

# The Global Apparel Value Chain: Introduction & Trends

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Presentation for the URI Cotton Summit

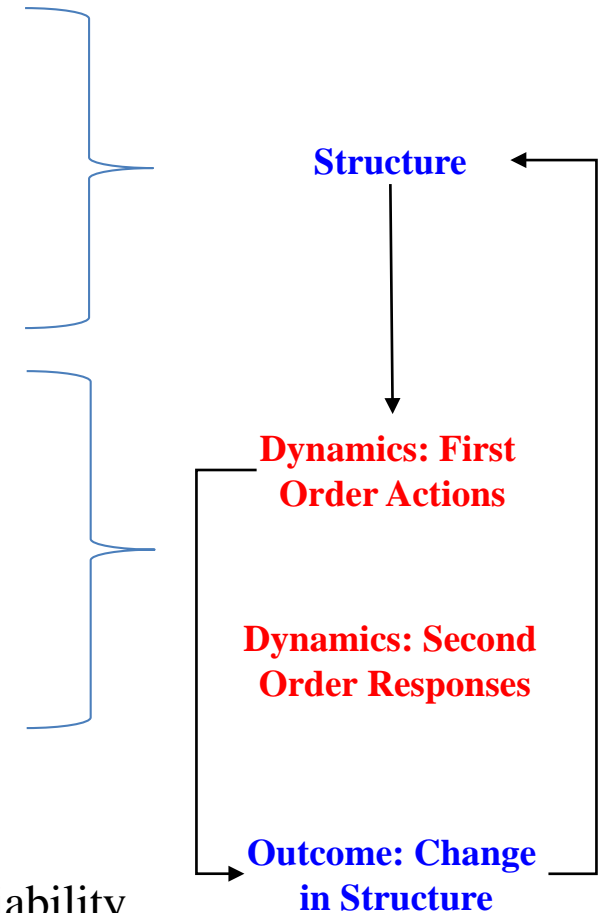
Session I: Understanding the 21st Century Global Apparel Value Chain

September 22, 2014

# What is a Value Chain?

## Global Value Chain (GVC) Framework

1. Input-output (referred to as value chain)
    - Supply chain (tangible)
    - Value-adding activities (intangible)
  2. Geography
    - Production & consumption
  3. Firm Governance
    - Coordination & power dynamics
    - Producer versus buyer driven industries
  4. Institutional Governance
    - Industrial, trade and labor policies
    - Local, national and international
- Upgrading (changes over time)
    - Industry changes in: capabilities, complexity & codifiability
    - Firms change in activities to increase benefits (e.g. profit, skill, technology or knowledge); results in country changes



Research & Development

Design

Production

Logistics

Marketing

Services

Inputs

Textile Manufacturing

Textile Products

Distribution & Sales

Textile Markets

Home Furnishings

Apparel

Sports & Leisure

Industrial

Construction

Agriculture

Medical & Hygiene

Transportation

Protection & Military

Packaging

Inputs

Fibers

Natural  
Man-made  
Inorganic

Chemicals

Packaging & Labeling

Machinery

Yarn

Thread

Woven

Narrow

Knit

Nonwoven

Fabric

Woven

Coating

Other

Finishing

Fabric & Yarn Wholesale

Home & Interiors

Carpet & Rugs

Curtains

Other Household

Apparel, Hosiery & Accessories

Hosiery

Flat knit

Cut & Sew

Accessories

Other Textile Products

Bags

Canvas

Rope & Cord

Miscellaneous

Wholesale

Apparel

Home Furnishing

Institutional

Government

Retailers

Utilities

Finance

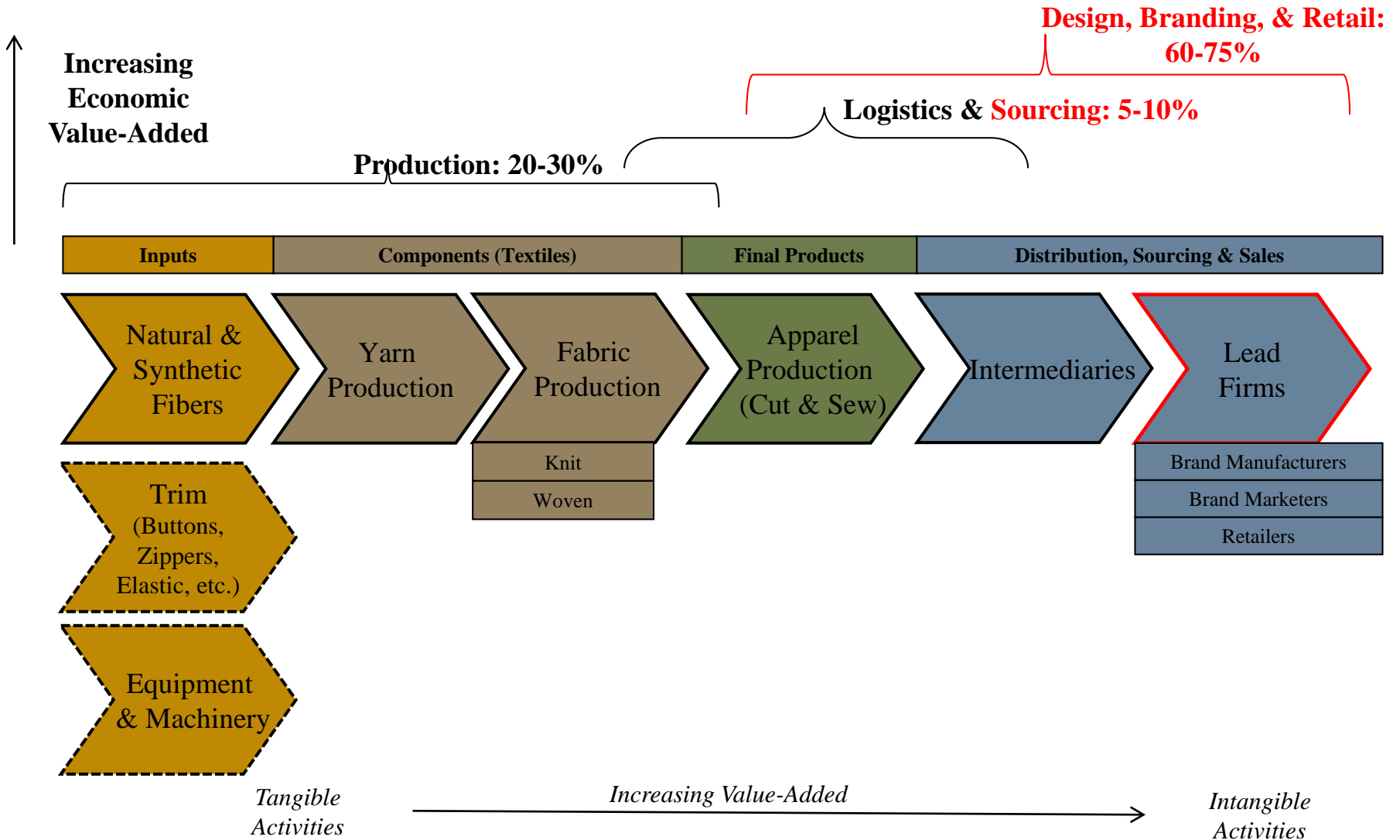
Government Resources

Testing & Training Facilities

Trade & Professional Associations

Colleges & Universities

# Apparel Value Chain



Red indicates highest value-added activities + control/power over the chain

Percentages represent relative shares of apparel retail selling price attributed to value-adding activities

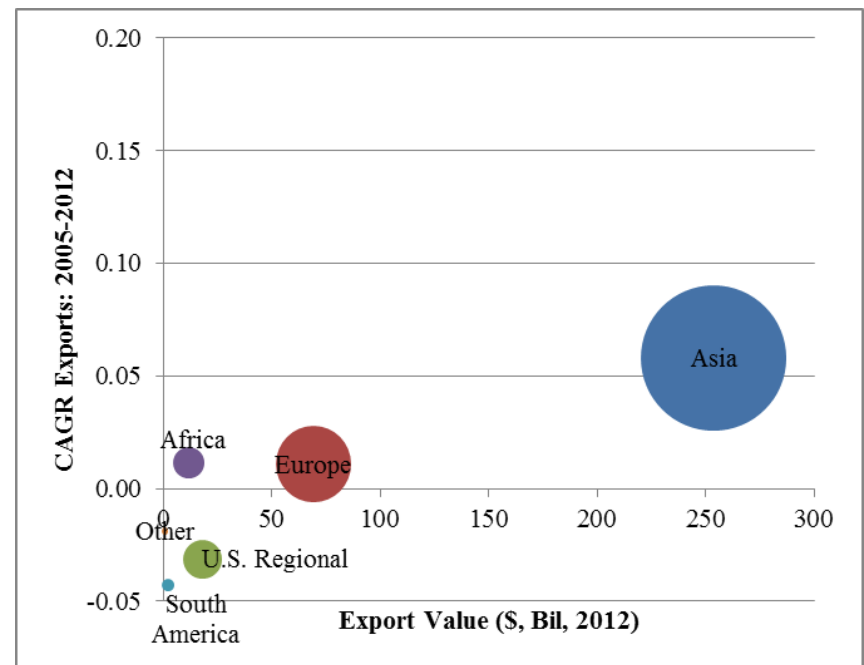
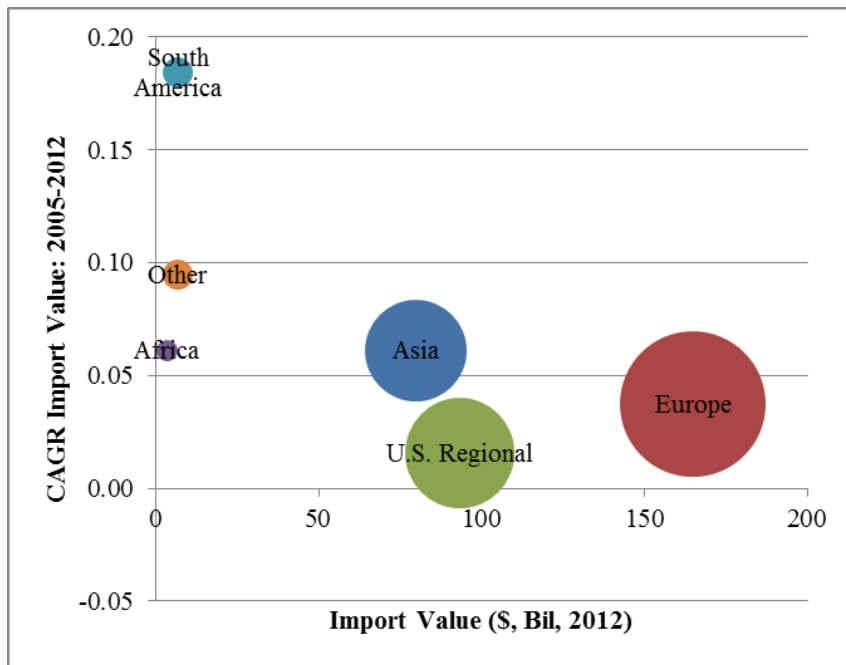
# Structure of the Global Apparel Industry: **Buyer-Driven GVC**

- Apparel is one of the most globalized industries; nearly every country has some degree of a formal or informal clothing sector
- Apparel production is very labor-intensive; has low start-up and fixed costs and requires simple technology
- Producing textiles (yarn & fabric), the main physical inputs to apparel, is capital- and scale-intensive, higher workers' skills and more male-dominated
- Firm governance: buyer-driven value chain
  - Buyers (lead firms) focus on highest value activities (design, branding, marketing) and not production
  - Outsource production and input sourcing to a global network of intermediaries and manufacturers
  - Main types of lead firms: retailers, brand marketers and brand manufacturers
- Government regulations have historically played a significant role in shaping the geography of apparel manufacturing (e.g., MFA, ATC, trade agreements)

# Apparel Demand & Supply: Value & Growth

**Consumption:** Europe, USA and Asia; growth in South America, but small overall share of world market. Asian growth strong in Russia, Korea and China.

**Production:** increasingly dominated by Asia; even more prominent when domestic production factored in



Source: UNCOMTRADE, HS 61+62

Notes: size of bubble represents the import/export value in 2012; y-axis represents the compound annual growth rate of imports/exports between 2005 and 2012

# Shifts in Competitive Dynamics in the Global Apparel Industry

## **Institutional/External Impacts**

- Trade Policy
  - China & Vietnam WTO entry (2001 & 2007)
  - End of the MFA/ATC & China safeguards (2005/08)
  - Regional & bilateral trade preferences
- Macroeconomic Impacts
  - Global Economic Crisis (2008/09)
  - Energy & material costs (textiles)
- Consumer Demand
  - Growing foreign market demand
  - Greater variety

## **Buyers' Sourcing Strategies**

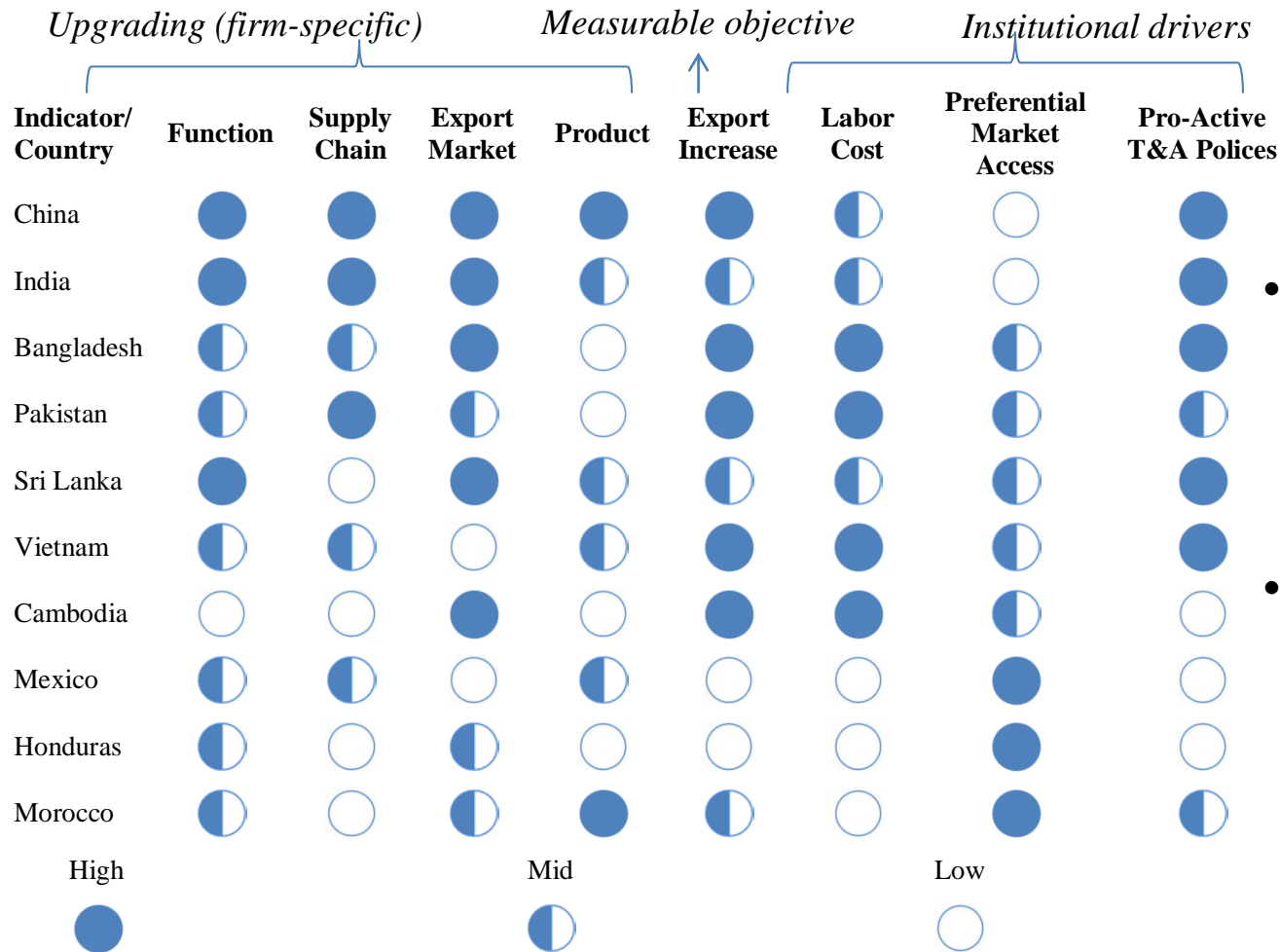
- Cost competitiveness
  - Global overcapacity in production
- Non-manufacturing capabilities
  - Sourcing, management & soft skills, design
- Consolidation of supply base
  - Strategic partnerships with fewer key vendors
- Time factors
  - Shorter lead times, lower volumes, flexible production
- Social & environmental awareness

# Dynamics in the Apparel GVC: Upgrading

- Upgrading is a way to analyze a country's position in the value chain, benchmark countries, and to show the evolution of the industry in a country over time
  - Functional upgrading: CMT → Full Package → ODM/OBM
  - Supply chain upgrading: backward linkages and lead times
  - End market upgrading: global export, regional and domestic markets; export dependence and diversification over time
  - Product upgrading; change in export unit values; shifts to higher value products
  - Process upgrading; reduction in lead times; investment in technology



# Factors Affecting Competitiveness: Country Comparisons



- Comparing countries by firm strategies and institutional policies provides a way to identify growth drivers and best practices
- Not a one-size-fits-all strategy, but some strategies are more sustainable than others

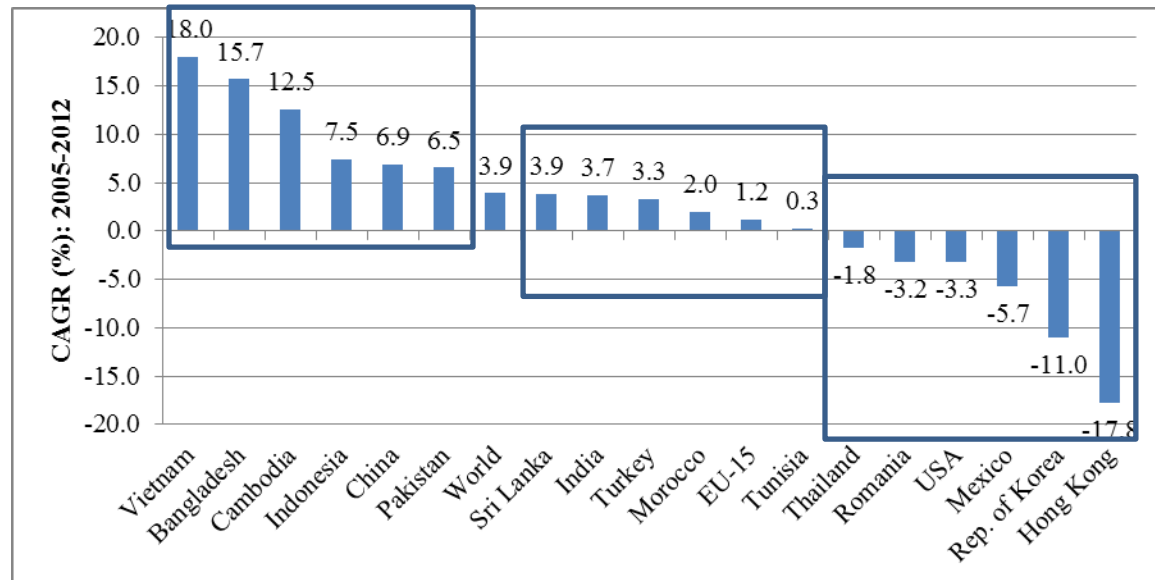
# Apparel Suppliers: Country Trends

## *Increasing Export Values*

- **China:** clear leader; 2000-2012, global apparel export share from 25 to 41% (\$48.5B to \$145.5B); global market share has *stagnated*, but has not declined post-crisis
- **Growth Suppliers:** Bangladesh, Vietnam, Cambodia, Indonesia and Pakistan increased global market share since the early 1990s, post-MFA and post-crisis.
- **Stable Suppliers:** Sri Lanka, India and Turkey – increasing export value, stable market share.
- **Declining Suppliers:** EU-15, Tunisia and Morocco increasing export value, but declining global market shares and lower than world average growth rates.

## *Decreasing Export Values*

- **Decline with MFA Phase-Out:** Mexico, Thailand, Romania and USA - decline in value and global market share during phase-out and post-MFA.
- **Past-Prime Suppliers:** Hong Kong, South Korea & Taiwan - global market shares decreasing since early 1990s. Now intermediaries, textile producers and investors in foreign countries.



Top global apparel exporters, compound annual growth rate in apparel export value (2005-2012)

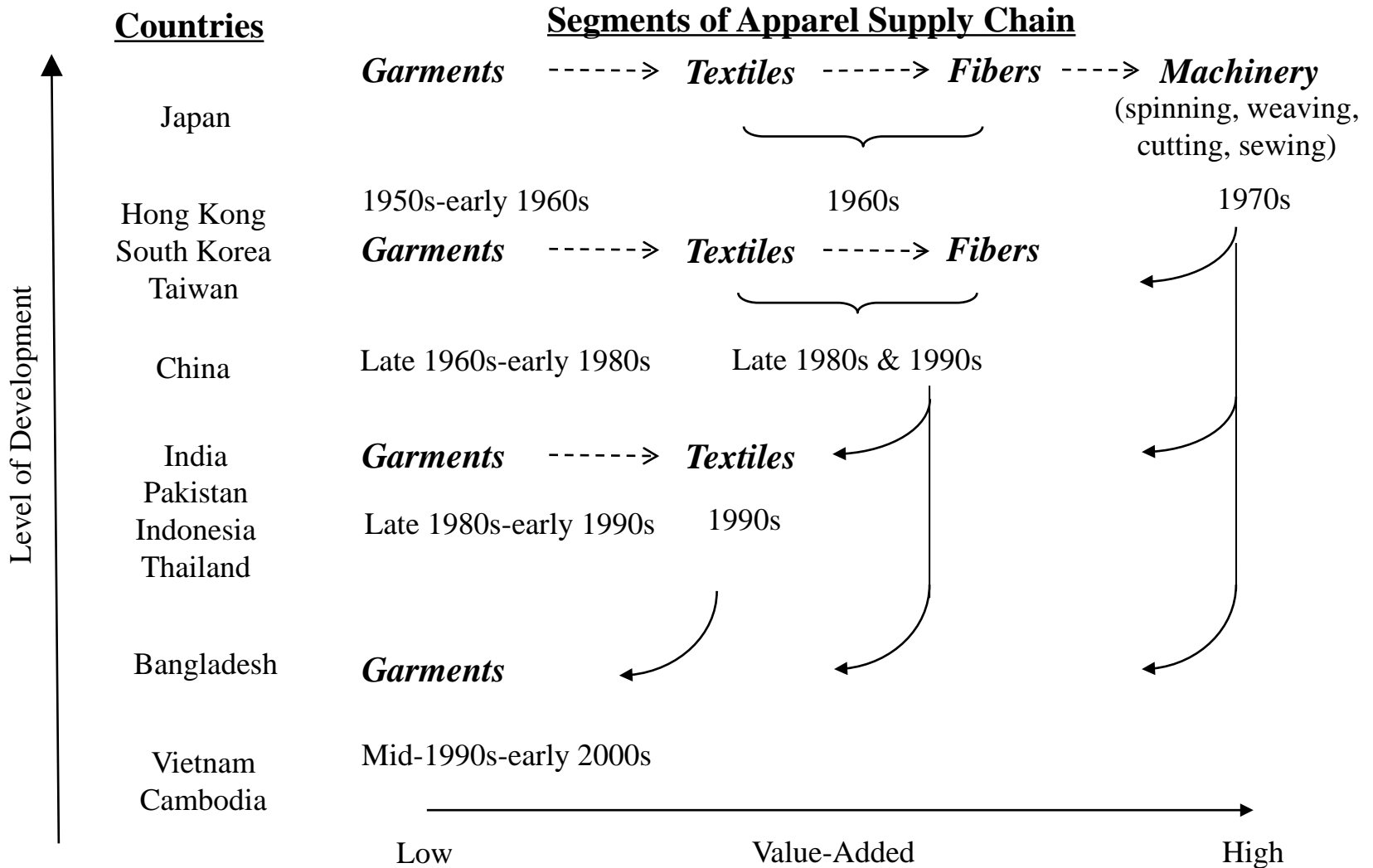
# Functional Capabilities and Country Examples

Functional Categories	Capabilities	Country Examples
CMT (Assembly)	Marginal supplier; low-cost volume production	Cambodia Sub-Saharan Africa Caribbean/Central America
FOB/Full Package Provider	Preferred supplier; scale economies in volume production	Vietnam, Indonesia, Bangladesh*
	Preferred supplier; scale economies in volume production for specific product categories	Pakistan* Mexico*
	Niche supplier; smaller volumes; specialize in specific product areas	Sri Lanka Morocco
	Strategic supplier; export high-value, complex products and volume. Design and development (OBM) for domestic markets.	China* India* Turkey*
ODM/Full Package with Design		
Full Package Service Provider	Coordinate supply chain and OEM or ODM activities; contract out manufacturing or invest in production in foreign countries	Hong Kong, Korea, Taiwan (1980); Malaysia, Singapore (1995); Thailand (2010)
Global Lead Firm (OBM)	Global brand owners; marketing and retailing	EU-15, USA, Japan

Note: size of country also impacts potential role in GVC

(\*): indicates country can supply at least ~50% of textile inputs need for apparel production

# Shifting Country Roles: Apparel Supply Chain Upgrading: Asia



Dotted arrows refer to the sequence of production and export capabilities within economies; Solid arrows refer to the direction of trade flows between economies  
Dates refer to a country's entry years for exports of specific products.

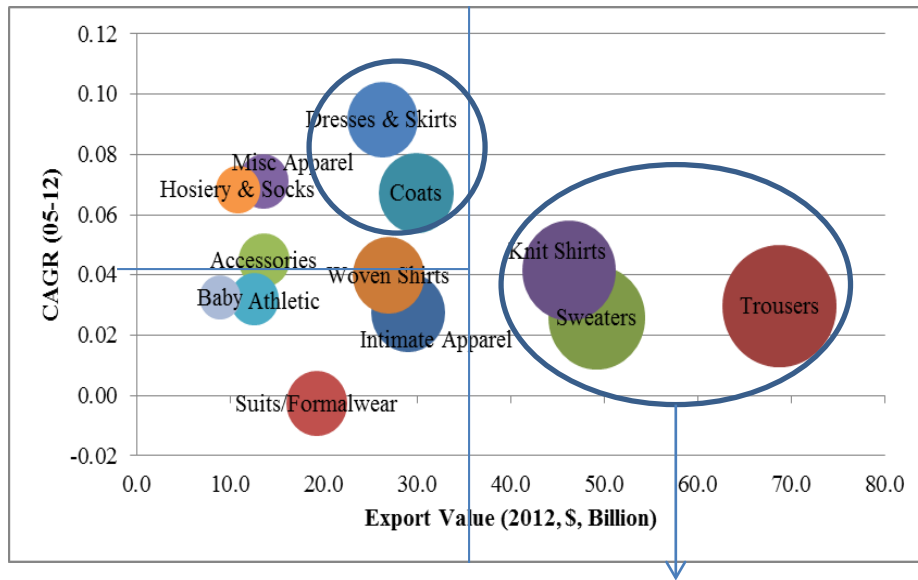
# Apparel Product Classifications & Trends

- Woven vs. knit: share of world market for knits increasing faster than woven
  - 1995: 40% vs. 60%; 2012: evenly split
- Gender: women's apparel accounts for half of apparel retail market; menswear 30%
  - More design, style changes v. more standardized
- Material: MMF vs. cotton: increasing share of world market (by value) made from MMF
  - MMF: 2005-2012: 26 to 32% of world export value
  - Largely driven by dresses and skirts and coats
  - Share of market for other fibers relatively stable

# Segmentation of Apparel Product Categories:

Market Share by Value, by Volume, Unit Value & Export Growth

## World Apparel Imports by Product Categories (2012)



Nearly half of global export value; easier to find countries with manufacturing capabilities for these products

## Characteristics of Product Categories

- **High unit value, mid-size market share by value, low volume**
  - Formalwear – slower
  - Coats and dresses/skirts – faster
  - Woven shirts and athletic apparel – steady
- **Mid-range unit value, large share of apparel market value, high volume**
  - Trousers and sweaters/sweatshirts – slower
  - Knit shirts – steady
- **Low unit value, high volume**
  - Hosiery and socks – faster
  - Intimate apparel\* – slower
- **Low unit value, market value share, low to mid-volume**
  - Accessories and miscellaneous apparel – faster
  - Baby – slower

Italicized “slower, faster, steady” references general CAGR trends (2005-2012) compared to world average

\*: with the exception of women’s bras; which are a relatively high value item

Questions & Comments?

Thank you

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