GLOBAL DENIM OUTSOURCING: **SHIFTING PARADIGMS**

Suryalakshmi Cotton Mills Limited

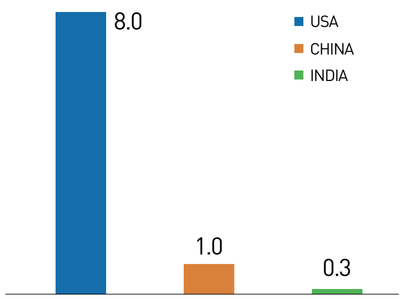
WHITE PAPER

Global Denim Outsourcing: **Shifting Paradigms**

It is estimated that by 2020 the global denim industry will be worth USD 64.1 billion. Currently, about 1.8 billion pairs of denim trousers, amounting to USD 51 billion, are sold annually worldwide. Europe and USA are the biggest markets for denim fashion even as new-age economies such as China and India are witnessing a steady rise in demand. According to industry estimates, the per capita denim consumption in USA is 8 pairs while it is 1 pair in China and 0.3 pair in India[1].

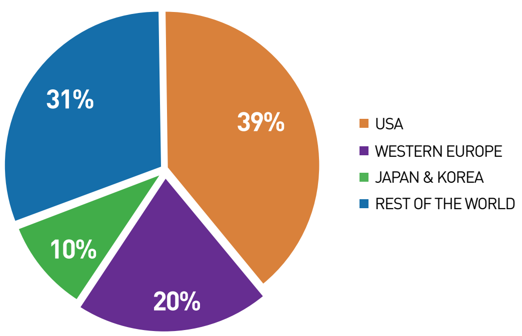
In emerging economies such as India, the denim-wear market is driven by increasing disposable income, westernization of work culture and the ensuing rise in popularity of denim jeans as business casual wear. In fact, the fabric has 'arrived' in various segments in terms of versatility of use. In India, the use of denim across different platforms such as accessories, furnishings and indo-western wear is on the rise.

Per Capita Denim Consumption of Denim



Global Denim Outsourcing: A Brief History

Global Denim Markets - Market Share & Distribution



The denim fabric dates back to the 16th and 17th century when the cloth was extremely popular among the working class population in North Italy. The fabric was initially traded in the regions of Genoa in Italy and Nimes in France. It was introduced in the USA in the mid-19th century when Levi Strauss cut the cloth into waist overalls. Initially, the denim was popular among miners, soldiers and factory workers owing to its durability and sturdiness. Gradually, by the mid-20th century the fabric was deemed acceptable for all classes of people and later went on to become fashion-wear. In the 21st century, jeans are a wardrobe staple for all classes, gender and ages of individual.

According to global industry estimates, North America is the dominant market of the fabric, with an average American owing up to 8 pairs of jeans. Europe is the second largest market, followed by Korea and Japan *(See chart: Global Denim Markets – Market Share & Distribution[2])*. Keeping with the high demand of the fabric in the west, most fashion houses emerged in America and Europe. However, the manufacturing of the cloth has been traditionally outsourced overseas owing to the rising labour costs and environmental concerns of the industrial washing (laundry) process that is essential for making jeans. As a result, less than 2% of the jeans sold in America are manufactured in the US[3]. During the early years, denim manufacturing was outsourced to Mexico from the US. Western Europe countries, including Italy and France outsourced their denim production to East European nations, Turkey and Tunisia among others[4].

[1] Opportunities for Denim in Young India - Wazir Advisors (2012)

[2] http://www.denimsandjeans.com/latest-denim-reports/denim-data-figures/world-denim-market-a-report-on-capacitiesmarket-size-forecasts-etc/

[3] http://madeinusachallenge.com/2014/jeans-made-in-usa/

[4] http://www.jeans-china.com/Article-Directory/Jeans-Manufacturers-in-USA-China-India-Bangladesh.html

Denim Manufacturing: Current Status

Denim manufacturing has gradually shifted to the eastern hemisphere owing to cheap labour and ready availability of natural resources such as cotton *(See table: Denim Mills Worldwide[5])*. Today, China dominates the world denim outsourcing markets. Other Asian countries such as India, Pakistan, Bangladesh and Vietnam are also major competitors. The total global denim production capacity is around 7.7 billion metres[6].

In recent times, however, China seems to be losing its grip as a dominant market player owing to rising manufacturing costs including power and labour charges. In such a scenario, the rest of the Asian and Latin American countries, which are known for the denim manufacturing capacities, stand to benefit immensely. However, in order to be truly competitive in the global markets, these countries need to address the challenge on two fronts:

1. Imbibe a serious sense of 'product intelligence' in their manufacturing processes to be relevant in the global fashion scenario
2. Leverage economies of scale to ensure costs are kept under control without compromising on competitive customer experience and business margins.

Clearly, denim manufacturers in the competing markets need to adopt a proactive and coherent strategy if they wish to elbow out China from the scene. *(See table: World Denim Exports from Asian Countries: A Snapshot)*

Denim Mills Worldwide

Region	No. Of Denim Mills
Asia (China)	297
Asia (Other countries)	104
North America	9
Europe	41
Latin America	46
Africa	15
Australia	1
Total Denim Mills (World)	513

World Denim Exports from Asian Countries : A Snapshot

Countries	Capacity (Metres)	World Exports of Blue Denim Apparel (Sep. 2012)*	Share in World Exports Trade	Labour Cost (Wage Base – India = 100)	Power Cost (Base – India = 100)	Manufacturing Cost (Base – India =100)	Fibre Availability
China	3 billion	USD 866 Million	29%	214	101	111	Importer
Pakistan	600 million	USD 112 Million	4%	94	94	98	Importer
Bangladesh	360 million	USD 309 Million	10%	53	63	87	Importer
India	1,100 million	USD 149 Million* (estd)	5%	100	100	100	Exporter

5 http://www.denimsandjeans.com/latest-denim-reports/denim-data-figures/world-denim-market-a-report-on-capacitiesmarket-size-forecasts-etc/

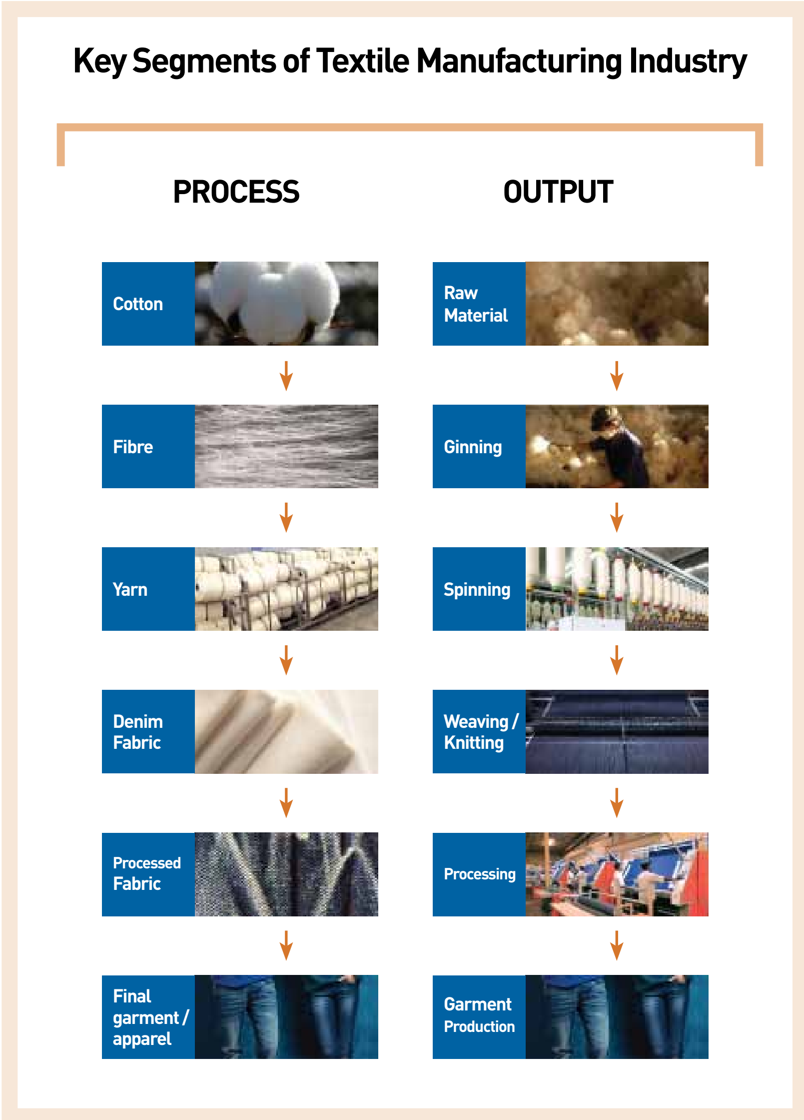
6 http://www.denimsandjeans.com/latest-denim-reports/denim-data-figures/world-denim-market-a-report-on-capacitiesmarket-size-forecasts-etc/

Denim Manufacturing in India

Currently, the Indian denim manufacturing industry produces 1.1 billion metres of fabric annually and its usage capacity is pegged at 80 – 85%. The country offers multiple advantages as a denim manufacturing and outsourcing hub:

1. India is among the few countries to have a presence across the denim manufacturing value chain – right from cotton production to denim garment manufacturing *(See chart: Key Segments of the Textile Manufacturing Industry)*
2. Abundant availability of skilled manpower and raw material
3. Investments in best-in-class technological infrastructure
4. Adoption of global technologies and manufacturing know-how
5. Evolving fashion sense and product intelligence to compete in global markets
6. Burgeoning middle-class with a rapidly expanding purchasing power
7. Adherence to global standards of safety and environment compliance norms

Initiatives such as the Make-in-India augur well for the development of this industry since they aim to promote innovation in the manufacturing sector and provide impetus to the sector's growth by building best-in-class manufacturing infrastructure. However, for the denim sector to benefit from the outsourcing movement away from China, India's policymakers need to formulate specific policies that cater to the segment's demands.



Conclusion

For India to realize its potential as a denim-manufacturing hub and to evolve into a preferred destination for global outsourcing contracts, the country's textile policies need to be fine tuned to benefit the sector. The country offers advantages over its competitors since it has abundant skilled labour, high potential to invest in best-in-class technological upgrade and adherence to world-class labour policies. A little more support from the regulators could easily be the game-changer to make India the world's favourite denim outsourcing destination.