

How to deal with new challenges?

Economic, technological and social aspects of the textile and clothing industry

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ABSTRACT

Economic, financial and political development has strongly influenced on the textile industry, which accelerated the pace of change. In order to catch the pace it is necessary to take certain steps now or in the near future. The Far East countries record high economic growth, while other, mostly developed industrial countries growth has considerably declined. Consumer behaviour tends to restrain from purchasing of clothing products, raw material prices are growing and lack of raw materials on the market is noticeable. These trends are causing a certain amount of restlessness in the textile industry. The textile and clothing industry have their distinctive features visible in a manufacturing sector which dominantly depends on brand name firms that spread their business all over the world. Production mainly takes place in developing and fast growing countries, since their production destinations, working conditions and wages are most affordable. For example, about 90 % of clothing items sold in northern countries are produced in Eastern Europe or at the Far East. At the same time, in the northern countries, where most of clothing products are sold, manufacturing facilities of the clothing industry almost doesn't exist.

KEYWORDS

Globalization, market liberalization, production relocation, working conditions, business environment, consumer behaviour

INTRODUCTION

The OECD (Organisation for Economic Cooperation and Development) signify globalization as an enhanced development of strategic international co-operation of companies, where activities spread throughout the world due to total liberalization. When it comes to the clothing industry, especially clothing industry in Europe, a globalization approach was almost fatal causing work cessation of many manufacturers, drastically reducing number of employees and cutting production prices to the ultimate limits. Regarding to phenomenon of production relocation, in Germany nine of ten garments come from abroad. Unfortunately, the similar situation is in Croatia, where the strength and impact of the domestic textile industry are declining. Economic, financial and political development has strongly influenced on the world of fashion and the textile industry. Those events accelerated the pace of change, where in order to catch the pace of change

it is necessary to take certain steps. While the Far East countries record a boom in economic growth, developed industrial parts of the world record decline in economic growth.

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The textile and clothing industry have their distinctive features visible in a manufacturing sector which dominantly depends on brand-name firms that spread business all over the world. Production mainly takes place in developing and fast growing countries where working conditions and wages are most affordable. About 90% of clothing items sold in northern countries are produced in Eastern Europe or the Far East. At the same time manufacturing facilities of the clothing industry in northern countries almost doesn't exist and the textile industry (especially clothing industry) belongs to the most globalized manufacturing sectors. Most of the production takes place in developing countries or transition countries where production factors like location, pay and working conditions are more favourable. In the 1970s, millions of working places were moved from industrial countries to less industrial developed countries. In many of those less developed countries, free industrial and customs zones have been created with great benefits in terms of building adequate infrastructure, electricity and water costs subventions, tax benefits and free profit transfer guarantee. These benefits attracted many producers who have abandoned traditional production in their domicile countries and joined the global market trends. This was done under the assumption that free zones will help in development of structurally weak regions, reduce unemployment, stimulate the development of the domestic industry and provide education to the new work force. Economic analysts claim that the expectations of establishing free zones have yielded results only in China.

The global companies speeding up globalization and fast change of fashion trends creates strong competitiveness among renowned manufacturers. Large companies with famous brands distribute work through their license agreements with their sub-licensors. Sub-licensors then arrange a production contest in order to get the best offer.

The most important benchmarks for companies are low wages, quality and accuracy in delivery. It is evident in the clothing industry, especially in the fashion sector, that production time and reaction to trends are drastically shortened. What appears in the Paris or Rome as a new trend, can be found only two weeks later as a cheaper copy on the H&M or C&A shelves. In the meantime, fashion products come closer to nutritional products by their *perishability*.

It should be pointed out that pressure on time and price creation in the clothing industry is largely transferred to workers. Namely, in the textile and clothing industry around the world, 80% of workers are women. Along with that, there are more and more reports about inhuman work conditions. This is not just the trend in clothing industry. Under similar conditions most of present world fashion industry takes place.

It should be pointed that the price of raw materials for the textile and clothing industry has recently dramatically increased. In textile professional circles, this imposes to be one of the biggest problem for future of the industry. Beside the raw material prices increase, it is estimated that even three million tons of cotton in the world markets is lacking. Similarly, big difficulties are caused by increase of the chemical fibres prices, such as polyester and polyamide fibres. Also, prices of chemicals, necessary for chemical fibres production, increase when purchasing of chemicals occur. Practice has shown that raw material markets change which leads to final product price increase. Unfortunately, manufacturers have the less benefits of price increase, respectively manufacturers are due to the variety of circumstances almost at the last gasp.

WHAT IS THE SITUATION WITHIN THE EU?

Textile and clothing industries within the European Union have experienced strong structural changes in line with global trends. Structural changes have been forced by several factors. Namely, reducing production in domicile countries, relocation of production abroad and sharp competition. The industries searched a way out of this situation with new production paradigm, such as production of high-tech and technically demanding textiles, by focusing on innovations and brands thereby closing the circle of new consumers. We can see mentioned trend on the example of leading textile and clothing industry within EU. In Germany, the strongest economic force of Europe, the second largest consumer goods industry is the textile industry (predominantly made up of small and medium-sized enterprises) right after the food industry. Based on international comparisons, Germany takes third place by textile products export, after China and Italy. German imports take second place, right behind the USA, who is the world's largest importer. The total textile industry share in the total exports of the German manufacturing industry is approximately 2.5%. Mainly, it is the result of the technical textiles export (where Germany is the leading country) and less export of garments. This is warning to the German textile and clothing industry, which needs to fully focus on further strengthening their competitiveness and exploiting their technical and technological advantages. Enlarged European Union certainly provides additional opportunities for clothing industry to set up manufacture and transport of goods differently. This is primarily related to production destinations, geographical proximity, short delivery times and traditional co-operation between suppliers and users in the European economic area. It turned out that only the low prices achieved in the Far East countries cannot compensate all necessary factors needed for the survival of textile and clothing industry.

THE CLOTHING INDUSTRY IS MOST DAMAGED

Structural changes can be expressed in numbers. Overall production between years 1991 and 2010, fell down by about 70% in terms of value. The clothing industry even declined by 85%, while the remaining textile industry suffered losses of about 50%. The unfavourable trend continued in the years that followed. In these relations, number of production factories and the number of employees decreased. The most significant decline is visible in the clothing industry.

In the European Union there is still active a large number of textile, clothing and footwear companies. More than 3 million people are employed, mostly women, who participate in European Union GDP growth by about 2,3%. Painful fact is, that there is only 1,1% of added value in the real economy sector, where the highest added value was achieved in Italy, followed by Germany, France, Spain and the United Kingdom. Added value in other countries significantly lags behind.

From the economic and social point of view, it is important to note that small and medium enterprises are predominantly present. The enterprises count about 74,5% of total added value and employ 75,3% of total number of workers.

Productivity measured by earnings per employee, however, makes only half of the income earned by workers within the EU manufacturing activities. One thing needs to be pointed, textile production in the EU is kept only where labour costs are between 20-30% of total costs, where production is set up in four shifts and workers control and serve production process (such as spinning, weaving and knitting), or where the finished product can bear higher costs like technical textiles and textile production for automotive industry (like upholstery).

INFLUENCE OF TECHNICAL AND TECHNOLOGICAL INNOVATIONS

In the highly developed countries, *Cut the cost* catchword rules in all areas, especially in the area of labour costs. According to that, technical and technological actions take places in two forms:

- Replacing manual operation through mechanization and automation
- Production innovations for speeding up production.

Both forms are more stressed in textile than in the clothing industry. In the last two decades, extensive production innovations have been introduced, particularly related with spinning and weaving machinery. Those innovations, however, didn't lead to new restructuring of production destinations, but they contributed to a significant increase of productivity but also lead to noticeably reduction of jobs and employment. Contrary to that, clothing industry had noticeably less process innovations. In clothing industry, 80% of the labour cost are still related with sewing and manual assembly of garments, without automation or robots that would significantly contribute to increased productivity. The most important innovations in the clothing industry are related to the production flexibility with speeding up goods trade and invested capital. Good example is Benetton Group S.r.l., where from the centre of this group (the northern part of the Italy) a direct on-line connection to all Benetton branches around the world is ensured by computers. The EPOS (electronic point of sale system) monitors demand trends and provides a just in time purchasing system. The savings are great, and represent good example of management process in terms of business globalization and internationalization.

Nevertheless, new changes will come and shake the textile market again. Textile production in China has become considerably more expensive in recent years. The annual textile worker earnings in 2005 amounted around 16,000 yuan, in 2011 amounted to 37,000 yuan with a tendency of further increase. At the same time, domestic demand for clothing and footwear products is rapidly growing, primarily due to the rapid growth of so-called *middle-class*.

EARTHQUAKES ON CLOTHING INDUSTRY SCENE

Declining of garment sale is highlighted trend that is hard to stop. Selling spots are therefore trying to attract buyers with the attractiveness of interior design. Also the most famous brands do the same, since their sale decreased too. Frank Werres from P&C, international chain of retail clothing stores, says "We found new spaces inside sales facilities to make a consumer more emotional". The famous retail clothing stores does it for a reason, they claim the point is in the fashion messages "Always overwhelm, always inspire the customer..."

In short, retail clothing stores are simply forced to bring new ideas to stimulate consumption. "At the moment, so-called *Aha-effect* is the new way of provoke customer from the moment customer enters a store", says Daniel Balke, manager of men's clothing at Robert Ley retailer from Euskirchen.

As a result, the main components of new sales policy are reduced to new elements: enhanced emphasis on fashion messages, accurate focusing attention, visualization of products and constructive communication. Fast change of assortments should be added, since every 4 to 6 weeks new products are coming into stores. The main principle is that the assortments should *prosper*, but the flexibility of the offer must be increased. The consumers must be engaged through various events, social media activities and on-line management. The sales effects in the last months of 2017 clearly shown that the companies which were only and entirely focused on market demand, mostly experienced losses.

Orders for the fall of 2018, therefore, seek a new balance between sales and fashion impulses. What could cause *Aha-effect*? What fashion messages we need to send? What price policies, products, placement strategies open potential for development?

CONCLUSION

It is hard to predict the future trends in the world textile market. It is certain that European producers, especially those in eastern and south-eastern countries, will have even more hard times. As well it is certain that the textile industry, especially the clothing industry, will not follow the labour and social trends from the Far East countries.

Textile and clothing industry, due to their specialty, still are an important factor in the industrial production of many European countries, but they are increasingly struggling with an almost impossible mission - to follow the competitive conditions of countries from the Far East.

Some other elements affect business in Europe, and thus in Croatia. Textile production, especially garments production, is strictly seasonal. Between the two seasons (spring/summer and autumn/winter), year after year, the gap is widened and leads to idle in production. The delivery deadlines are shortened, while simultaneously a start of the new season is extending. The required product quantities are ordered later, which leads to the problem of purchasing the required fabrics.

The mentioned employment problems show how great economic challenge is to sustain and strengthen the textile and clothing industry. At the same time it shows how considerable social danger possible future trends hold in the uncertain future of the textile and clothing industry.