

APPAREL INDUSTRY

- The Future Scenario -

Ranjith Tennakoon

Director Clothing Industry Training Institute and Textile Training & Service Centre

The Apparel Industry that recorded a meagre Rs. 60 Million export value in 1976 has increased it to a mammoth Rs. 143 Billion in 1998. This growth is phenomenal and unmatched in the entire history of the industrial sector of Sri Lanka. However during its passage to dominance in the economic development of Sri Lanka it also became a totally import dependent, quota driven industry.

4. Operation through buying houses.
5. Emergence of joint venture partnerships.
6. Tax and other concessions and incentives.
7. Virtual freedom from Trade-Union activities.
8. Acquired lobbying power, being a dominant contributor in economic activity.
9. Ineffectiveness of monitoring mechanisms on import/export procedures, EPF / ETF payments,

YEAR	VOLUME (Mn Pcs)	GROWTH %	VALUE (Rs. Mn)	GROWTH %	VALUE (US \$ Mn)	GROWTH %
1976	4.11	-	68.91	-	7.78	-
1980	51.51	51.68	1808.43	63.88	100.47	40.61
1985	156.16	3.65	7700.76	4.65	283.00	1.07
1990	212.43	14.70	24932.83	47.59	623.32	33.01
1991	241.85	13.85	31626.72	26.85	764.48	22.64
1992	315.77	30.56	49176.02	55.49	1121.91	46.75
1993	362.59	14.82	62349.12	26.78	1292.21	15.17
1994	413.56	14.06	68944.80	10.58	1395.22	7.97
1995	447.75	8.26	84828.91	23.03	1685.19	18.63
1996	471.60	5.30	93813.00	10.59	1697.30	1.93
1997	NA	-	121083.00	29.06	2052.47	20.92
1998	NA	-	142324.00	17.54	2192.97	6.84

Source - Sri Lanka Customs

By any standards it has shown a remarkable dynamism and efficiency within the present "Status quo". The industry now faces a new set of challenges mostly forced upon it by external forces. Thus before developing a strategy to face the challenges it is essential to understand the present position of the industry.

The present status quo has the following general characteristics.

1. Existence of a Quota regime.
2. Total dependence on foreign sourcing
3. Effective utilisation of quota particularly hot categories.

working conditions, and other employee related issues.

10. Other factors that are insignificant yet exist in tangible or intangible form.

Changing Scenario

The present status quo represents a dynamic equilibrium of ever changing factors rather than a static set of conditions. These factors can be looked at as of having varying degrees of uncertainties and the new conditions constantly shifting the balance towards the negative side. Therefore it is imperative

that the industry make suitable adjustments all the time to maintain the equilibrium.

Nevertheless, it is clear that some of the conditions may remain static for a foreseeable future. They are,

1. Import dependence for raw material (fabric etc.)
2. Tax and fiscal incentives.
3. Other contributory factors.

Some other conditions will undergo changes on the negative side, from apparel industry's point of view. They are,

1. Increased Trade Unionism.
2. Diminished Lobbying power.
3. More effective monitoring systems.

The conditions listed below may change or develop on the positive side.

1. Better utilisation of Quota.
2. Direct exports and joint venture partnerships.
3. Partial backward integration.

However the most significant of all the conditions, viz. "Quota System" will be non existent by the year 2005. It is in this context that the industry should look at the future.

Future Threats

Industry as at today has already begun to get the feel of the fierce competition that lies ahead. In addition to an already tense situation external forces are introducing a new set of conditions such as

1. Quality issues (ISO 9000).
2. Environmental issues (ISO 14000).
3. ECO - Labelling
4. Textile Magna Carta.
6. Formation of Economic and Trade groups.
7. Codes of conduct for manufactures. that make the threat real.

Nothing Fails Like Success

"In evolution, (the saying) "NOTHING FAILS LIKE SUCCESS" is probably always true. A creature which has become perfectly adapted to its environment, an animal whose whole capacity and vital force is concentrated and expounded in succeeding here and now, has nothing left over with which to respond to any radical change. Age by age, it becomes more perfectly economical in the way its entire resources meet exactly its current and customary opportunities. In the end it can do all that is necessary to survive without any conscious striving or unadapted movements. It can, therefore, beat all competitors in the special field; but equally, should the field change, it must become extinct." - Arnold Toynbee.

It is perhaps ironic that the clothing industry has similarities with the above statement and in there lies the threat.

The growth of the Apparel sector during the last decade has been phenomenal and the other sectors for whatever the reasons could not keep up with this pace and the end result is over dependency of the export economy on the Apparel sector.

The above table shows the level to which the Sri Lankan economy has become dependent on the Apparel sector.

The apparel industry not only dominated in the economic sphere but also in the sphere of employment by becoming the largest single employment provider in the industrial sector by employing over 275,000 persons. With the 200 Garment Factory Program and the recent 50 Garment Factory Program, hitherto western province bias employment opportunities were made to cascade down to other provinces thus exposing the economic benefits of the sector to other areas.

Over Dependency on the Clothing Sector

Year	Total Exports	Industrial Exports Value US\$MN	%	Textile Exports Value US\$MN	%	Clothing Exports Value US\$MN	%
1990	1904	1032	54.2	11	0.6	820	32.6
1991	1933	1192	61.7	19	1.0	743	38.4
1992	2337	1680	71.9	45	1.9	1069	45.8
1993	2784	2047	73.5	65	2.3	1258	45.2
1994	3174	2372	74.7	78	2.5	1379	43.4
1995	3613	2721	75.3	88	2.4	1569	43.4
1996	3993	2936	73.5	98	2.5	1854	41.4
1997	4639	3436	72.6	120	2.6	2052	44.2
1998	4735	3544	74.8	123	2.6	2193	46.3
1999	1631	1229	75.4	35	2.1	768	47.1
Jan-May							

Source - Central Bank Reports

Geographical Distribution of Garment Factories

DISTRICT	TOTAL IN NO'S	IN %
Colombo	342	38.4
Gampaha	234	26.3
Kalutara	62	7.0
Kandy	28	3.1
Matale	8	0.9
Nuwara-eliya	18	2.0
Galle	27	3.0
Matara	16	1.8
Hambantota	8	0.9
Vavuniya	3	0.3
Batticaloa	2	0.2
Ampara	4	0.4
Trincmalee	2	0.2
Kurunegala	38	4.3
Puttalam	22	2.5
Anuradhapura	14	1.6
Pollonnaruwa	7	0.8
Badulla	13	1.5
Monaragala	7	0.8
Ratnapura	17	1.9
Kegalle	19	2.1
TOTAL	891	100.0

Source - Ministry of Industrial Development - IQB - 1998

In such a scenario it is essential that the dynamism of the sector is maintained and measures are taken to face the challenges it has to overcome after the abolition of the MFA in 2005. This quota free era could be termed as a "Black Hole". It is not meant to scare anyone off but to denote the fact the industry is entering into an unknown or an uncharted area where no one could predict accurately what really would happen. In real terms the integration of MFA to GATT/WTO rules challenges the very foundation on which the Sri Lankan apparel industry

is built. There is no need for panic but there certainly is a need to get exited and draw the resources at our command to counteract the ill effects if there are any.

There are two options available. Just wait or work out a strategy? Just wait may be disastrous and therefore the best option is to work out a strategy. The strategy adopted will depend on the trends particularly, the Megatrends of the industry.

The Megatrends in the Apparel Industry

The Megatrends in the apparel sector can be divided into Retail Megatrends, Manufacture Megatrends, Contractor Megatrends and Industry Megatrends.

Having identified the Megatrends the next logical step is to identify the broad strategy to face a quota free regime. The above mentioned Megatrends can be summarized in the following manner. (There are various other ways of summarizing)

The trend is Just-In-Time production concepts where the buyers minimize the "fashion risk" by placing the orders "closer to the season" and in smaller quantities thus transferring the financial risk to the manufacturer which demands a different and a more efficient linkage between the fabric suppliers, contractors, manufacturers and retailers.

This is not just a local scenario but an international concept. In more simple terms it means that orders are going to be smaller, lead times demanded are going to be shorter, buyers wanting not just a simple product from the manufacturer but a complete "on line service". In fact it will be a totally different relationship based on Quick Response Techniques. The QR, as normally misunderstood is not a question of responding quickly but a concept that involves the reorganization of production, marketing and inventory management operations to create closer, and more efficient linkages between fabric suppliers, contractors, manufacturers and retailers.

Having identified the "new math" of quick response as the order of the future it should be used as the base to develop the strategy. What is logical now is to do a SWOT analysis starting from identifying the opportunities first and then following the other three components.

Having accepted the future as described above then the strategy should be developed taking into consideration the following factors.

Product Development- to perform creative process in less time

Manufacturing Technology- to reduce cost, improve flexibility and enhance quality

Information Technology- to manage business efficiently

Communication Technology- to improve the speed and accuracy of information

Additional Capabilities- to provide services for the customers

Of the factors listed above the product development and the manufacturing technology are the two vital factors that should be dealt immediately. The industry should take immediate steps in the following areas in order to be competitive in a global environment.

Product Development

Quick creation of designs and style variations

Creation and refinement of colours and its variations quickly

Making of patterns for samples and graded sets for production expeditiously

Production of realistic, colour true sketches for consumer style testing and customer interaction

Key Issues of Manufacturing Technology

1 Reconfiguration of manufacturing process to remove high levels of work in process, and batch processing, in order to achieve rapid throughput and execute short cycle.

Technology to be considered

Unit Production Systems, Modular Manufacturing and Straight-Line assembly.

2 Upgrade the skills of upper and middle management to use the "new" manufacturing environment.

3 Automation of predictably repetitive operations to allow cost reduction, quality improvement. However care

District-wise distribution of employment

DISTRICT	EMPLOYEES IN NO'S	%
Colombo	79,675	28.8
Gampaha	86,029	31.1
Kalutara	15,825	5.6
Kandy	7,841	2.8
Matale	2,211	0.8
Nuwara-eliya	7,004	2.5
Galle	10,828	3.9
Matara	4,838	1.8
Hambantota	3,822	1.4
Vavuniya	634	0.2
Batticaloa	787	0.3
Ampara	1,806	0.7
Trincomalee	919	0.3
Kurunegala	14,482	5.2
Puttlam	7,916	2.9
Anuradhapura	7,817	2.8
Pollonnaruwa	2,809	1.0
Badulla	4,262	1.5
Monaragala	2,297	0.8
Ratnapura	8,322	3.0
Kegalle	7,097	2.6
TOTAL	276,821	100.0

Source - Ministry of Industrial Development (TQB) - 1998

should be taken to choose investment areas not likely to be influenced by changes in style, construction and manufacturing process.

Technology to be considered

Belt Loop Attaching

Folding, Polybagging

Continuous Fusing

Pocket Creasing

Programmable Sewing

Piped Pockets with Flaps

4 Decrease sourcing time by bringing certain "out sourced" services in house or identify and form linkages with providers who can respond quickly.

The other factors mentioned in the list also have a significant influence in determining a winning strategy. It is important that the industry on its own develop strategies to suit their specific requirements rather than waiting for others including the government to do it for them.

It is equally important to consider the "new world" order in working out the strategy in that as the world moves towards regional groupings and co-operation traditional bonds will eventually disappear or play a less significant role. The threat therefore is likely to come from far away places than from places closer to home. While it is true that countries like India, Bangladesh, Pakistan, Vietnam, Cambodia, Laos etc, etc would pose a threat, yet it is very likely that the real threat will come from Latin and Central American, Caribbean, East European, North African countries not only due to proximity to the American and European markets but also due to geo-political considerations. The end game should not be that while we are trying to counteract regional competition and follow the strategies adopted by them, we miss the woods for the tree.