Indian Domestic apparel manufacturing scenario – Changing Gears

The Indian Domestic apparel manufacturing is seeing a large change from being manufactured in unorganised sector to more organized set ups looking to produce for domestic retailers. As the domestic retail industry grows and matures, the manufacturing will shift to more organized and compliant set ups.

Apparel manufacturing for domestic consumption is gearing for a major shift – a shift towards scale, evolution of processes and systems, focus on higher compliance and accountability, and an era of agile supply-chain facilitating faster turnaround. While nothing seems to be changing wholly or in full measure, but it is happening very profoundly driven by the fundamental rules of consumer economics.

The size of India’s domestic apparel industry was around USD 36 Bn in the year 2010. The Menswear segment comprised of USD 15 Bn, while the Womenswear was at USD 14 Bn and the Kidswear at USD 7 Bn. It has the potential to grow at a CAGR of 11% to USD 100 Bn by 2020.

The domestic apparel Industry has grown consistently over the last 10 years at a CAGR of 11%. The share of organized market in 2005 was estimated to be at 13% and it increased to about 17% by 2010. It has the potential to grow to about 40% by 2020.

Apparel manufacturing was de-reserved from the SSI category around the year 2000. The SSI restrictions had kept the industry fragmented and unorganized. De-reservation helped in scaling up of factories leading to significant growth in overall numbers as well. Apart from domestic trade, exports also grew to reach around 11 bn in 2010 and have a potential to grow to about 40 Bn by 2020.

The apparel manufacturing In India, comprised of two distinct segments, one catering to exports and the other to domestic requirements. The export led manufacturing has been more organized in terms of technology and systems deployed. Most retailers also enforced code of conducts which factories had to comply with to remain in business. The domestic manufacturing on the other hand was unorganized, had lower maturity of processes and systems, limited formal regulatory mechanisms and worked on piece-rate remunerations.

The biggest challenge in the domestic manufacturing was the style variations that the factories were forced to handle because of lower quantities per SKU being ordered by the retailers. Domestic retailers, who were in their growth phase, had longer payment cycles which made things tougher for the organized manufacturers who needed quicker turnarounds to manage their high overheads. Export based factories could establish assembly lines and take advantages of economies of scale due to large order sizes. The export based manufacturer did not mind spending additional costs of having integrated ERP solutions, meeting compliance norms because the economies of scale offered better efficiencies and higher productivity to the organizations.

Over a period of time, the domestic Indian retailers have grown in number of stores and have developed capabilities of placing bigger quantities per style. At the same time, the recession in the key sourcing markets globally, has added to the uncertainties of the export business. The costs have increased with respect to the price the customer is willing to offer. International retailer also has more options of sourcing from countries like Bangladesh, Vietnam, Cambodia, Indonesia among others. Some of these countries offer lower cost advantage and tariff benefits making them more attractive destinations to source from.
This changing trade scenario is forcing some of the more organized export based factories to shift to manufacturing for the domestic retailer. The smaller manufacturers are now finding it difficult to compete with large players and retain their business as it is.

Moreover, some of the prominent international labels started looking at the opportunity in Indian consumption and started setting up retail outlets in India at a much faster pace and scale. Reputed international players like Levis, M&S, Adidas, Tommy Hilfiger, Debenhams, S Oliver, EDC-Esprit etc. have expanded their presence in Indian markets in last 5 years or so. With the duties on imported goods being high, most of these retailers realized the importance of domestic sourcing to be able to offer better prices to the customer. These retailers are also governed by their international regulations of sourcing and hence cannot work with small manufacturers, who do not follow the pre established code of conduct of compliances. Such retailers are also forced to find capacities with more organized players.

The free access of 61 items (48 of them in apparel) from Bangladesh recently introduced to balance the trade between India and Bangladesh, while on one hand gives an alternate low cost sourcing option to retailers, on the other hand increases the woes of the smaller manufacturer working for the domestic Industry.

On gross numbers of the growth, there seems to be a large potential for India to grow the domestic apparel manufacturing base to meet the demand. However, for the small manufacturer the business will continue to get tougher. The domestic retailer also wants to ensure that the product costing meets their budget on the cost while getting reliable supplies for the stores. Reliability can be measured in form of meeting the product specification, on time supply and compliance to required systems.

In the current structure, reliability is the biggest issue. The organized factories (which have been manufacturing for exports) want to work with domestic retailers but have problems with the retailers not being organized as much as they would want. Even then, we have seen a large amount of export based factories already shifting to at least 20-25% of domestic supplies. The smaller players (though cheaper!) do not meet the requirements on reliability and need to upgrade themselves to be in the race.

As the retailers grow and mature, some of the issues of sourcing that exist today will get streamlined or optimized. We will then see a large shift of organized factories manufacturing for the domestic retailers. With the FDI relaxation coming into effect (as it comes), there will be a larger focus on developing internal capacities for the domestic supplies. This will lead to the re invention of the apparel industry which has the potential of providing employment to millions of people across the country.

The current size of the factories will then be grossly inadequate. By 2020 if the industry were to grow 3 times and even if one out of the three parts were to be imported from Bangladesh, the one part – equivalent to USD 30 Bn, will need to be created within India only for the domestic market. The export growth will need additional capacities over the current ones.

Eventually, the ideal factory will be one, which works on modern manufacturing techniques, with reduced inventories and faster throughput – capable of delivering a quality product out of a compliant factory.

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