CHAPTER SEVEN

SWOT ANALYSIS AND
ACTION PLAN
While formulating the marketing objectives the overall formulation of a company's internal environment factors, i.e. strengths and weaknesses and external environment factors i.e. opportunities and threats should be carried out. The simplest way to conduct environmental scanning is through SWOT analysis. SWOT is acronym used to describe those particular strength, weakness opportunity and threat that are strategic factors for specific company. The external environment consists of variables (opportunities and threats) that are out side the organisation and not typically within the short run control of top management. These variables from context within which the corporation exists. The internal environment of corporation consists of variables (strengths and weaknesses) that are within the organization itself and are not usually within the short run control of the top management. These variables from the context in which work is done. They include the corporation’s structure, culture and resources.

**CHART (SWOT Analysis)**

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Environmental scanning

<table>
<thead>
<tr>
<th>External Environmental</th>
<th>Internal Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunities</td>
<td>Strengths</td>
</tr>
<tr>
<td>Threats</td>
<td>Weaknesses</td>
</tr>
</tbody>
</table>
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SWOT analysis in this chapter is based on the primary information collected on basis of self structured close ended questionnaire developed for the purpose and secondary information too. The questionnaire comprised of the number of statements related to the Strengths, Weaknesses, Opportunities and Threats which were identified on the basis of informal discussions with the managers, published interviews, and Journals etc. these statements were asked to be ranked by the respondents in order to their preference. The highest rank i.e. one was to be given to the most important and the most preferred statement and the lowest rank was to be attributed to the least preferred and least important statement depending upon the number of the statements.

The textile industry adds 14 percent to industrial production and 8 percent to Gross Domestic Product (GDP) of India. It provides direct employment to 38 million
people (it is second largest employment provider, after agriculture). Indian textile industry is the world’s 2nd largest producer of cotton yarn and 5th largest producer of synthetic fibre. Despite this strong presence, India’s share in world trade in textile and apparel is a meagre 2.97%. The Indian apparel textile industry is one of the largest sources of foreign exchange flow into the country with the apparel exports accounting for almost 21% of the total exports of the country. The industry is vast with over 70,000 readymade apparel- manufacturing units and employs nearly three million people. Indian apparel export business has made great strides in the past few years and today many of the leading fashion labels, from all over the world, are known to source the products from India, but India still has only 2.8 % of world apparel market and 4% of the world textile market. A systematic analysis of textile and apparel industry indicate the following-

7.1 STRENGTHS :

There are number of factors which have led to the growth of Indian textile and apparel industry and be termed as strength of industry.

7.1.1 RAW MATERIAL BASE :

India has high self-sufficiency index for raw material particularly natural fibres. India’s cotton crop is the third largest in the world. The Indian textile industry produces and handles nearly all types of fibres (both natural and synthetics). However the industry is pre-dominantly cotton based with 70% of the raw material being cotton. In recent years, India has emerged as the major producer of synthetics with large capacities being added. India produces world’s 12% fibres following china (25%) and US (21%). India also has a well-developed woolen and silk industry.

7.1.2 LABOUR :

Cheap labour and strong entrepreneurial skills have always been the backbone of Indian textile and apparel industry. It is the single largest employer in the industrial sector employing about 38 million people. If employments in allied sectors like ginning, agriculture, pressing, cotton trade, jute, etc. are added then the total employment is estimated at 93 million. Labour is a large component of the manufacturing costs in the textile sector. India has a competitive advantage due to low wage rates. India has one of the lowest labour costs in the world ($ 0.58/hour). Following table 1.0 indicate that labour cost in US is $ 14.24/hr. and $26.1/hr. in Japan while labour costs are $0.69/hr. and $0.37 respectively in China and Pakistan.
Table 7.01: Labour Cost Comparison

<table>
<thead>
<tr>
<th>Country</th>
<th>US$/hr</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>14.24</td>
</tr>
<tr>
<td>Japan</td>
<td>26.1</td>
</tr>
<tr>
<td>China</td>
<td>0.69</td>
</tr>
<tr>
<td>India</td>
<td>0.58</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.46</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.43</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.37</td>
</tr>
<tr>
<td>Germany</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Source: Compiled from Compendium of Textile Statistics

7.1.3 FLEXIBILITY:

The small size of manufacturing which is pre-dominant in the apparel industry allows for greater flexibility to service smaller and specialized orders. Since the turnaround time for new product development is comparatively short in this Industry, the large base of small firm in India provide flexibility for producing small quantities and servicing to niche markets.

7.1.4 RICH HERITAGE:

The cultural diversity and rich heritage offers good inspirational base for designers. The fabric and the work of artisans from Karnataka, Tamilnadu, Rajasthan, North-east states etc. are well known in world textile and apparel trade.

7.1.5 DOMESTIC MARKET:

Natural demand drivers including rising income levels, increasing urbanization and growth of the purchasing population drive domestic demand. The variable demand drives include latest demand in existing applications of textiles (good quality cloth at reasonable prices) and new applications of textiles. The extent of latest demand for good quality apparel can be gauged by the explosive growth of the nascent branded apparel segment, which has been growing at 15-20% in the last few years.

7.2 WEAKNESSES:

There are few areas due to which textile and apparel industry has not been able to perform well in world market. The major causes of its weak performance are:
7.2.1 MORE DEPENDENCE ON COTTON:

More than 80% of the fibre consumed in India is cotton while in the world consumption market reserve trend is observed. This over dependence on cotton affects the textiles apparel trade in India. Due to over specialisation in cotton, the bulk of international trade is missed out, synthetic products in India are expensive and fabric required for items like swimwear, ski-wear and industrial apparel is relatively unavailable, whereas world trade in synthetics is growing at the fastest rate, India has been unable to diversify its exports basket and remains heavily dependent on cotton. Table 2 shows that apparel export of cotton based apparel has increased while of non-cotton apparel has decreased in last decade.

Table 7.02: Fibre-wise Split of India's Apparel Exports

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Silk</td>
<td>1.9%</td>
<td>0.7%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Non cotton</td>
<td>29.3%</td>
<td>29.6%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Cotton</td>
<td>68.8%</td>
<td>69.7%</td>
<td>86%</td>
</tr>
</tbody>
</table>

Source: Compiled from Compendium of Textile Statistics

7.2.2 SPINNING SECTOR:

The spinning sector has excess capacity and has seen good growth but it lack in modernisation. There is need for scraping of old spindles and introduction of new technology.

7.2.3 WEAVING SECTOR:

India has relatively lesser number of shuttleless looms. The total number of shuttles machines is currently estimated at around 20000 while china has reached for approximately 10,00,000 shuttleless looms. The share of shuttleless machine in total weaving output is perhaps the lowest in India, in % terms. Looming robots are used in the textiles and apparel units in the western countries. Only 1.69% of total looms installed in India are shuttleless while in China the % shuttleless looms is 15.29% of total looms. Table 3 reflects extent of modernisation of weaving industry, whereas Indian industry is quit outdated in comparison to US, Pakistan, China, Brazil and Mexico.
Table 7.03: Shuttleless Looms as a Percentage of Total Installed Looms

<table>
<thead>
<tr>
<th>Country</th>
<th>Shuttleless looms (%) 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>15.29</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10.49</td>
</tr>
<tr>
<td>India</td>
<td>1.69</td>
</tr>
<tr>
<td>Brazil</td>
<td>29.54</td>
</tr>
<tr>
<td>Japan</td>
<td>16.52</td>
</tr>
<tr>
<td>Mexico</td>
<td>28.95</td>
</tr>
<tr>
<td>US</td>
<td>74.15</td>
</tr>
<tr>
<td>Pakistan</td>
<td>8.82</td>
</tr>
</tbody>
</table>

Source: Compiled from Compendium of Textile Statistics

7.2.4 FABRIC PROCESSING:

Processing stage add significant value in the entire textile chain, however, processing is the weakest link in the Indian textile value chain, adversely affecting its ability to compete in exports. India's export performance in terms of proportion of greige and processed fabric along with the UVR is shown in Table 4. The consumption pattern of world market indicates that 73% of consumption is of processed fabric and 27% of greige fabric whereas India’s exports of fabric consist of only 34% processed fabric. This indicates an opportunity loss due to lack of adequate processing facility and technology.

Table 7.04: Proportion of Greige to Processed Fabric

<table>
<thead>
<tr>
<th>Country</th>
<th>Processed</th>
<th>Greige</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>34%</td>
<td>66%</td>
</tr>
<tr>
<td>World</td>
<td>73%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: Textile Outlook International

The UVR of processed fabric is comparatively very low for India in comparison to average UVR for processed fabric in world market. The UVR of processed fabric (more than 200 g/m) is 1.09 US$ for fabric exported from India while the average price realized in world market for similar specifications is US$ 2.01. There is comparatively higher gap in UVR of processed fabric in comparison to greige fabric being exported to world market. The underlying reason lies in technology gap existing in processing industry of India vis-à-vis. world (table 5). The analysis indicates either India is not being able to cater to requirements of processed fabric and concentrating on greige fabric. Moreover the quality of processed fabric is rather inferior resulting in lower price realization.
Table 7.05: Uvr for (Greige/Processed) Fabric

(Value in US$)

<table>
<thead>
<tr>
<th>Weight Range</th>
<th>India</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greige, less than 100g/m</td>
<td>0.41</td>
<td>0.5</td>
</tr>
<tr>
<td>Greige, 100-200g/m</td>
<td>0.67</td>
<td>0.76</td>
</tr>
<tr>
<td>Greige, more than 200g/m</td>
<td>0.73</td>
<td>0.96</td>
</tr>
<tr>
<td>Processed, less than 100g/m</td>
<td>1.51</td>
<td>1.84</td>
</tr>
<tr>
<td>Processed, 100-200g/m</td>
<td>1.20*</td>
<td>2.19</td>
</tr>
<tr>
<td>Processed, more than 200g/m</td>
<td>1.09</td>
<td>2.01</td>
</tr>
</tbody>
</table>

Source: Textile Outlook International

7.2.5 GARMENTING:

The garment industry is highly fragmented and is characterized with small and medium size units. This gives the industry flexibility to cater to small order with variety but lacks in fulfilling huge orders for single quality.

7.2.6 POOR INFRASTRUCTURE:

High power costs (power cost is defined as number of units required to produce one kg. of yarn or one kg. of fabric) and long export lead times are eroding India's export competitiveness across the textile chain. Though India's power costs are higher than its competitors, the quality of power is significantly poorer.

7.2.7 LOW LABOUR PRODUCTIVITY:

Labour cost is lower in India but productivity levels are rather poor in comparison to other key exporting countries. The productivity levels for manufacturing various apparel items are far lower in India vis-à-vis its competitors. For example, on an average 9.1 pieces of Gent's shirts per machine are being produced in India while 20.9 Gent's shirts are being produced per machine in Hong Kong in a day. The poor productivity nullifies effect of comparative advantage in low wage cost.

7.2.8 TRAINING:

India has a labour intensive garment sector; with the advent of technology manpower requires appropriate training. An average of only 10 hours of training is given to the workers as against 70 hours of training given to the workers in China. There is poor concern and understanding of non-tariff issues like child labour, environment, and crèche availability for women employees etc.
7.2.9 POOR QUALITY STANDARDS:

Raw material quality, obsolete technology used for production, improper material handling techniques result in value loss of the goods. Many importers see India mainly as a source for low priced apparel for lower end of the market. This exerts a downward pressure on export price hence UVR is low. Quality is not uniform in many cases hence there is a lack of confidence in India’s products. Total quality management is ensured in Japanese and America plants while it is still largely absent in the Indian industry.

7.2.10 DISTANCE OF THE POTENTIAL MARKETS:

More than 80% of Indian exports is to US and EU. With the opening up of the world economies new challenges come up for the industry, the most important one being other emerging markets. There is a need for quick response; consequently, supplies in the two major consuming regions are shifting end product manufacturing to nearby low cost countries. Due to the distance of these markets from India and due to the increasing fashion risk these countries are shifting their sourcing base from India to neighboring developing countries even at a slightly higher price. In some cases, US is shifting its sourcing base to Mexico, Caribbean and Latin American countries. EU is looking towards east European & North African countries for apparel imports.

7.2.11 LOWER AVERAGE CONSUMPTION IN THE DOMESTIC MARKET:

Per capita cloth consumption in India is almost 1/8th to 1/10th of those in the developed countries. This reduces the potential of the domestic market for apparel and textile manufacturers. This can be attributed to lack of good quality products at reasonable prices and lack of organized retail sector to create market “pull”.

7.2.12 LACK OF PROFESSIONALISM AND INTEGRATION OF SUPPLY CHAIN:

Conflict and competition between small, medium and large player and amongst links of supply chain namely viz, cotton producers, spinner, weavers etc. The industry faces a shortage of professionals and the family business structure still pervades.

7.2.13 DEPENDENCE ON QUOTA SYSTEM:

With the abolition of the quota system under the MFA, India is likely to lose its share in the world market to other who is better equipped for competition. Moreover,
India's destination for export is primarily quota market, which is going to have more effect of phasing out of quota. On the other hand countries i.e. China had developed well market for its product in non-quota countries too, resulting in possibility of gain and sustenance in those markets in longer period. Recent liberalization with the government following a protectionist external policy, India is new open market operations and was until protected from MNC,s is now facing stiff competition. The market is set to witness more and more brands and product from US, EU and China threatening domestic market. The domestic market needs to be ready to face the challenges thereof.

7.2.14 VERY LOW INVESTMENT IN R & D:

Firms in Southern US are reported to be researching the use genetic engineering, cellular biology and tissue culture to grow coloured cotton. Practically on research is being done in the field of development of modified fibres like tencel, spandex, etc. India is still continuing with the slow methods of production, which results in lesser production and the products, do not meet the world standards in quality. Since in the past there was no need to change the product etc. but now there is need for innovation in terms of styling, packing and product features.

7.2.15 LIMITED EXPLOITATION OF ECONOMIES OF SCALE:

Most of the players in the industry are small firms operating with relatively old technology. There is a shortage of large production lines to tap the basic product market and to services huge orders on time. In spite of capital availability, hesitation of players to recruit large workforce (with the fear of work union, idle manpower due to lack of orders) resulted in sub-optimal scale of operations. Large Indian units typically employ 1000-1500 workers; large unit in China employs upto 25000 workers. India accounts for about 21% of the world’s spindle age (second largest after China) and 50% of the world’s loomage. The capacity utilisation in the spinning sector of the organised textile mill industry increased from 80% in 1990-91 to 86% in 1995-96 but it again decreased to the level of 83% during the year 2003-04, while the capacity utilisation in the weaving sector of the organised textile mill industry has remained less than 60% in the last decade. The spindleage increased from 11 million in 1951 to over 37.03 million and rotors from 45 thousand in 1989 to 395 thousand in 2002; loomage however declined from 1.78 lakh in 1990 to 88000 in 2004 in the organised sector. The percentage utilisation of looms has reduced from 58% to 53% during 1990-2004.
Table 7.06 : Capacity Utilisation in Textile Industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Installed spindles Nos (in million)</th>
<th>Percentage utilisation</th>
<th>Installed looms Nos (in thousand)</th>
<th>Percentage utilisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>21.23</td>
<td>77</td>
<td>208</td>
<td>78</td>
</tr>
<tr>
<td>1990-91</td>
<td>26.67</td>
<td>80</td>
<td>178</td>
<td>58</td>
</tr>
<tr>
<td>2000-21</td>
<td>37.91</td>
<td>85</td>
<td>123</td>
<td>47</td>
</tr>
<tr>
<td>2001-02</td>
<td>38.32</td>
<td>82</td>
<td>123</td>
<td>42</td>
</tr>
<tr>
<td>2002-03</td>
<td>39.03</td>
<td>80</td>
<td>119</td>
<td>41</td>
</tr>
<tr>
<td>2003-04</td>
<td>37.03</td>
<td>83</td>
<td>88</td>
<td>53</td>
</tr>
<tr>
<td>% change 1981-2004</td>
<td>74.42</td>
<td>7.79</td>
<td>-57.69</td>
<td>-32.05</td>
</tr>
</tbody>
</table>

Source: Compiled from Compendium of Textile Statistics

As shown in table 6 the number of spindles have increased by 74.42% between (1981-2004) while the percentage utilization has only increased by 7.79% in corresponding period. While number of installed looms has decreased by 57.69% and the percentage utilisation (weaving) has reduced by 32.05% in corresponding period. This shows that although capacities are added in spinning but due to lack of modernisation of the existing capacity in weaving, its capacity utilisation is rather poor in weaving sector. Further to it, the weaving sector has not seen any additions in the capacity showing lack of interest in weaving sector.

Beside it, the other weaknesses include red-tapism leading to various problems like delay in shipment, loss of business and image hampering image of India as brand in exports besides effecting prospects of garment exports. In addition to it, Labour laws are very strict and rigid do not favour the manufacturing industry.

7.3 OPPORTUNITIES:

The external environment of world textile and apparel is expected to have growing market and there is an opportunity for India in textile and apparel industry due to:

7.3.1 GROWING INDUSTRY:

World textile trade would continue to grow at a rate of 3-4% to reach $200-210 billion by 2010 from $157 billion in 2002. Home textile and technical textile will grow faster than other categories.
7.3.2 MARKET ACCESS THROUGH BILATERAL NEGOTIATIONS:

The trade is growing between regional trade blocs due to bilateral agreements between participating countries. India has no pacts with any countries/trading block. Non-participation in these trade agreements is resulting in erosion of cost-competitiveness due to additional incidence of duty.

7.3.3 OPPORTUNITIES IN TERMS OF NEW LUCRATIVE MARKETS:

Traditionally quota markets are India's key destinations but there are new and emerging markets i.e. South Africa, which are characterized by high growth, rate and has scope for market expansion for exporting country.

7.3.4 INTEGRATION OF INFORMATION TECHNOLOGY:

'Supply Chain Management' and 'Information Technology' has a crucial role in apparel manufacturing. Availability of EDI (Electronic Data Interchange) makes communication fast, easy transparent and reduces duplication. Upcoming technologies for mass customization such as three dimensional non-contact body measurement and digital printing can give competitive advantage to the manufacturers. Global integration of supply system in a cost and time effective manner has become the need of the day. Inventory planning, sales forecasting, manufacturing strategy, distribution network and transportation management are some of the areas that will improve productivity and remove bottlenecks.

7.3.5 MFA PHASE OUT:

Post-2004, due to MFA phase-out India is expecting to have improved market access to major consuming markets in US and EU. The quantitative restrictions in terms of quotas are restricting entry of products of manufacturers without quota. The phase out of quotas shall be a boon to those exporters.

7.3.6 OPPORTUNITY IN HIGHER VALUE ITEMS:

The average UV Rs of items from Hong Kong are 14-84% higher than UVR for similar products from India (Table 7). India also has the opportunity to increase its UVR's through moving up the value chain by producing value added products and/or by producing more value added technologically superior products.
### Table 7.07: Comparison of UVR

<table>
<thead>
<tr>
<th>Category/country</th>
<th>Average UVR (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women’s dresses</td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>7.9</td>
</tr>
<tr>
<td>India</td>
<td>6.9</td>
</tr>
<tr>
<td>Women’s blouses</td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>7</td>
</tr>
<tr>
<td>India</td>
<td>3.8</td>
</tr>
<tr>
<td>Men’s Shirts</td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>6.3</td>
</tr>
<tr>
<td>India</td>
<td>4.7</td>
</tr>
</tbody>
</table>


### 7.4 THREATS:

The industry has good growth in past few years but a few factors pose a threat to prospects of Indian textile and apparel industry.

#### 7.4.1 DECREASING FASHION CYCLE:

There has been an increase in the number of seasons per year. This has resulted in shortening of the fashion cycle. Shortening of the fashion cycle has increased the fashion risk. This has caused US and European buyers to buy from the neighboring countries to hedge this fashion risk even at a higher cost.

#### 7.4.2 FORMATION OF TRADING BLOCKS:

Formation of trading blocks like NAFTA, SAPTA, etc. has resulted in a change in the world trade scenario. Existence of bilateral agreements would result in significant disadvantage for Indian exports. NAFTA and EU are becoming self-sufficient blocs with growing trend of out-ward processing trade (OPT) resulting in increase in trade within these blocs (growth of 17% of trade from Eastern Europe to EU; growth of 23% of trade from Latin America to North America). Developing countries in these trading blocks get a preferential treatment from the developed countries, which form the most lucrative markets for the Apparel exports. In addition to sourcing strategies majority of other countries are also aligned to one or more trading blocs; India has no pact with any trading bloc/country. India’s non-participation in these trade agreements is resulting in erosion of cost-competitiveness due to additional incidence of duty (Indian export have disadvantage of 15-35% due to these
restrictions). Pakistan has entered into a bilateral agreement with EU where for providing improved access to EU imports, Pakistan is getting concessional tariffs on its exports to EU.

7.4.3 PHASING OUT OF QUOTAS:

The increasing competition from major exporting countries like China, Hong Kong, Korea etc has opened the trade so the manufacturer, which provides the best deal, will flourish. India will have to open its protected domestic market for foreign players thus domestic players have to face a stiffer competition. India's proportion of exports in Top-10 quota counties is 3.2% as compared to 1.6 % in top-10 non-quota counties while China has 38% share of Top-10 non-quota counties and in 11.3% in non-quota counties quotas have distorted industry demand and supply dynamics, resulting in consumers in developed counties paying higher prices for apparel. This is also substantiated by India’s price realization for non-restrained items, which are substantially lower than realisation for restrained items. India's inability to gain market share in non-quota counties implies that quotas are currently protecting India's market share in apparel. The strategies for post MFA period are to be designed with a perspective to capitalize on strength and utilize the opportunities to be available in quota free world. The strategy also needs to be formulated to overcome the weakness of textile and apparel industry.

Apparel and Textile Industry of India is one of the largest net foreign exchange earners for the country. Indian industry is classified into several segments based on the type of establishment or by the fibre mix. The number of spinning mills is stagnant. Weaving sector is characterized with larger presence of unorganized powerloom sector. The fabric from powerloom is lacking in uniformity in quality standards besides problem in delivering quality production. Processing is one of the weak links in the textile supply chain of Indian industry. Indian apparel industry has witnessed vast growth in last decade. The industry consists of small scale units due to various government policies in past having provision for reservation of sector under SSI. However, with change in government policies and steps by industry fresh investments for large and vertically integrated units are seen in this sector. India is well positioned to take advantage of quota phase out given its unique strength which should give it long term competitive advantage.

7.5 ACTION PLANE (STRATEGIES):

The textile and apparel industry is one of the largest industrial sectors in India and a leading foreign exchange earner. Industrial liberalization in the domestic economy since 1991 has followed by changes in the global environment. Abolition of
licensing controls on the industry was followed by the Uruguay round of negotiations resulting in ten-year phase out of textile export quotas under the ‘Agreement on Textile and Clothing’. The roll down of textile quotas was accompanied by roll down of custom duties and quantitative restrictions on import of wide range of textile and apparel products into the Indian market. These sequential steps are leading to a convergence of the domestic and international markets for textiles and apparel. The domestic industry is no longer insulated from global competition. The phased removal of textile quotas since 1995 has catapulted Indian export firms in to a new competitive environment.

The exports of Indian textile and apparel have grown under the environment of MFA quotas for over two decades. The international textile and apparel trade was conducted in a unique regulatory environment that restricted exports from specific countries and of specific products. There has been considerable speculation and divergence of opinion among industry and government circles on how Indian exports may be affected with removal of MFA quotas. One school of thought is that Indian industry will be freed from quota shackles and able to boost exports. An attempt has been made in this book to assess the sources of competitive advantage for Indian apparel and textile industry in WTO era. The research findings of this study provides an insight on how the removal of MFA quota is likely to influence Indian textile and apparel industry and preparedness of industry for WTO era.

The research findings indicate high cost of manufacturing, limited R&D facility, higher competition and lack of understanding of market requirement, lack of awareness about new international innovations/standers as the key reasons for Indian fabric industry not being able to focus on manufacturing high value fabric in India. The research finding also revealed lesser marketing effort requirement and more demand as the reasons for exporting more of greige fabric than value added processed fabric. This coupled with expertise in the product makes fabric manufactures continuing with manufacturing of greige fabric despite of increasing demand of finished fabric in world trade. The manufacturers are not being able to have in roads into fabric export due to lack of understanding of target market, lack of designing skills to interpret international forecast, higher lead time and limited production capacity.

The Indian fabric manufacturers are concentrating more on woven categories despite the increasing requirement of knitted fabric in world apparel market due to perception of higher market demand, better margin, easy raw material availability, technological competence and availability of technology for manufacturing woven fabric. The government policy framework reserving knitted under SSI for a larger period also hindered bigger investments in knitted sector.
100% cotton followed by polyester cotton blend is expected to be important for India after quota removal. This is also found that processed fabric shall be much more important due to competition with imported fabric. The fabric width of 40-60" (finished) and 61-80" (Greige) is to be more important and be in demand after quota removal.

With phasing out of quotas the increase of imports of textile and apparel is expected. It is felt that powerloom sector will be more affected due to stricter quality norms of fabric buyers for apparel industry and easy available of fabric from imported origin. The impact of increasing import shall be felt more upon synthetic fabric from Asian countries. The impact shall be felt more on processed fabric as imported fabrics are primarily processed. To face the competition from imported fabric, it is required to improve the quality of the product, raw material quality and exercise cost control.

The measure to be taken to increased fabric exports include improving the quality of end product, cost competitiveness, technological competence etc. cost competitiveness is affected by set of factors consisting raw material, technology and productivity. Due to lesser availability of raw material for synthetic fabric in India and poor state of technology particularly in weaving and processing; India is not cost competitive and the quality of end product of large number of unorganized fabric manufacturers is not suitable for exports.

**EXHIBIT 7.1: MEASURES TO INCREASE FABRIC EXPORTS**

![Diagram of measures to increase fabric exports]

- Compatible quality
- Low cost of production
- Lower lead time
- Production of wider fabric width
- Availability of latest technology
- Favourable Govt. policy
- Availability of production capacity
- Proper market understanding
- Processing facility/quality
- Designing skills to interpret international forecast & demand
- Order (lot) size
Exhibit 7.1 shows ideal positioning of various parameters (scale of 1 to 5, 5 being highest) as measures to increase fabrics exports. Compatible quality is one of the critical requirements besides low cost of production, lower lead time and production of wider width fabric. To achieve it, the need is for availability of latest technology, processing facilities with quality output besides availability of production capacity and flexibility of catering to different end large order (lot) size. The industry needs proper and timely market understanding for destination and skills to interpret international forecast and demand and cater it. The government policy is required to be favorable it industry so as to enable it to increase fabric exports in WTO era. The new policy initiatives are to be comparable with competing countries in world textile trade.

The fabric from organised sector as well as from unorganised sector in India is perceived to have poor performance against various parameters in comparison to fabric from imported sources leading to perception of export houses and buying houses that the imported fabric is superior to the Indian fabric while making decision of sourcing the fabric for apparel firms. This is causing increasing import of fabric to India. This certainly has affected the competitiveness of Indian fabric industry and may further affect it if the necessary action is not been taken by fabric manufacturers.

The increase in consumption of imported fabric is the result of non-availability of desired fabric in domestic market. India is perceived to be preferred source of 100% cotton based fabric while the fabrics with MMF are being increasingly imported from China, Taiwan, Korea. The increasing import of fabric is due to better performance of the fabric in terms of availability of wider width, consistency in quality, required quality of finishing, consistency in lot/roll quantity, lot/roll quantity availability and count and construction availability for required fabric.

**EXHIBIT 7.2: REQUIREMENTS FOR COMPETITIVENESS IN WTO ERA**

![Diagram showing requirements for competitiveness in WTO era]
Exhibit 7.2 shows ideal position (scale 1 to 5, 5 being highest), of various parameters (key consideration for sourcing decision of fabric) to be competitive in WTO era and effectively compete with fabric from imported sources. Indian textiles industry is required to be prepared to deliver high order quantity with consistency in quality and quantity at competitive (lower) price at minimum lead time. The level of technology is required to be equipped to provide wider width of fabric, required quality of processing (including finishing). The lot/roll quantity availability, availability of various counts and construction and required physical property for end uses and low samplings cost are other main requirements for Indian fabric industry to be competitive in WTO era.

The Indian fabric manufactures have not been able to focus on high quality fabrics due to limited availability of research and development facility and high cost of manufacturing associated with it. The fabric manufacturers also perceive that there is high degree of competition in high quality fabric market in world textile trade. Indian fabric manufacturers are targeting to market of greige fabric while there is a large market of processed fabric available with better price realizations. The reason can be attributed to outdated technology of processing, lesser investment in processing facilities leading to non-availability of required finishing facilities in India.

EXHIBIT 7.3 : REQUIREMENTS FOR REPOSITIONING OF INDIA AS SOURCE OF HIGH VALUE FABRIC
Exhibit 7.3 shows ideal positioning (scale 1 to 5, 5 being highest) of factors which may reposition India as source of high value fabrics in world market. Indian fabric (textiles) industry is required to have understanding of market requirements and awareness about new international innovations and standards to cater high value segment in fabric market. The requirements include availability of required design skills, raw material, skilled workers to produce quality product supported by latest technology including finishing, R&D facility. It is also necessary to be cost competitive in market. The high and increasing demand in this segment of market is accompanied by stiff competitive, demanding buyers along with higher profit margin.

7.5.1 STRATEGIES FOR APPAREL INDUSTRY:

The research findings show that India is targeting to lower end of the market because of differentiation in the value chain configuration for basic and high value items. The apparel exports are primarily exporting the basic categories i.e. Gents' shirts, Ladies Blouses, ladies skirts and T-shirts etc. the limited research and development facility, non-availability of quotas, unfavourable cost competitiveness along with the image of India as destination for sourcing basic items has contributed in it. Technological constraints, limited finishing facilities and difficulty in importing raw material are the other key reasons leading to lesser focus on manufacturing of high value added apparel products in India. The productivity of Indian firms is rather poor in comparison to world, which causes and contributes in unfavourable cost competitiveness of apparel industry. One of the key reasons behind more focus on basic items is non-availability of required fabric for high value items. The lower productivity is also caused due to the poor state of technology, small-scale nature of industry, lesser investment in technology in assembly line production.

There is increasing demand of knitted apparels in world market while the Indian manufacturers are still concentrating more on manufacturing of woven apparels. The analysis of perception of apparel exporters indicates high market demand, margin and quota availability as the reason for interest in woven apparels while technological competence in manufacturing woven categories is also a contributing factor. However, It is perceived that the availability of raw material is superior for knitted apparels.
The increase in consumption of imported fabric is the result of non-availability of desired fabric in domestic market. India is perceived to be preferred source of 100% cotton based fabric while the fabrics with MMF are being increasingly imported from China, Taiwan, and Korea. However for synthetic blends India as well as China, Taiwan, and Korea are preferred sourcing destination. The increasing import for fabric is due to better performance of the fabric in terms of availability of wider width, consistency in quality, required quality of finishing, consistency in lot/roll quantity, lot/roll quantity availability and count and construction availability. The fabric from organized sector is preferred by apparel manufacturers due to meeting requirement of high order quantity, minimum lead-time, required quality of processing and required physical properties. The fabric from un-organized sector is perceived to have low sampling cost. This indicate that Indian textile (fabric sector) is not being able meet the requirement of apparel manufacturers and leading them to focus on identifying better source of raw materials to face competition in international market.

The study indicated the need for focus on product development and design, investment into latest technology, extensive marketing of the product and product specialization along with increase in production capacity as measure to face competition in international apparel market.

Ladies dresses, Gents' shirts, T-shirts, Ladies blouses and skirts are apparel categories having potential for apparel exports in post-MFA period. It is also expected that the value addition i.e. embroidery, print and bead work will be important in WTO era. Since India is having a strong base in cotton, 100% cotton is the fabric composition expected to remain important for India after quota phase-out. The findings of survey indicate that limited R&D facility, limited finishing facility and unfavourable cost competitiveness and difficulty in importing raw material are key reasons leading to lesser sourcing of high value items from India. Besides it, the image of India as the producer of basic producer and technological constraints are the other reasons for more concentration on sourcing of basic items of India. These parameters include the image of India as producer of basic items, difficulty in importing raw material, unfavourable cost competitiveness and limited R&D facility in India. The image of India as producer or source of basic merchandise is due to concentration of trade in basic categories with average FOB lesser than US$ 4.
EXHIBIT 7.4: REQUIREMENTS FOR REPOSITIONING OF INDIA AS SOURCE OF HIGH VALUE APPAREL

Exhibit 7.4 shows pictorial description of requirement for repositioning of India as source of high value items on a scale of 1 to 5 (5 being most important). Availability of required design skills, raw material, workers with required skills is necessary for repositioning of India as source of high value items. There is need for latest R&D facility, finishing facility besides ease in importing raw material. Technological constraints have to be minimum and cost competitiveness is to be achieved with combination of all factors re-position India as source of high value items.

The finding also indicate that although there is good market demand for knitted apparels but more of woven apparels are being sourced from India due to manufacturer's technological competence in woven, availability of quota, availability of production facility and finishing facility. In nutshell, some parameters are more favourable to source woven apparels from India despite of good market demand of knitted apparels with phasing out of quotas and more investment in knitted sector in India, the scenario is likely to change in coming years.

Focus on product development and design, investment into latest technology and focus on better source of raw material and product specialization are the initiatives to be taken by the Indian apparel industry so as to enable it to face competition in international market. The categories with potential of business expansion in post-2004
include The-shirt, Gent's shirts, Trousers and Ladies blouses. The value addition is also expected to be important for exports from India to differentiate its offering & provide better price realization. 100% cotton is the key composition to remain important even after phasing out of the quotas. Knitted sector is expected to be important for India in changed scenario in quota free world as the world trade in textile and apparel is shifting towards knitted apparels with changing lifestyle of target customers.

**EXHIBIT 7.5 : INITIATIVES FOR APPAREL INDUSTRY IN WTO ERA**

Exhibit 7.5 shows that to be competitive in WTO era, the Indian apparel industry needs to focus on product development and design so as to cater to requirement of target customers. Launching our brands in destination market besides extensive marketing of the product is suggested for apparel industry so as to have a niche space in market. To achieve it, there is need for consortium of manufacturers. This shall help in undertaking marketing efforts with collective initiative. The industry needs to focus on sourcing raw material, diversifying into new product categories and work on product specialization to achieve distinctive place in world market. The industry needs to invest into latest technology, increase production capacity and explore the options for backward and forward linkages. The backward linkage towards
fabric shall optimize cost and will control raw material price and availability as per requirement while forward linkages in terms of retail and brand initiative will provide higher earning and distinctive position in trade in WTO era.

7.6 SUMMING UP:

An Indian apparel and textile export has high potential to upgrade its inherent comparative advantages and move towards sustainable competitive advantage especially to prepare for the competitive scenario in the post-MFA textile and apparel trade.

The need is to position India as a supplier of high value items. The apparel exporters are required to make efforts for changing the perception of being producer of basic items. It can be achieved by technological innovation and usage of latest technology in manufacturing and processing the apparel manufacturers have to use quality raw material (fabric) with value addition to differentiate its offerings and target to upper end of market. To face competition in WTO era the focus on product development & design is needed which requires investment into latest technology and latest technology and focus on better sources of raw material. Indian apparel manufacturer need to have product specialization to get higher earning. The increasing competition in basic categories shall bring prices down in post-quota scenario. The manufacturers need to invest into latest plants & develop expertise in higher value items.

There is increasing demand of knitted apparels in world market while Indian manufacturers are primarily concentrating on woven apparels. The reason lies in better margin, quota availability & technology competence for manufacturing woven fabric. The need is to have specialization in knits along with woven fabric and target on higher end of market.

As world textile and apparel trade is shifting to apparel the textile and apparel industry of a country can remain competitive in quota free world with competitive advantage in each element of value chain of manufacturing. The apparel industry is increasingly becoming dependent upon fabric of imported origin due to perception of better performance on various parameter including lower cost, availability of wider width fabric, consistency in quality, processing & moreover minimum lead time. The fabric from organized sector is perceived to be preferred by manufacturers for higher
quantity requirement, lower sampling cost. It indicates that India’s textile (fabric) sector needs to become competitive by investment in latest technology in weaving and processing, research and development and offering product with proper understanding of market requirement.

Indian fabric is preferred for 100% cotton while for synthetics China, Taiwan and Korea are becoming sourcing base for Indian apparels manufacturers due to cheaper price and superior quality. Indian textile (fabric) industry needs to offer merchandise as per latest international trends. The requirement of apparel industry is for consistency in quality and quantity, wider width and cost competitiveness. The Indian governments need to encourage investment by organized sector to have large set up in weaving and processing the effort should be on making good quality Indian fabric available at competitive price to apparels manufacturers.

The efforts are required to change the perception of buyer towards Indian fabric. The integrated effort of textile (fabric) and apparel industry shall boost all segments of textile and apparel industry. The government is also required to provide infrastructural support and policies, which can attract investment in this sector so as to develop all segments of industry. Competitiveness of Indian textile and apparel industry can be increased by strengthening elements of value chain in textile and apparel industry by developing competitive advantage of each of the segment and having its contribution for value addition in further stage of production. The strategic planning for targeting to segment offering higher realization due to product innovation and differentiation in higher value segments is required with building up competitive advantage of having strength in the backward value chain.