

GARMENTS PRODUCT MARKET - BEYOND 2005

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The apparel industry which had small beginnings in 70's had grown and since 1986 became the leading exportable product of Sri Lanka replacing the traditional exportable products of tea, rubber and coconut.

The sector has around 900 manufacturing units providing direct employment to around 300,000 persons.

The industry had a dramatic expansion during the last 20 years. The export earnings which were Rs. 69 million during 1976 has risen to Rs. 142 billion during 1998. The dramatic growth can be attributed primarily to the availability of quota's, comparatively cheap labour (U.S. \$ 0.41 per hour), policies of liberalisation, tax concessions and incentives.

The export value for the period 1990-1999 (Jan. - May) were as follows:

U.S.A. is our largest market right

Year	Value (Rs Bn)	Value (US\$ Mn)
1990	24.9	623.32
1991	31.6	764.45
1992	49.2	1121.91
1993	62.3	1292.21
1994	68.9	1395.22
1995	84.8	1655.19
1996	93.8	1677.31
1997	121.0	2052.59
1998	142.3	2203.60
1999 (Jan/May)	53.0	767.57

throughout and accounted for 64% in 1998, followed by E.U. - 31% (Mainly -U.K. - 18%, Germany - 5%, Belgium/Luxemburg - 2%, Netherlands - 2%, France - 2%). The balance 5% of the market is distributed among other countries (Canada - 1.7%, Japan - 0.4%, Australia - 0.4%, Switzerland - 0.2%).

Although the apparel industry is the leading export earner in Sri Lanka, the industry is heavily dependent on imported inputs such as fabric and accessories. The industry's requirements of over 90% of fabric are imported.

The import values for the period 1990-1998 were as follows:

Year	Value (Rs Bn)	Value (US\$ Mn)
1990	17.0	426.0
1991	25.3	612.0
1992	34.8	795.0
1993	44.5	922.0
1994	54.8	1110.0
1995	63.4	1237.0
1996	67.4	1220.0
1997	82.0	1442.0
1998	90.0	1395.0

International Trade

With the quantitative restrictions perpetrated by the Multifibre Arrangement (MFA) coming to an end, the World Trade Organization (WTO) which replaced the GATT has ushered in a restriction - free world trade. The Agreement of Textile & Clothing (ATC) as part of the GATT '94 has set out a time period of 10 years from 1995 to 2004 for the phase-out of

MFA Quotas and integration of textile and clothing trade into WTO framework which replaced the GATT. Under the quota regime, Sri Lanka has enjoyed relatively assured export market for garments through bilateral agreements with US, EU, Canada, Norway, Sweden, and Finland. The comparative advantage which Sri Lanka enjoyed in skilled labour, availability of quota's, policies of liberalization, strategic location etc. have been its core-strength. With the phase-out of MFA quota's the garment exporting countries will be competing intensively with each other for market share without the protection of Bi-lateral quota system. The tangible and intangible competitive dimensions, therefore, are likely to come on centre-stage. As such it is opportune to examine more closely the comparative advantages which have so far made Sri Lanka's garment exports the flagship of Sri Lanka's export trade and assess whether these comparative advantages are sufficient to measure up to increasing competition.

Though Sri Lanka has emerged in the forefront of Asian garment exporting countries, the low market share in World Garment Exports - of around 1 per cent, inadequate unit value realisation, lack of sufficient presence in better retail channels, high dependence on imported raw material and aggressive entry by other Asian Competitors call for a new strategic approach.

The need for a new strategy makes it necessary for Sri Lanka to understand the expectations and satisfaction levels of various importer segments vis a vis the competing countries to prepare for the future. The formation of regional blocks like EU and NAFTA and the emergence of non-tariff barriers through social and ecological issues are bound to affect Sri Lanka's growth in exports and further exert pressure on the prices of garments.

The current trend of the textile and clothing sector moving from high-wage economies to those with lower wages, is already taking place for example in Bangladesh, Vietnam etc. is a good indicator for Sri Lanka, as the country's large part of skilled labour force and low wage rate which could match any competing countries. However, abundant labour alone is not enough any more to sharpen competitive edge in garment exports. The range of fabrics, delivery speed, quality, productivity of labour and comparative prices are the elements to provide competitive advantage. It is essential to use the current transition period for upgradation of our comparative advantage while developing sustainable competitive advantages to help in enhancing market share, achieving growth and profitability.

Further there are number of positioning distances that have to be bridged before the route to competitive advantage can be traversed. Few major positioning distances are given below. (Chart 1)

Most important however, is the attitudinal change that has to be brought about. The current 'Q' viz - QUALITY. "QUOTA" driven mentality has to be replaced by another 'Q' viz - QUALITY. The quality has to be consistent and timely delivery should be recognised as a top important factor. Price has to be converted into providing value to the consumers. "Speed" is of crucial importance in the times ahead with the lead-time being gradually reduced.

In addition to above changes, in order to enable the industry to overcome the challenges of Post - MFA - world clothing scenario, several steps need to be taken at the macro and micro levels as the Post - MFA period is going to pose considerable challenges for many of the clothing exporting countries and companies as they will have to operate in a multilateral framework of free trade facing intense competition after the MFA - phase out.

Chart 1

Current	Ought to be
INFRASTRUCTURE	
- Short-term approach to investment and planning	- Long-term approach to Investment and Planning
- Owner driven	- Professional management
HUMAN RESOURCE MANAGEMENT	
- Lower level skills	- High level skills
INBOUND LOGISTICS	
- Delayed delivery	- Timely delivery
- Quality control	- Fabric & garment quality assurance
OPERATIONS	
- Lack of specialisation in products	- Specialisation in products
- Emphasis on price	- Price - Quality competitiveness
- Quality control	- Total quality management
SERVICE	
- Low supplier reliability	- Reliable supplier
- Information gap	- Timely & continuous information
- Unpredictable	- Predictable
MARKETING AND SALES	
- Tactics	- Strategy
- Merchandising	- Marketing
- Quota driven	- Ability driven
- Buyer driven	- Market driven
- Tailor approach	- Creative apparel marketing approach
- No channel focus	- Channel focus

Competitive Strategies

The changes needed to improve competitiveness in the global market beyond 2005 are given below.

Backward Integration

Due to lack of modernisation and technological advancement in the textile-manufacturing sector the garment industry has to depend for its requirement on imported fabric. Therefore to be competitive backward integration is necessary, but it requires high capital expenditure - is around US\$ 25-30 mn. In Sri Lankan terms this is a huge investment. Therefore it is prudent for Sri Lanka to concentrate from processing stage onwards and import grey fabric from abroad. Given proximity to Asian producers fabric can be sourced with minimal lead-time. Joint ventures,

strategic alliances, etc. will be ideal if can be so arranged.

Export Alliance

A group of small/medium sized companies with not so unique products and only limited funds available for export market development can form an export alliance. This group of entrepreneurs exporting can exploit the market much more professionally than an individual. In addition they can benefit by sharing the very heavy marketing expenses and the orders received from buyers.

Product Quality

As the cost of fabric constitutes a major share in the unit cost of garments, a great deal of attention has to be paid for quality controls at the fabric level. An integrated approach in quality assurance in the process

from fabric to garments can be a powerful tool in using quality as a differentiation strategy for competitive advantage.

Management of Lead Time

Lead-time taken by Sri Lankan exporters i.e. Around 60-120 days is a major deterrent to Sri Lankan exports. To be competitive the lead time should be reduced to around 30-60 days. There is need for planning and programming from the stage of fabric sourcing onwards to production of finished garments apart from controlling logistics. Management of lead-time offers considerable opportunity for developing 'competitive advantage.'

Enhancement of Productivity

The abundant inexpensive labour has to be supported with enhanced productivity. Productivity improvement plans and systems for enhancing productivity have to be achieved to increase competitiveness. Productivity will be one of the critical factors in securing competitive advantage in the future.

Higher Value Garments

The Sri Lankan exporters will have to target middle and upper level market and enhance the unit value realisation considerably to develop competitive advantage for the industry as a whole. The top exporters will have to move from the "Export Marketing Mode" to "International Marketing Mode".

Reduce Dependence on Quota Markets and Primary Product Group.

There is a need for exporters to reduce their dependence on quota markets and primary product groups. Sri Lanka's current dependence on these markets - USA, EU, Canada and primary product groups - such as shirts, trousers, T-shirts, blouses, jackets etc. is high.

Upgrading Technology and Technical Expertise

Though Sri Lankan labour is abundant, its skill level in the operation

of high speed modern machines is insufficient. Intensive training on these machines are necessary. In addition there is an acute weakness in management skills especially in middle and lower level organisations. These too have to be developed. More skilled staff and continuous training for them can help enhance production level but its importance is generally overlooked by many enterprises.

Communication

It is necessary to highlight the success stories of Sri Lankan garment exporters in the destination markets through a well-co-ordinated publicity and advertising campaign. Owing to insufficient communication in general about the impressive strides in the progress of the clothing industry in Sri Lanka there is hardly any appreciation of its higher potential and value at International forums where garment leaders meet. Launching of an advertising campaign projecting 15 or 20 garment exporters over a period of time could help bring about substantial perceptual change in target markets.

Channel Selection and Specification

The exporters also need to specialise in some specific outlet channels or retail stores by developing relationship marketing with the buyers.

Design and Product Development

To secure orders exporters will have to take designs to buyers. They will have to actively sell their products and develop their capability to turnout products required by the buyer. Hence the capacity to design also begins to play a role. Sri Lankan designers working in close collaboration with designers abroad or strategic alliances with designer groups or participating in famous designers shows abroad etc. can develop enhance their 'creativity' and 'design'. Product develop-

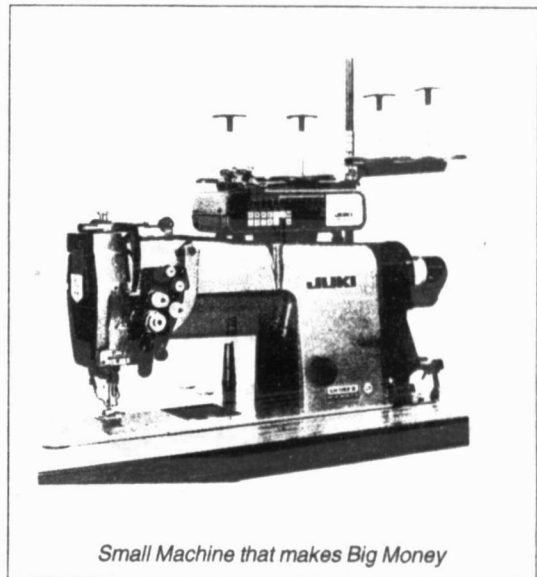
ment with the help of all sophisticated tools available today should not be ignored. In this, computers and electronic communication can help to reduce the cycle of time.

Fashion and Market Information and Order Tracking

Improving the level of information availability is an important factor in building competitive advantage. Timely fashion and market information is vital. There is also need for continuous information flow on tracking of purchase orders, production scheduling, progress of raw material sourcing and other related aspects.

Quick Response

Quick response concept, is the very backbone of an apparel supplier. It is said that potential sales are lost due to a party's inability to supply the products of desired size, style or colour. The lead-time taken has already been cut by 50 per cent compared to a decade ago and in the next ten years this will be further shortened dramatically. This need for quick response is likely to trigger off a spate of innovation in the coming years and the enterprises must gear themselves to adopt them.



Small Machine that makes Big Money