

## An Economic Analysis of the Specialization and Marketization of Convention and Exhibition Industry

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### Abstract

Exhibition industry can not only create huge economic and social benefits itself but also have a strong driving effect towards a variety of industries such as transportation, tourism, catering, accommodation and related industries, thus promoting the industry agglomeration. This paper has made in-depth analysis on the connotation and dialectical relationship between the specialization and marketization of exhibition industry from an economic point of view. The analysis reveals the basic principle of interactive development of the exhibition industry and the regional industrial clusters. It is considered that the regional industry cluster is a basic support for the specialization and marketization of the exhibition industry. Finally, this paper proposes the sector structure mode and exhibition industry cluster method through in-depth analysis of the downstream, mid-stream and upper stream of the exhibition industry chain. On this basis, the market operation mechanism of the exhibition industry chain is outlined.

**Key words:** Exhibition industry; Specialization; Marketization; Industry cluster

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### INTRODUCTION

Exhibition is a service circulation process in social reproduction for the smooth social mobility of goods. Exhibition industry expands the social economy mainly in this process (ZENG, 2005). Facts have shown that approaches of both professional and marketization provides intensified platform for the exhibition businesses, which expands rapidly the exhibition from social public relations level to the socio-economic level and makes them powerful thrusters for the socio-economic growth (ZHAO, 2012).

### 1. THEORETICAL CONNOTATION OF SPECIALIZATION AND MARKETIZATION OF THE EXHIBITION

#### 1.1 Essential Attributes and Economic Foundations of the Exhibition

The exhibition is essentially a special form of the market. It is a social service activity that delivers and exchanges information through visual display under certain time and space conditions in accordance with the social needs so as to allow viewers to make purchases and sales, investment decisions, or to learn and so on. On the one hand, the exhibition activities contribute to market transactions; on the other hand, they improve the efficiency of resource usage to maximize the economic interests of both buyers and sellers. Economic functions of the exhibition include trade promotion function, information dissemination function and the competition promotion function (YU, 2006; LI, 2011; CHENG, 2011; CHEN, 2011)

#### 1.2 Definition of Specialization and Marketization of the Exhibition

The first part of specialization of exhibition industry refers to the specialization of the exhibition theme, namely a theme based on an industry with a certain category of

goods and a certain kind of technology and service as the core, involving professional firms in the industry and mainly open to professional visitors. The second part is the specialization of exhibition management and operation. That is to say, the economic activities of the exhibition are divided into several parts: The exhibition planning, the overall launch, exhibition and investment invitation, venue layout and support services, etc. They work together and form specialized systems like professional meeting organizers, professional exhibition organizers, destination management companies, special event planning and management companies to create the exhibition industry chain with the division of labor and mutual support among enterprises. The third is the specialization of operational personnel. The highly professional exhibition industry will inevitably require employees with specialized knowledge and quality. Those countries with prosperous exhibition industry have education systems to train exhibition professionals, which is an important support in promoting the healthy development of exhibition industry.

The marketization of the exhibition industry is to introduce the mechanism of market competition in accordance with market economy rules. Enterprises determine the exhibition projects according to market need and cultivate the exhibition brands to achieve economic benefits through the commercial operation. To achieve the marketization of the exhibition industry, firstly, the market orientation and the theme, the form, undertaker, management and operation of the exhibition must be decided by the market; secondly, the rules of the market comes first, the most important is that the price is determined by market supply and demand. Thirdly, it is necessary to allocate resources through the market mechanism for exhibition services concerning the organization of exhibition and investment invitation, exhibition activities as well as various ancillary services. Fourth, make clear the market main players and advocate fair competition.

### **1.3 The Dialectical Relationships Between Specialization and Marketization**

#### **1.3.1 Specialization is the Foundation of and Promotes Marketization**

Within the framework of neoclassical economics, division of labor based on specialization is a systematic and structural arrangement of economic organizations. Specialization and division of labor are two concepts closely connected with each other and represent the two aspects of one thing. Stigler, 1951, considered that economic activities of an enterprise include many functions that are split to be undertaken by other specialized enterprises in the process of the division of labor or specialization. It lengthens the chain (various specialized organizations between production and consumption) connecting the production and consumption in the market structure, namely it's a continuous extension

of the functions and dimensions of the specialized organizations.

From a historical perspective, marketization is a phenomenon under a dynamic analysis of the market. It refers to continuous expansion of the market scope (the types of transactions, the main body of the transaction and the expansion of the market place) as well as deepening of trading dimensions. In the process of market evolution, specialization or division of labor has played a fundamental role. Specialization can achieve the economies of scale and lower transaction costs, which contribute to the deepening of the market process. On the one hand, as specialization can provide production functions to the market in large-scale to achieve economies of scale in the competition state, thus unit costs are lowered; on the other hand, it offers the market with certain functions (operations) by means of specialized production, making market trading and technology trading more efficient, greatly improving the efficiency of the trading activities and reducing market transaction costs. Therefore, space of the trading activities is enlarged and the development of marketization is promoted.

#### **1.3.2 Marketization is the Base of Specialization and Determines Specialization**

Specialization is resulted from exchange. Adam Smith pointed out that the division of labor "is a result caused slowly and gradually by a human tendency not aiming at the utility of the majority (pursued by people), this tendency refers to the disposition to truck, barter, and exchange". However, the degree of specialization is limited by the exchange capacity. Taking exchange capacity as the scope of the market, as the exchange activities and exchange relations constitute a market, the stronger the exchange capacity is, the greater the market radius is and the more extensive the market scope is.

In "Wealth of Nations", Adam Smith puts forward the view of "the division of labor is limited by the market scope", that is, only if the demand for a product or service has grown to a certain degree with the expansion of the market, can specialized producers occur and exist actually. With the expansion of the market scope, people will gradually or occasionally recognize the benefits of division of labor and specialization. As a result, the market monopoly will be broken, moreover, the reduction of the degree of monopoly and development of competition will reduce market transaction costs, which will encourage people to adopt the specialized strategies. The continuous expansion of the market scope provides an opportunity for the development of division of labor and specialization, and will determine their development condition.

### **1.4 Basic Means to Realize Specialization and Marketization**

#### **1.4.1 Means to Realize Specialization**

Specialization of China's exhibition industry is to be cultivated in three main areas, namely, "marketization of

the organization of exhibition project”, “marketization of the management of exhibition business” and “marketization of the system construction of the exhibition industry”. Firstly, the government exhibition market has become the focus of reform of the industry, and the exhibition of the government level should be operated by means of restructuring, breaking up, joint ventures, mergers and so on. Besides, property rights and management rights reform has become the focus of course, so the government should pay particular attention the loss of state assets in this process. Furthermore, the increased private and foreign companies have considerably changed the awareness and concepts of the main bodies. The marketization of the exhibition enterprises is mainly reflected in the construction of modern enterprise system, such as business organizations, business modes, management methods, human resources construction and corporate information transformation, etc.

#### **1.4.2 Means to Realize Marketization**

As the repetition of domestic exhibitions often takes place, exhibitors are less and less interested in attending the exhibitions. As a result, the exhibition is getting more and more depressed and number of visitors is diminishing, hence the specialization of exhibition needs urgently to be improved. Firstly, specialized exhibitions should be organized proactively so as to attract professional customers. Secondly, professional services should be provided to establish a specialty brand. Finally, we must earnestly cultivate and organize more professional visitors and establish a complete professional visitor database, to make exhibition marketing target-oriented and avoid “paying damages to make calls out”.

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## **2. SUPPORT FOR THE SPECIALIZATION AND MARKETIZATION OF THE EXHIBITION INDUSTRY: REGIONAL INDUSTRIAL CLUSTERS**

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### **2.1 Meaning of Industrial Cluster and Cause of Its Formation**

Industry cluster refers that an industry and its related enterprises of this industry as well as related social institutions cluster in an area of a certain geographical space and form the network structure of mutual association, cooperation and competition. There are three main characteristics of industrial clusters. The first one is the specialization of the industry and products. Industrial clusters are formed around a particular industry and are often connected with the local industries and products of a certain competitive advantage. The second one is the centralization of the regions. Industrial clusters are based upon the geographical adjacency instead of administrative regions. The relative centralized area is naturally

formed by the market mechanism and is economically coordinated and unified. The third is the network of market players which builds up the competing and cooperative relationship. The last is the spillover effect of cluster memory on knowledge. The rapid dissemination and diffusion of technological innovation makes the technological innovation quasi-public goods within the clusters.

In addition to the effect of the natural advantages of agglomeration force, the cause of industrial clusters lies in the pursuit of “external economies” and circumvention of the transaction costs. Industrial clusters aggregate associated products for production in a particular area in the form of clusters according to the plan so as to save production costs and transaction costs, which enables the individual enterprises within the region to get the competitive edge in the market and benefits the growth and development of the enterprises.

### **2.2 The Regional Industrial Cluster is the Economic Support of Exhibition**

Industry cluster is the basis for sustainable development of exhibition industry. An industry cluster whose role is to promote the process of industrialization and the rapid development of the regional economy has a coupling relationship with the exhibition economy. Industrial clusters can form the supply aggregation effect that realizes the gathering of professional workers, specialization of specialized investments and services, availability of supplier teams and a unique spillover characteristic. A large number of companies gathered in groups can also enlarge the market demand and enable a variety of specialized suppliers to survive and form a specialized network of suppliers. Regional industry cluster is the basis for sustainable development of exhibition industry, it can be concluded that the greater the effect of industrial cluster is, stronger and more stable the effect of the exhibition economy is. To develop exhibition economy in areas that lack of scale effect of the industrial cluster and concentrated factor of production is bound to result in untenable development of exhibition economy. For instance, the International Horticultural Exposition held in Kunming in 1999 was once momentarily sensational, but due to lack of support from relevant industry cluster, the Expo exhibition site could only be turned into an “attraction” but by no means has any coupling relationship with the horticultural industry and the flower industry cluster.

The exhibition is a representation of the industrial cluster. The spatial concentration of industrial clusters directly determines the location of the exhibition industry. At the same time, it brings about the aggregation of key elements and the industrial structure of the same industry. In this sense, exhibition activities with relatively concentrated time, space, and industrial elements is also one of the manifestations of the industry cluster. Many

of the world's renowned international exhibitions are adjacent to the industry clusters, or in the region of the industrial clusters. Hamburg is Germany's important economic and trade center where the five industrial clusters concerning mainly the aerospace, electronics, ships, precise mechanics and optical manufacturing, machinery manufacturing and chemical industry. On this basis, the exhibitions held there have fully embodied the advantages of local industry clusters, such as the International Electronics and Building Technology Exhibition, the Electronics and Building Automation Fair, the International Boat Exhibition, the International Shipbuilding, the Ship Machinery and Technology Exposition, International Metal and Plastics Processing Exhibition and so on. The Yangtze River Delta is one of the important economic zones in China, industrial clusters involving the machinery, chemical, automobile, pharmaceutical, environment protection, IT and other industries have formed in the region. As the economic center of Yangtze River Delta, the International Automotive Industry Exhibition in Shanghai, China International Mould Technology and Equipment Exhibition, China International Pharmaceutical Industry Exhibition and China International Packaging and Processing Exhibition also reflect the advantage of the regional industrial clusters (FANG, 2010).

### **2.3 Interactive Development Between the Exhibition Industries and Regional Industrial Clusters**

#### **2.3.1 Exhibition Industry is the Marketing Platform for Regional Industrial Cluster**

Industrial cluster is the geographical concentration of related businesses. Companies produce their products aiming at selling them in the market to realize their value, but due to the restrictions of time and space, information and resources, companies can not find the right buyer immediately when the products are finished. In order to sell their products out, enterprises must search for buyers and related information through some media. Exhibition is the aggregation of associated enterprises with same businesses in time and space within a cluster. In this platform, companies can display the features and functions of their products integrally, objectively and authentically and show corporate culture in all aspects by the modern means such as pictures, videos, booth layout to let customers learn more about the company's products and recognize the enterprise more deeply; the exhibition helps companies collect market information, conduct technical exchanges, seek potential customers, expand the corporate reputation, build the corporate brand and lay a solid foundation to expand their market scales. As the exhibition is characterized as centralized, intuitive, convenient and interactive, except the above advantages, it also significantly reduces the costs of market transactions like market search, information acquisition and contract

forming at the same time. Therefore, the exhibition is important marketing platform for the cluster and plays an important strategic role in the enterprise marketing activities.

#### **2.3.2 Exhibition Industry Promotes the Deepening of the Division of Labor and thus Promotes the Deepening and Development of Regional Industrial Clusters**

Regional industry cluster is the basis of exhibition industry in the stage of sustainable development, the development of exhibition industry can contribute to the deepening and development of industrial clusters. There is a coupling linkage between the exhibition and the industrial cluster. Exhibition, as a special form of the specialized market, promotes the deepening of the division of labor and then further promotes the development of industrial clusters. The longer the product value chain is, the more probably the technical process decomposes, while the closer contact the enterprises of different processes have with each other, the more likely the industrial clusters will be formed. Exhibition activity greatly reduces the coordination costs in the early division of labor and allows the development of division of labor among enterprises. Secondly, the information advantage of the exhibition promotes the sound development of industrial clusters in the region. The exhibition event brings together a large quantity of diversified information concerning production, supply and marketing and accelerates the spreading of new technologies, new products and new thinking. Through rapid feedback and delivery of these information and technologies, enterprises can see clearly and timely the change of market environment and capture favorable market opportunities. Besides, they can adjust the products structure and the corresponding inventory in time so as to avoid or reduce the losses resulting from the market changes and lead the direction, level and scale of industry cluster development. Finally, the exhibition activities can bring a free market environment of complete competitive which motivates and presses the cluster enterprises to improve their technology. Therefore, it encourages enterprises to accelerate the pace of technology development in order to ensure their market positions and constantly improve the management methods and product quality to reduce production costs, thus promoting the optimization of the products, technologies and corporate structure within the industrial clusters and promote restructuring and upgrading of the industrial cluster.

There are numerous examples of interactive development of exhibition economy and industrial clusters. The footwear industry with its related products in Jinjiang City, Fujian has become an important pillar industry. Since 1999, Jinjiang has organized the annual "Jinjiang International Footwear Exhibition" which has an extensive economic impact. "Jinjiang shoes" has become nationally renowned and plays an important role

to open the market for the local footwear manufacturers. While footwear manufacturers of the place are actively expanding the domestic market, they make full use of various means to establish an international “network” and participate and organize exhibitions in Germany, the United States, Hungary and other countries. Also by establishing the offices or marketing outlets at home and abroad, these enterprises succeed in expanding both domestic and foreign markets. All these consolidate and strengthen the development of the local footwear industry cluster and promote the interactive development of the exhibition industry and footwear industry.

### 2.4 The Development of Exhibition Industrial Cluster

The development of exhibition industrial cluster is reduced to the following three stages:

The first stage is the preliminary period for the development of exhibition industrial cluster, the scale of the cluster is small, and the cluster enterprises mainly concentrate on the core part of the industrial chain.

When it comes to the second stage, the cluster grows stronger and its competitiveness and brand image constantly improves. From the perspective of both subjective desire and the objective needs, the exhibition industry clusters must promote the creativity of the design

and innovation of service to a higher level. Accordingly, the emerging businesses and industrial sectors (such as professional exhibition institutions, personnel training institutions, etc.) stand out, the original core of the exhibition industry chain will change and the trend of longitudinal extension take place.

In the third stage, as the market demands for “exhibition products” are constantly changing, the division of industrial cluster should put more emphasis on “flexible specialization”, enterprises of the same part must be able to provide diversified and series of exhibition planning or services to meet different market segments, which contributed to the lateral extension of the single-industry links. It is through the above three stages that the exhibition industry cluster achieves its vertical and horizontal expansion. This development path is based on type of clusters neither of the natural endowments nor of the economies of scale. Instead, it emphasizes the production mode of “flexible specialization” to meet the various demands of the all kinds of exhibition consumer groups and create value. Exhibition industry clusters require more for knowledge sharing and mutual cooperation and set more serious requirements for functional integration and integration of resources, thus creating a “Chain Cluster” structure (WANG & GUO, 2011). As shown below:

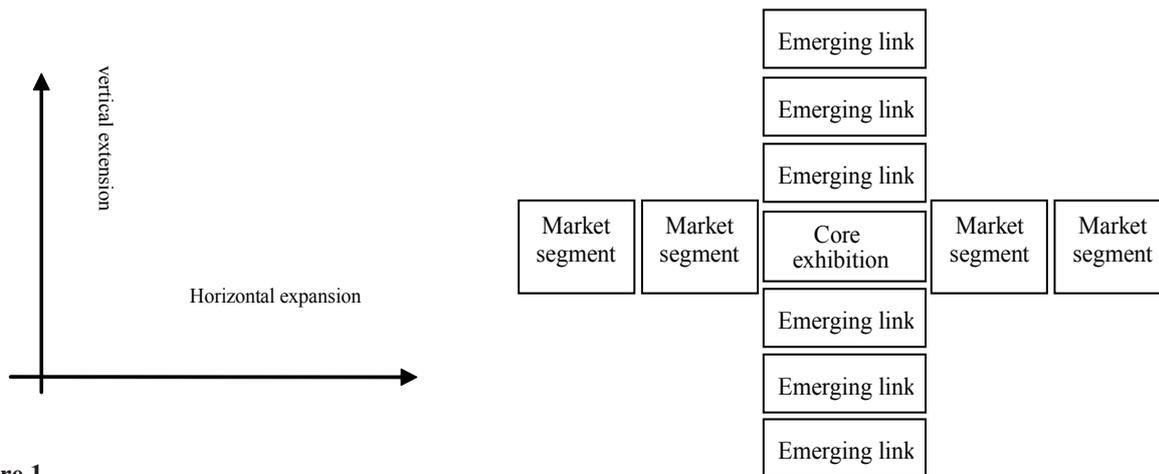


Figure 1  
“Chain Cluster” Structure of the Exhibition Cluster

## 3. THE CENTER OF PROFESSIONAL AND MARKETING DEVELOPMENT OF THE EXHIBITION INDUSTRY: MARKET OPERATING MECHANISM

### 3.1 The Meaning and Characteristic of the Exhibition Industrial Chain

The industrial chain is a cohesive relationship among the enterprises which is formed voluntarily in the market competition. It is to analysis the supply relationship

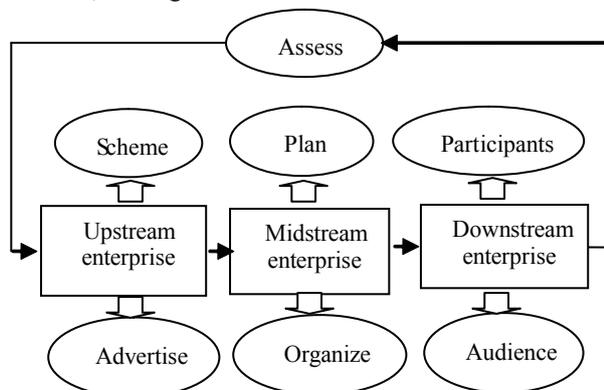
between the industries and conform the value ratio of input-output around the direction of production factors aiming at some industries. The amount of factor constitution, the size of control right, the length of chain and the thickness of chain decide the correlations among enterprise, the development tendency of industrial structure and interdependency and influences to other enterprises.

The main characteristic of the industrial chain has three points: The first one is the dependency of every link. The core enterprises and relative supporting enterprises in the industrial chain form complex and ordered network

relationship. In the process of integrative logistics extending, raw material, semi-finished products and production, supply, marketing and final consumption of finished products are connected with each other and none can be ignored. The second one is the integrity of value. The commercial value of industrial chain is created by every link of industry. It emphasizes cooperative relationship between the core enterprises and relative supporting enterprises in the downstream enterprises. It reflects the whole ability that the industrial chain creates values. The last one is the scope of economy. The size of enterprise can't be expanded without limits. The size depends on that the management fee is equal to marketing dealings fee. Therefore, the industrial chain can't be lengthen and widen freely without considering the ratio between costs. When pursuing the industrial sizes, the positive effect of scale economy is in the first places. If it is necessary the consolidation of enterprises in the industrial chain is allowed to reduce the transaction costs of market and gain the scale economic benefits.

### 3.2 The Inner Structures of Exhibition Industrial Chain

The exhibition industrial chain can be divided into three links including upstream, midstream and downstream. The upstream link of exhibition industrial chain treats the exhibition company as the center to form the specific business including the plan and development of exhibition, the implement of exhibition organization and the publicity of exhibition, etc.. The midstream link means the specific operation, organization and executor of exhibition project, i.e. generally speaking, it is the destination management corporation (DMC). The main involved venues are the exhibition of center, the lease and management of meeting and activity space, the maintain and updating of venue facilities and exhibition service, etc.. The downstream link of means the supporting department of exhibition activity including directly or indirectly provide service for professional conference organizer, DMC, exhibitor and audience. The flow chart of exhibition activity is as followed, see Figure 2:



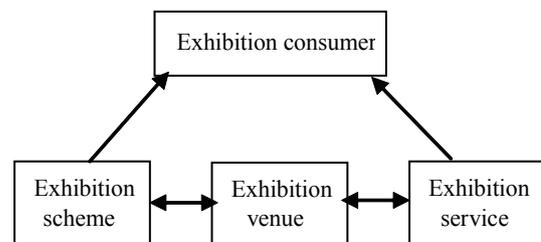
**Figure 2**  
**The Flow Chart of Exhibition Activity**

### 3.3 The Tactic Pattern of Exhibition Industrial Chain

It doesn't mean the finality of exhibition activity when exhibition activity has passed upstream, midstream and downstream. Because every exhibition activity must be assessed in order to make exhibition activity go ahead and develop continually and then find problems and sum up experience. The upstream, midstream and downstream links in the exhibition industrial chain assess the exhibition activity results, which make up the main activity contents of exhibition industry and show the main process of exhibition activity from scheme and publicity in starting stage, plan and organization, coordination and canvass in implementation phase to assessment and recuperative in control stage.

PCO is the main link in the exhibition industrial chain and forms the professional division. As the representative venue of DMC, PCO is the expanding platform of exhibition activity. The exhibition enterprises and relative supporting enterprises in the industrial chain close to each other in a certain areas, which is convenient for participants (exhibitor and professional audiences) and common audiences to visit, increase the overflow benefit of enterprise, reduce the search and delivery cost of information. The undertaking organization use industrial connective effect to forge exhibition brand and promote exhibition economy to grow stronger and stronger.

The key exhibition industrial chain includes exhibition scheming, exhibition venue, exhibition service and exhibition consumption, etc., fore links. These links doesn't present "linear" range of traditional industrial chain but present the structure of "sector" (WANG & GUO, 2011). The specification is shown in the Figure 3. Therefore, for the traditional industry the finished product links will face the final consumer, but for exhibition industry every links in the industrial chain must face the exhibition consumer (exhibitor, professional audience and participants). Only when all these links reach the function integration and resource integration the whole exhibition industrial chain can become clear and powerful, and the creation of value can be realized.



**Figure 3**  
**The "Sector" Structure of Exhibition Industrial Chain**

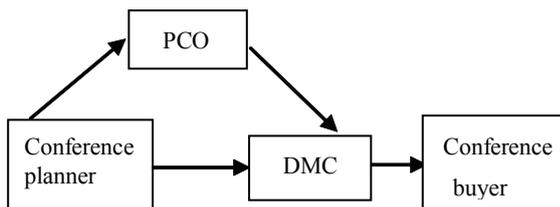
### 3.4 Market Operating Mechanism of Exhibition Industrial Chain

#### 3.4.1 Participated Subject of Exhibition

The participated subject of exhibition generally includes government, exhibition planner, professional conference organizer (PCO), exhibition company, conference handle agent (CHA), destination management company (DMC), exhibitor, conventioneer, audience and other intermediary organization.

#### 3.4.2 Market Operating Mechanism of Conference Industry

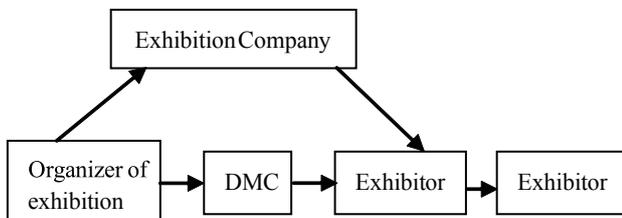
The conference planners sell conference products to PCO, and PCO organizes the buyer of conference (participants) to buy products, and the receiving link is accomplished by DMC. Now DMC can directly communicate with the planner of conference and sell the conference products. Therefore, we say that now the DMC undertakes some responsibilities of PCO. The market operating pattern which is made up by every subject in the conference market is shown in the following Figure 4:



**Figure 4**  
Market Operating Mechanism of Conference

#### 3.4.3 Market Operating Mechanism of Exhibition Industry

The organizers sell the exhibition products (originality, theme and brand) to exhibition company, and exhibition company organizes exhibitor (the buyer of exhibition products) to buy products. The organizers need to organize audiences in order to attract exhibitor, and the reception will be done by DMC. Now DMC directly communicates with organizers and even organizes the exhibition by themselves and sells the exhibition products. Therefore, we say that now the DMC undertakes some responsibilities of exhibition company. The participants' mechanism of different subjects in the exhibition market is shown in the following Figure 5:



**Figure 5**  
Market Operating Mechanism of Exhibition Market

## CONCLUSION

With the continuous and rapid growth of our economy and the further reinforcement with every country from the world about economy and trade association, our country's exhibition industry enter into a new stage of rapid development and generally is formed (Rose Yan, 2011; XIONG, 2011). With the increase of our exhibition industrial professional standard and the deepening of marketing degree, by positively building region industrial cluster and grasping scientifically market operating mechanism, a number of international famous brand exhibitions will appear to make our country become "exhibition powerful country" from "exhibition big country".

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