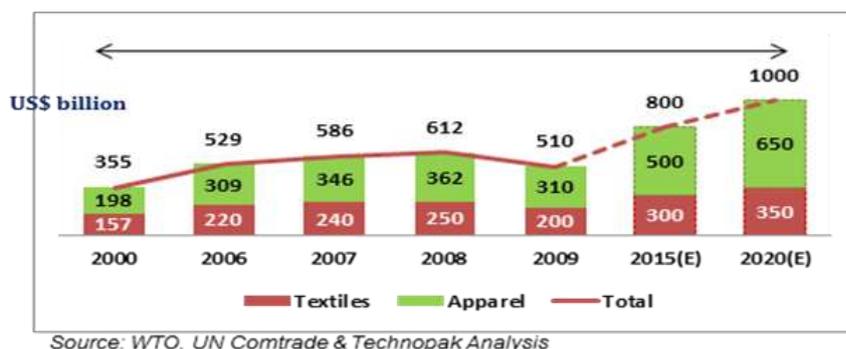


Changing Dynamics of Global Apparel Trends

Introduction:

The global apparel and fashion trade is expected to grow to USD1 trillion by 2020. However with growth slowing down in developed markets, the dynamics of the global fashion market are expected to change dramatically. Emerging economies will fuel most of the growth in the fashion market. Brazil, Russian, India & China (BRIC) along with few other South-East Asian countries are seen as the major growth drivers.



In addition to this, global apparel markets in the recent past have shown a paradigm shift, moving towards increased product differentiation, and catering to a diverse, aware, and demanding customer base. Retailers have thus gravitated toward demographic shifts, societal influences, economic influence, and environmental concerns.

With growth in developed economics cooling, retailers are facing pressure due to restricted consumer spending. Under such conditions the global apparel value chain has shown a distinct shift both at the front- and supply-end.

Pressure on Retailers due to restricted customer spending:

Reduced consumer spend has put tremendous pressure on retailers, who are now looking at models along the lines of Zara in the EU and Macy's in the US to increase their offerings to the consumer. While on one hand big retailers in the US like JC Penney and Gap are redefining their market position by either moving into speciality stores or by creating a completely new shopping experience for the consumer, others are looking at promoting e-sales as much as possible. There is also an increased focus on retaining customers with policies such as loyalty programs etc. Shoppers today are more segmented by demographics, lifestyles, and cultures.

Retailers seek entry into global markets:

Apart from their own domestic markets, retailers are increasingly looking for business opportunities in global markets. With the apparel market in the US and EU getting saturated, a paradigm shift is seen in the markets of Asia and South America. The BRIC countries with their positive GDPs have been attracting global retailers. Most large retailers have been working out of China where they have access to a large young population with a significant capacity to spend. The large geography of China also allows an opportunity to upscale operations. India has had its regulatory issues and a high cost of operations primarily due to expensive real estate. Even these have not deterred retailers to look at India as an interesting option. However, India is yet to see the same influx as China has seen over the last 5 to 6 years.

Fast fashion and customization to gain control over supply chain:

Today, consumers prefer to buy apparel that matches their status and lifestyle, and also suits their needs and aspirations. Most retailers would like to offer a complete range of products from higher to mid-market segment. Affordable fashion has almost become the key to improving sales. Customizing products to the needs of the consumer offers a high potential of improving business bottomlines. Bespoke services have seen a significantly large increase over the last 3 to 4 years and continue to show positive trends. Supply chain systems are also altered and reconfigured to reflect the changing desires and requirements of the customers.

Retailers are exerting more efforts to curtail excess manufacturing expenses by maintaining a balance between demand and supply. Retailers such as Zara and H&M have successfully developed supply chains that facilitate quicker responses for fashion merchandise. Almost all retailers will continue to look at lower order quantities per style and reducing lead times

as much as possible. Thus the typical sourcing time of 90 days could shrink to 75 days and, from 60 days, could drop to 45 days or even less in future.

Also, when cotton prices went up retailers changed their product mix from cotton to synthetics, offering similar styles in low-cost alternatives. These will continue to be explored to ensure a wider choice for the consumer.

Adapting to next-generation technology:

Many retailers are increasingly deploying interesting technologies to tap various channels for selling merchandise.

Electronic shelf labelling, digital promotional displays, self-checkout and sales kiosks are being adapted by retailers to relate to their customers.

Further, on line marketing through social networking websites is another opportunity that retailers are exploring.

Increased focus on Sustainability:

Material trends favour going green. Apparel industry is turning greener these days with sustainable trends evolving into a major influence on the industry. Pressure is mounting on the apparel manufacturing sector to reduce the environmental impact of cultivating, processing, dyeing, bleaching, and making fabrics., thus pushing retailers towards a sustainable approach. Also retailers are expected to eliminate existing labour inequalities and exploitation, and have a fashion-forward approach towards the manufacturing process. Fibres from wood pulp, bamboo etc. will tend to gain higher importance.

Emerging Economies developing as Low-Cost Manufacturing Hubs

China enjoyed a dominant position in apparel and household textiles manufacturing for several years, as makers of these items located in developed nations such as the U.S. and Canada suffered a long period of decline. However, recent increases in the value of the Chinese currency, combined with rapidly rising labour costs, have put Chinese manufacturers in a much less competitive position. Competition from low-cost nations like Bangladesh, as well as Vietnam, Sri Lanka, Indonesia, Cambodia, India, Pakistan and elsewhere is intense, and a large portion of apparel manufacturing formerly done in China is moving to these areas at a rapid pace. While China continues to have a robust apparel manufacturing industry, it is moving up the industrial chain by fostering manufacturing that requires greater skills, better technology and more investment in advanced equipment. Such rapidly-evolving segments in China include Information Technology, automobiles, trains, aerospace, medical equipment and telecommunications gear. Low-cost countries such as Bangladesh have emerged as the largest gainer in the lower-value assembly segments of the value chain. At the same time, countries such as Sri Lanka, Turkey and even India are upgrading to higher-value segments, such as branding and design, which rely on higher-quality human capital to maintain their competitiveness. As a result, workforce skills will become increasingly important elements for developing countries to maintain and upgrade their position in the global apparel value chain. Some of the African countries and maybe Myanmar have the potential of increasing capacities of apparel manufacturing.

The 'Global Apparel Manufacturing' report from IBISWorld ⁽¹⁾ forecasts a continuation of the trend of Chinese firms setting up their own brand-names and opening stores in foreign markets. The report also says that, given the competitive strength of China, the success of other low-cost source countries depends on their ability to develop an advantage in single-product categories. Further producers in Europe and the US, should see a rise in niche exports to India and China, driven by increasing demand for high-quality apparel from their growing affluent and middle classes. Manufacturing firms in the US and Europe may also find new opportunities to build their businesses by developing high-end products like tailored women's suits and jackets, according to the report.

As regards current importing trends, key retailers have focused on product specific approach while defining sourcing strategies. Exhibit 2 gives a current priority on the product-wise preferred sourcing destinations. In the past decade, China surged above all competition in terms of exporting more apparel products than any other country in the world. However, in the last year or so, China (South) has lost its competitiveness because of increased wages, labour unavailability, and changes in Chinese government policy. On one hand this has created concerns for global retailers, who were heavily dependent on sourcing from China (South). On the other hand, this has increased potential of extra business to countries like Bangladesh, India, Indonesia, and Vietnam.

Location	Product Categories	Average Order Quantities
India	High Value-Added Women's Tops – Knits and Wovens	Low-Medium (Around 5,000-10,000 Pieces per Order)

Indonesia	High-value needle work, Dress Shirts, Outerwear	Medium (Around 8,000-10,000 Pieces per Order)
Bangladesh	Woven Bottoms and Basic Knits	High (More than 25,000 Pieces per Order)
Vietnam	Woven and Knits	Medium (Around 8,000-10,000 Pieces per Order)
Cambodia	Knits (Tops and Bottoms)	Medium (Around 8,000-10,000 Pieces per Order)

⁽¹⁾ Global Apparel Manufacturing Market Research Report | Oct 2011

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