Must-Knows

for Indian Textile and Apparel Companies

The year 2011 witnessed some major disruptions around the globe which were political (the Arab Spring), financial (bailout of Spain, European sovereign debt crisis) and natural (devastating earthquake in Japan and Turkey, flashfloods in Philippines) as well. Back home, in India too, bad news outscored the good ones – the economy grew at a rate much lower than anticipated; RBI had a hard time reining-in the inflation, scams of colossal size were unravelled, FIIs turned their back to stock markets, government's own alliance partners forced it to withdraw its progressive steps toward allowing FDI in retail and so on. 2011 is already being termed as The Lost Year by some.

For the Indian textile and apparel sector specifically, 2011 was quite a turbulent period. Cotton prices which started an upward trend during the last year came crashing down at an equally fast pace – nearly half in a period of five months (March to August). The cotton yarn export quota remained a much debated topic whereas levying excise duty on readymade garments led to a widespread industry resistance and fall in retail sale volumes. New investments in the sector were minimal because of sluggish domestic demand, a general recessionary trend in export markets and higher interest rates. On one hand, where fabric manufacturers, especially MSMEs increasingly felt the pangs of imports from China into the country, garment exporters on the other hand saw themselves losing ground to their Bangladeshi and Vietnamese counterparts.

No doubt, we started 2012 on a wrong foot and things will not change overnight for sure; but beginning of every year is when one should take time out and plan for the next year - to undo what went wrong, redo what was good and do what should have been done. Similarly, I believe our industry should also embrace the coming times, good or tough, by taking a macro view of things to strategise for growth. Businesses may still not be able to meet the targets they set few years ago, but at least they can be sure of moving on the right track. Here is a list of my messages, for the textile and apparel companies as they enter 2012, which can put them on the path where accelerated growth is possible when external factors are more supportive.

1. *You have to think anyway, so why not think big?*
   Investments of a larger magnitude will bring economies of scale and appeal to larger buyers

Manufacturing infrastructure in India is highly unorganised. We may have the second-largest installation of spindles, but there are several units which operate less than 10,000 spindles - much below the Minimum Economic Size (MES). In woven fabrics, our loomage is highest – but maximum share is of low productivity handlooms and power looms scattered in small clusters across the country. Similarly, the size of the largest of our garment manufacturing units correspond to the average size units in China. While this gives flexibility to produce smaller lots, the bigger orders with better long-term impacts are placed elsewhere. Barring few, the organised players also do not have the scale and the size to cater to the largest of international orders. Bulk of Indian suppliers are also not positioned as niche suppliers who can realise better returns on lower volumes such as Italian fabric manufacturers. Even back home, all said and done, the consumption is majorly at the bottom of the pyramid – in low and economical price categories; premium and luxury consumption may be growing significantly but that is a base effect.

Piecemeal investments and a slow, gradual ramp up of capacities will not improve the bottom-line beyond a certain level, which India has already reached, and which was possible by such incremental growth. Now to move to the next orbit, entrepreneurs need to adopt the concept of mega investments to produce a world-class infrastructure. Engaging economies of scale will also help absorb the impact of changes in raw material price and other input costs to some extent. It will also create better bargaining power for the business with the vendors as well as buyers.

Mega in textiles and apparel does not mean a $1-billion investment in a project, nor can be quantified by employment generated as different projects such as spinning, knitting, technical textiles, garments, et cetera, which have different capital requirements and provide different employment opportunities. The idea should be to have a facility which can take a market share of some relevance or maybe appear in the top 10-20 of the global suppliers in that category.

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2. *A company is only as good as the people it keeps*
   Employ and more importantly retain talent at all levels

Unfortunately, no textile and apparel company has ever appeared among the top in best places to work (except diversified groups such as Reliance, which also has interest in this sector). Companies in the information technology sector and financial services are the ones which are most sought after by technical graduates and MBAs. The textile and apparel has altogether failed to generate interest among the best performers. Even textile graduates after a brief industry stint prefer moving to other sectors.

Lower compensation package in the industry is not the only reason to be blamed. An analysis shows that apart from dissatisfaction with compensation packages, the other reasons that trigger search for change among employees include lack of career growth, limited learning opportunities and lack of recognition. For companies to attract talent a strong human resource policy framework, where employees have a vision of growth in their career, would go a long way. For retaining the talent, specifically at middle levels, companies require to classify their employees as star performers, average ones and laggards in each of the division, at each level and then form a compensation policy accordingly. Internal and external training programmes, team-building exercises and other HR tools are some of the things which companies need to invest in order to provide their employees an environment that aids them in achieving their professional ambitions as per their calibre.

3. *Shake hands and smile*
   Partnerships open a host of opportunities for both the parties

The year 2012 can be the year with lot of opportunities in space of cross-border JVs and M&As. One of the reasons is that many Western manufacturers are still looking for competitive manufacturing locations, similar to those in technical textiles; while some, such as fashion brands, are looking to tap the Indian domestic market. The key would be Indian companies' own readiness. The first and foremost aspect is to have a mindset that can gel with other businesses sometimes complementary, sometimes competitors and sometimes even as buyers. Lack of willingness to adapt and learn is a sure shot recipe for failure. Secondly, companies with such inclination need to invest their time and effort in evaluating partnership opportunities of different formats:

a) What is or can be suitable for them?

b) What are the options which they can pursue?

In addition, new manufacturing destinations are also appearing on the horizon. African countries of Kenya, Ethiopia, Nigeria, et cetera are generating interests from investors all across. By virtue of multiple trade agreements and acts they have free market access to almost all the major markets. With governments keen to attract investments in their countries, a lot of sops are also available there. Here again, partnering with a local partner will be crucial as they can facilitate the business establishment process and provide the benefit of local liaison and networking.

4. *Brand to succeed*
   B2B trade can also create brands to enhance their intrinsic value

In any commodity market, consumers and customers buy the product based on price or relationship with the vendor. They are unable to differentiate the product in terms of features, quality or other rational parameters. In B2B markets, there are few customers (could be 25, 15 or just 10 customers) which account for 80 per cent of the sales. Purchase is done mainly based on relationship, brand of the company, et cetera. Thus, it is important that the textile and apparel company start working towards branding themselves or their products; INVISTA did it for LYCRA, Reliance did it for Recron. But there are not many examples in this sector.

Our industry can start off by identification of differentiating factors such as quality, trust, value added features, et cetera and sometimes even bundling features and then moving forward for a branding campaign. Certification of the product will further lend more credibility to the brand.

Another opportunity for branding exists in the ethical space. Social and ethical compliance issues will be much bigger in times to come; not only in the developed world but also in India. Lot

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of media attention has always been available for words such as child labour, sweat shops, unethical practices, unfair wages, et cetera, which have rightly become a taboo for retailers and hence manufacturers. The next phase is the industry moving significantly towards associating with positives such as fair trade, eco products, carbon credits, ethical production, et cetera. Manufacturers, large and MSMEs, can gain extra mileage for their products by investing in gaining accreditation or certifications and finally branding the product for that differentiating factor.

5. *A lot of times, people don't know what they want until you show it to them - Steve Jobs*
   Demand creation is a skill which businesses should learn

Ask any consumer their perception about polyester, they will tell you a number of things such as how uncomfortable it is for skin, and the same person will walk out with polyester based activewear from a Reebok store which he will gladly (and comfortably) wear during workout. The point is consumer sentiment, market research, et cetera are valid to an extent only. For new, innovative products, companies need to simulate the consumer demand. This is specifically true for our domestic textile and apparel market which is on its turning point with little exposure beyond basic products.

Stimulating consumer demand may also require large-scale availability of the product in wide variations suited to the consumer's taste. For this, a company investing in huge manufacturing capacities may as well be investing in initiatives to support its business customers by technical or other means. This is more relevant for the Indian industry framework where most of the convertors are in the unorganised state. A producer of specialty fibre, fabric or technical textile products, needs to ensure that it has downstream partners with sufficient capacities and technical know-how to provide end product to ultimate customers.

6. *The land of bounty - India*
   No business can afford to miss the domestic market opportunity

The Indian economy is expected to double itself in the next decade or so, meaning it will add another ₹1.5 -1.6 trillion in the process. Fifty to 60 per cent of this could be the private consumption wherein apparel and related consumption can have 6 to 8 per cent share. All-in-all, by 2020 the Indian domestic market will be a \$90 to \$100-billion affair. This means a huge opportunity for brands and manufacturers who start as early as possible, before the competition heats up.

In addition, 100 per cent FDI in multi-brand retail is not out for long. The ultimate value chain partners to large international retailers will be Indians. Entry of large organised players will cause improvement in value chain efficiencies, create massive employment opportunity and enhance the domestic demand. This may still take another couple of years, but the businesses that want to capitalise on the opportunities that will be presented need to start working on their strategy from now on.

The list is neither cure-all nor exhaustive. It is meant to provide businesses with an outline to strategise their vision keeping in mind the emerging trends. The times are definitely challenging and we are not even sure whether the worse is behind us or not. But as biblical saying goes, "And this, too, shall pass." BoF

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