and axial coding separately: open coding extracted raw operational pain points, while axial coding categorized codes into six fishbone dimensions. Inter-coder reliability cross-check served as the core validation technique to mitigate subjective coding bias. All interviewees provided authentic descriptions of daily operations, strategic difficulties, and internal constraints, forming a foundation for problem identification.

Secondary data include organizational profiles, operational records, sales trend summaries, industry reports, and regional policy documents. To realize rigorous data triangulation, four categories of objective secondary data were incorporated: (1) longitudinal monthly sales panel data covering three years across wholesale, e-commerce and cross-border channels; (2) quarterly customer feedback archives and core financial indicators including gross profit and inventory turnover; (3) benchmarking data of five local competing SMEs involving pricing, online update frequency and product positioning; (4) official industrial statistical reports. These multi-dimensional data help establish the broader industrial context, verify internal perspectives, and provide objective evidence of performance trends. To ensure research ethics and confidentiality, all organizational identifiers are anonymized, and sensitive information is generalized to protect business interests.

Four diagnostic tools are systematically applied in this study. First, semi-structured interviews capture subjective experiences, practical difficulties, and implicit organizational problems. Second, SWOT analysis categorizes internal strengths and weaknesses alongside external opportunities and threats, providing a structured overview of strategic position. Third, the Fishbone (Ishikawa) diagram classifies causal factors into six dimensions: personnel, process, equipment, materials, environment, and management, enabling comprehensive root cause analysis. Fourth, a risk assessment matrix prioritizes challenges by evaluating their likelihood of occurrence and severity of impact, ensuring that improvement efforts focus on the most urgent issues.

The analytical process follows an inductive logic, moving from evidence collection to problem identification, categorization, prioritization, and framework construction. By triangulating evidence across multiple tools, this study reduces bias and enhances the reliability of diagnostic conclusions. The entire methodology emphasizes practicality, adaptability, and resource sensitivity to ensure alignment with the real operational constraints of home textile SMEs.

CASE OVERVIEW AND DIAGNOSTIC ANALYSIS

The case enterprise is a medium-sized home textile manufacturer located in Nantong, the core region of China’s home textile industrial cluster. Established in the early 2000s, the enterprise has evolved from a small production workshop into a comprehensive manufacturer with a diversified product portfolio, stable production capacity, and both domestic and overseas market coverage. With approximately 200 employees, the enterprise meets the official classification standards for medium-sized manufacturing enterprises in China (Ministry of Industry and Information Technology, 2011). Its product categories include bedding textiles, towel and bath products, curtain and window fabrics, and seasonal decorative textiles, serving mass market consumers, commercial clients, and cross-border distributors.

The enterprise maintains a vertically integrated operational structure, covering product design, production, quality control, logistics, and sales. Over years of development, it has formed stable quality control systems, consistent investment in research and development, and a reliable reputation among customers. Its products are sold through a combination of physical wholesale channels, cooperative distributors, and online e-commerce platforms, with consumer groups spread across multiple domestic regions and overseas markets. Despite these operational strengths, the enterprise has experienced a persistent downward trend in sales performance, leading to management concerns about market competitiveness, strategic effectiveness, and long-term sustainability.

Diagnostic evidence collected from internal stakeholders and organizational records reveals multiple interconnected challenges. First, marketing execution remains fragmented and poorly targeted. Promotional strategies rely heavily on traditional methods, with unclear product positioning, generic content, and weak differentiation from competitors. Marketing activities lack systematic planning, data support, and alignment with consumer preferences or seasonal demand patterns, resulting in low conversion efficiency and weak brand resonance.

Second, employee capabilities and training systems are insufficient to support modern marketing demands. Frontline sales and marketing staff lack systematic professional training, particularly in digital marketing tools, consumer behaviour analysis, product value communication, and cross-platform operation. Many employees rely on personal experience rather than standardized procedures, leading to inconsistent performance, poor market responsiveness, and weak strategy implementation. Inter-departmental coordination is also limited, with production, marketing, and sales teams operating in relative isolation.

Third, digital marketing and social media operations are underdeveloped. Although the enterprise has established basic online platforms, content updates are irregular, audience targeting is unclear, and consumer interaction is minimal. Without dedicated digital operation personnel or data-driven optimization mechanisms, online platforms fail to fulfil their potential as channels for brand communication, customer engagement, and sales conversion. The integration between online and offline channels is weak, leading to inconsistent brand experiences and missed market opportunities.

Fourth, strategic decision-making and market response mechanisms are slow and overly centralized. Management decisions rely heavily on historical experience rather than real-time market monitoring, data analysis, or frontline feedback. The enterprise lacks a systematic market research system, agile adjustment mechanisms, and structured performance evaluation processes, making it difficult to adapt quickly to changing consumer preferences or competitor actions.

Further analysis using the risk assessment matrix indicates that inadequate employee training and poor integration of online and offline channels pose the highest risks to sales performance. These challenges are highly likely to occur and exert severe negative impacts on stability and growth. Other high-priority concerns include limited marketing expertise, unclear product positioning, and weak digital operational capabilities. External threats include intensified regional competition, rapid shifts in consumer online consumption habits, and macroeconomic factors affecting purchasing willingness. Together, these internal and external factors create a self-reinforcing cycle of sales pressure and strategic stagnation.

PROPOSED INTERVENTION FRAMEWORK

Based on the comprehensive diagnostic analysis and supported by the Resource-Based View, this study proposes a dual-path intervention framework designed to improve sales performance and organizational competitiveness for home textile SMEs. The framework prioritizes practicality, resource feasibility, and systematic improvement, avoiding overreliance on expensive equipment or large-scale capital investment.

The first path focuses on the optimization of the employee training system. Recognizing that staff competency represents a core internal resource under RBV, this path aims to enhance professional knowledge, practical skills, and market sensitivity among sales and marketing personnel. Training content covers four key modules: in-depth product knowledge to accurately convey value; professional communication skills to improve customer interaction; digital tool literacy for platform operation and data comprehension; and consumer insight awareness to support targeted marketing. Training programs adopt structured, scenario-based, and practically oriented methods, with objectives designed using SMART principles to ensure clarity, measurability, attainability, relevance, and time binding. Regular refresher sessions, skill assessments, and experience sharing mechanisms further strengthen knowledge retention and practical application.

The second path focuses on the enhancement of digital marketing and channel coordination. This path aims to build a standardized, sustainable, and customer-oriented digital operation system that improves brand exposure, consumer interaction, and sales conversion. Key actions include clarifying target audience characteristics, designing consistent and appealing content themes, establishing regular platform update mechanisms, strengthening online and offline channel integration, and using basic data indicators to optimize promotional effects. Rather than pursuing complex technical systems, the strategy emphasizes practical, executable, and low-cost digital marketing practices that match the organizational scale and resource conditions of SMEs.

This dual-path framework focuses on internal capability development and strategic alignment rather than external expansion or capital-intensive investment. By strengthening employee skills and digital marketing practices, the enterprise can gradually improve market responsiveness, promotional effectiveness, and customer loyalty. Such improvements support stable sales performance and long-term competitive advantages without imposing excessive resource pressure. As a theoretically grounded and practically oriented model, the framework can also be adapted and applied by other home textile SMEs facing similar operational challenges.

CONCLUSION AND IMPLICATIONS

This study diagnoses the multi-dimensional causes of sales decline in a representative home textile SME located in Nantong, China's key industrial cluster, using a systematic multi-tool diagnostic approach. The findings indicate that the persistent sales downturn stems from four interrelated core constraints: ineffective and fragmented marketing execution; insufficient employee training and professional competency; weak digital marketing application and social media management; and slow strategic response and poor channel coordination. These internal capability deficits are further amplified by external pressures including intensifying industry competition, shifting consumer online behaviour, and uncertain market demand.

By applying the Resource-Based View as a theoretical lens, this study highlights the importance of intangible organizational capabilities—such as employee skills, marketing systems, and digital operational routines—in determining SME performance. The proposed dual-path intervention framework provides a structured, practical, and resource-adaptive improvement route that focuses on employee training optimization and digital marketing enhancement. This framework avoids unrealistic capital requirements and emphasizes step-by-step capability construction, making it suitable for widespread application among home textile SMEs.

The practical implications of this study are significant for enterprise managers, industry practitioners, and policymakers. For SME managers, the diagnostic model offers a replicable tool to identify internal bottlenecks and prioritize improvement actions without relying on external consultants or complex analytical systems. The intervention framework provides clear, actionable directions for improving marketing execution and employee capabilities, supporting stable sales recovery under resource constraints.Beyond digital marketing and staff training, managers should implement three supplementary strategies to build sustainable competitiveness: first, strengthen product and marketing innovation to launch customized seasonal home textile lines and form Porter-type differentiation advantages to break vicious price competition; second, build supply chain resilience via diversified raw material suppliers and flexible small-batch production to offset cost volatility and delivery risks; third, realize export diversification by reducing dependence on single overseas distributors and launching lightweight independent social media sales channels to disperse overseas market demand shocks. Managers shall regularly conduct competitor benchmarking and analyze longitudinal sales and customer feedback data to iterate sensing and seizing dynamic capabilities continuously. For industry stakeholders, the study underscores the importance of capability-oriented development rather than purely production-oriented expansion. For policymakers, the findings suggest that supporting digital literacy training and marketing capability building for SMEs may generate more sustainable industrial development effects than purely physical infrastructure or financial subsidies.

Theoretically, this study extends the application of the Resource-Based View to traditional manufacturing SMEs in the home textile sector, emphasizing the role of marketing and human resource capabilities as key strategic resources. It also contributes an integrated diagnostic model that combines multiple analytical tools to address real-world SME challenges, bridging the gap between academic theory and industrial practice. Future research may expand the sample size to enable cross-case comparison, quantify the effects of the intervention framework through longitudinal studies, or explore the application of the diagnostic model in other traditional manufacturing sectors.

In an increasingly competitive and digitalized industrial landscape, home textile SMEs must shift from production-focused thinking to capability-oriented development. By continuously strengthening employee competencies, optimizing marketing systems, and enhancing digital operational capabilities, SMEs can transform internal resources into sustainable competitive advantages, achieve stable sales performance, and achieve long-term development within major industrial clusters.

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