



Textiles
Intelligence

Global Apparel Markets

Business and market analysis of
worldwide trends in the global
apparel industry

No 13 1st quarter 2011

published in association with the
International Apparel Federation (IAF)



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Talking strategy: Dian Gomes of MAS talks about Sri Lanka's future as a "green" and high end apparel manufacturing base

SETTING THE SCENE

Sri Lankan exports to the EU were expected to drop dramatically following the removal of GSP+ in August 2010. Under GSP+, EU imports from Sri Lanka were allowed to enter the EU duty-free. Surprisingly, Sri Lankan clothing exports to the EU rebounded in the second half of 2010, and in January 2011 they surged by an impressive 143% compared with the corresponding month a year earlier. Exports to all destinations soared by 123%.

In order to remain competitive, a number of Sri Lankan apparel manufacturers have shifted to the higher end of the market by focusing on product niches such as lingerie, while the country's industry associations have been pushing for "green manufacturing" methods and products with lower carbon footprints. Indeed, Sri Lanka is home to what has been described as the world's first eco-plant. However, cost increases are forcing Sri Lankan manufacturers to have some of their garments made in lower cost countries such as Bangladesh.

Sri Lankan companies are recognising that it is important to diversify their markets geographically. In the past they have built their success by exporting mainly to the EU and the USA. But these markets are expected to grow only slowly in the years ahead whereas developing markets in Asia, especially China and India, have strong growth potential. Japan is also seen as offering potential as rising labour costs weaken China's dominance of Japanese imports.

In "Talking Strategy" this quarter, Dian Gomes, the managing director of MAS Intimates and a director of MAS Holdings, discusses how apparel manufacturers can achieve and benefit from "green manufacturing". Mr Gomes also offers his views on MAS Intimates' strategy for moving to the manufacture of higher value products in order to remain competitive against companies in Asia following the loss of GSP+ benefits.

DIAN GOMES'S VIEW



Dian Gomes is a group director of MAS Holdings and also the managing director of MAS Intimates, the largest business within the MAS Holdings Group.

Mr Gomes joined MAS Intimates in 1990 as a finance director, and was subsequently appointed managing director of the group's Intimates business, which has nine operating units.

PRODUCTS AND MARKETS

Global Apparel Markets: *What product sectors does MAS Holdings cover?*

Dian Gomes: Our product portfolio covers three broad segments, as follows.

- Intimates: lingerie including bras and briefs. This represents the largest product segment of the group. Our key customers include Victoria's Secret and Marks & Spencer (M&S).
- Active: includes activewear, leisurewear, sleepwear and swimwear. Our products are sold to a number of major companies including Nike and Adidas.
- Fabrics: includes elastics, lace, bra cups, accessories, warp knit fabrics and fabric printing. We have formed joint ventures with some of the best known organisations in the world in these categories.

We provide design-to-delivery solutions for the above segments through our global operations and world class manufacturing systems.

Global Apparel Markets: *Who are your major customers, and in which countries are they based?*

Dian Gomes: Approximately 70% of our customers are based in the USA, and about 25% are in the EU—especially France and the UK. We also have a small number of customers in Canada and India.

Our main customers include Victoria's Secret and Nike in the USA, and Marks & Spencer in the UK, as well as Adidas and DBA in Europe. We also provide the same design-to-delivery solutions to customers such as LBI, Columbia Sportswear, Ann Taylor, Jockey, and Lands' End.

Global Apparel Markets: *Are there any significant differences between the US market and the EU market?*

Dian Gomes: Not particularly. Both markets are characterised by price pressures. However, we deal in much larger volumes in the USA. We have been able to grow significantly each year due to our speedy response to our customers' needs and quick delivery. Victoria's Secret, for example, requires speed and innovation, and we have developed three concepts to accommodate these requirements:

- product innovation;
- speed to market: leveraging on lean manufacturing, via our very own MAS Operating System (MOS) which is based on the lean philosophies of the Toyota Production System; and
- capitalising on global design competencies to offer customised design services and fashion products.

Global Apparel Markets: *Is there a big difference between the costs of shipping to the USA and the costs of shipping to the EU?*

Dian Gomes: Yes, it costs approximately 30% more to ship our goods by sea to the USA, compared with the EU.

Global Apparel Markets: *Are you looking at any new markets?*

Dian Gomes: We're looking at Canada, through La Senza, which is part of Limited Brands.

Also, Japan can be considered a high potential market. Uniqlo, a large entity, operates successfully in this market, suggesting that there would be business opportunities for us as well. Japan has relied heavily on China for its sourcing but, as China's labour costs are going up, now might be an appropriate time to consider the opportunities available in this market.

The Chinese domestic market is another interesting prospect for supply chains, in terms of producing in China for the Chinese market, given its large consumer base. We also have our own brand, "Amante", in India.

LABOUR RIGHTS

Global Apparel Markets: *What are your views on the allegations by the EU of labour rights violations in Sri Lanka?*

Dian Gomes: I don't accept that there have been labour rights violations because Sri Lanka has always maintained high labour standards.

With regard to labour rights, most Sri Lankan factories are Worldwide Responsible Accredited Production (WRAP) and Ethical Trading Initiative (ETI) audited. MAS Holdings is also a participating vendor of the Fair Labor Association (FLA). International buyers are stringent when it comes to the ethical policies of plants. There are no issues in Sri Lanka regarding forced labour, or child labour, and ethical manufacturing has been one of the country's key selling points.

LOSS OF GSP+ BENEFITS IN THE EU

Global Apparel Markets: *And what are your views on the loss of GSP+ benefits in the EU in August 2010¹?*

Dian Gomes: For the Sri Lankan industry as a whole, the adverse commercial reality has been minimal, especially in terms of the EU business.

¹ Sri Lanka was granted GSP+ status by the EU in the aftermath of the *tsunami* in December 2005. But in February 2010 the European Commission decided to withdraw such status temporarily with effect from August 15, 2010, because of shortcomings in Sri Lanka's implementation of three UN conventions on human rights. In June 2010 the EU offered to delay withdrawal for a further six months in exchange for a written commitment by July 1, 2010, that Sri Lanka would make "tangible and sustainable progress on a number of outstanding issues". As such a commitment was not received, the EU confirmed in July 2010 that the privileges would be withdrawn as planned. For further information on GSP+, see "The EU's Generalised System of Preferences (GSP): Impact on Textile and Clothing Trade", *Textile Outlook International*, No 137, September-October 2008.

However, it is mainly smaller companies which have suffered. Larger companies have continued to grow because they have been able to absorb this cost. As far as MAS is concerned, the loss of GSP+ has not significantly affected the company at all.

The biggest cost has been the opportunity cost, because the industry might have grown at a moderate rate if it had not been for the loss of GSP+ status.

There has been pressure on margins, but the actual loss has been fairly insignificant to the industry—because there are other areas to focus on. For example, China's labour prices have gone up, and buyers have moved to Bangladesh for volume. But due to the labour problems that have arisen in Bangladesh, Sri Lanka has been considered somewhat of a comfort zone for buyers.

In the long term, you can't rely solely on benefits such as GSP+ to remain competitive. Although Sri Lanka might have lost some lower-end volume to Bangladesh, our country has a great track record for performance. In the case of MAS Intimates, we're involved in lingerie which is a high end sector.

Global Apparel Markets: *How has MAS responded to the loss of the GSP+?*

Dian Gomes: In response, we have invested more in competitiveness and vertical supply chains. We've absorbed some of the costs by setting up a factory in Bangladesh. Such investments have resulted in mitigating the adverse effects of losing GSP+.

GOVERNMENT POLICIES

Global Apparel Markets: *What does the Sri Lankan government do to help the apparel industry?*

Dian Gomes: Since the cessation of the war² in 2009, the government has been investing in infrastructure to support the business environment. It also allows the private sector to operate without any interference.

ENVIRONMENTALLY FRIENDLY MANUFACTURING

Global Apparel Markets: *How does MAS ensure that its goods are produced in environmentally friendly plants?*

Dian Gomes: Sri Lanka is a great manufacturing base and we have strong government enforced environmental laws which are monitored in all manufacturing facilities. For example, all manufacturing facilities have to have an annual Environmental Protection Licence. Without this, they can not function.

² Tensions between the Sinhalese majority and the Tamil minority resulted in a debilitating civil war between 1983 and 2002 and between January 2008 and May 2009, when government forces were able to take full control of the country. For further information see "Prospects for the Textile and Clothing Industry in Sri Lanka", *Textile Outlook International*, No 147, October 2010.

MAS has a strong commitment to eco-friendly production methods. A number of MAS plants also hold ISO 14001 environmental management certification, and we are working to extend this to reach all our plants by the end of 2012.

We have been implementing measures to reduce our energy and carbon footprints with a targeted reduction of 20% by 2012. In 2008 we opened MAS Intimates Thurulie, the world's first purpose built eco-manufacturing plant for apparel, which also has Leadership in Energy and Environmental Design (LEED) Platinum certification from the US Green Building Council.

Our work on the environment also reaches the product space. We recently developed the world's first carbon neutral bra for Marks & Spencer, through MAS Intimates Thurulie.

We have also developed an organic and fair-trade cotton supply chain out of Burkina Faso over the last four years for Victoria's Secret.

MAS Intimates Thurulie Plant

Global Apparel Markets:

Can you tell me some of the eco-friendly attributes of the MAS Intimates Thurulie plant?

Dian Gomes:

This plant was built with support from Marks & Spencer, as part of its Plan A initiative. The plant has been designed for low energy consumption, and makes use of only photovoltaic and hydroelectric power—both renewable and carbon-neutral energy resources. Also, the design of the plant maximises the use of daylight. Our efforts have resulted in a 40% reduction in energy consumption relative to other comparable factories.

MAS Intimates Thurulie also pioneered net metering in Sri Lanka, which means that we are credited by the power company for the electricity we generate. The electricity is fed into a grid.

We have also made efforts to reduce our water consumption by collecting rainwater and using it for flushing toilets. Rainwater covers 90% of on-site flushing needs. Potable water is only used for cooking, washing and drinking. As a result, consumption of potable water is half that of comparable plants.

Global Apparel Markets:

How does MAS Intimates Thurulie fare in terms of operating costs?

Dian Gomes:

The plant's annual operating cost (energy and water costs) is around US\$0.40 per m², as against US\$1.61 per m² for comparable factories in Sri Lanka. However, we have invested US\$2.66 mn in the construction of the plant. Per unit, the cost is 25% higher than other, conventional factories in Sri Lanka.

But we expect this higher construction cost to be recovered within the first five years of operation through energy efficiency and high operational efficiency achieved through MOS, our very own lean manufacturing standard.

Also, because our power consumption is so low, we are able to purchase green power at a premium.

Global Apparel Markets: *In addition to environmental benefits and low operating costs, how else does MAS benefit from MAS Intimates Thurulie?*

Dian Gomes: The plant helps to enhance the image of MAS Holdings, as well as enhancing the image of Marks & Spencer, and it reinforces our reputation as a responsible and ethical company.

MAS Intimates Thurulie was also an experimental plant, allowing us to investigate how to build and equip low-carbon manufacturing facilities. All factories that were subsequently built are heavily influenced by the results. We are also using the technologies developed at Thurulie to retrofit our other plants to improve their energy efficiency.

We have been developing our skills in green manufacturing beyond the factory, and were able to leverage this to the world's first carbon footprinting project in lingerie when we developed the carbon neutral bra for Marks & Spencer. We are following that with other projects with our clients, to bring products that are more sustainable into the market.

Global Apparel Markets: *MAS Intimates Thurulie is strategically located in the MAS Fabric Park. What strategic advantages does MAS have by having an industrial park in Sri Lanka?*

Dian Gomes: Due to the industry experience we have gained by being South Asia's largest manufacturer of apparel, we have been able to provide a tailor-made environment and infrastructure at the MAS Fabric Park for investors. We have created plug-and-play capabilities by providing facilities such as district heating and centralised waste treatment plants that adhere to globally accepted environmental standards and regulations.

COMPETITION

Global Apparel Markets: *What strategy do you employ to remain competitive against companies in China and elsewhere in Asia?*

Dian Gomes: We are a large global company, with design offices in London, New York and Hong Kong. We work with customers on concept designs, and optimise our manufacturing excellence and supply chain facilities. Very few companies have the whole solution that we offer.

Also, our operations are fast-paced, allowing us to react to emerging market trends and customer requirements much faster than our competitors. Our customers have the assurance that the highest labour and ethical standards will be met and we allow them full transparency to all our facilities.

Victoria's Secret, in particular, benefits from the way we have defied conventional methods by leveraging our supply chains to deliver rapid speed-to-market offerings.

COMPANY BACKGROUND

MAS Holdings has an annual turnover of over US\$800 mn. The company is South Asia's largest manufacturer of intimate apparel and swimwear, and is the region's most rapidly growing provider of competition sportswear.

The company offers what it describes as "seamless concept-to-delivery solutions across the value chain", backed by advanced research, innovation, design, and manufacturing excellence.

MAS is a strategic supplier to Victoria's Secret, Marks & Spencer and Nike, and it services numerous global brands—including GAP, Ann Taylor, Columbia Sportswear, Chicos, Lands' End and Adidas.

The company's capabilities are also strengthened by having a fully integrated supply chain which includes elastics, lace, warp knit fabrics, moulded bra cups, accessories, flocking and fabric printing.

Its global operations include design studios in Colombo, Hong Kong, New York and the UK, with 32 world-class manufacturing facilities spearheaded by our skilled global team of over 45,000 people.

The company is also keen to emphasise its commitment to ethical and sustainable practices. It is an equal opportunity employer, and it distinguishes itself through a commitment to employee wellbeing and community upliftment.