APPAREL GVC ANALYSIS
INDUSTRY-SPECIFIC GLOBAL VALUE CHAINS

HIGH LEVEL SUMMARY ONLY
PLEASE SEE ANNEX E FOR DISCUSSION AND DETAIL
READER PLEASE NOTE:

As the scope of the activity is purely to test the methodology for its relevance and applicability, rather than to inform ongoing operations or project design, breadth of study is prioritized over rigor and empirical evidence. Information relies on market intelligence, no firm conclusions are drawn and recommendations are indicative only; illustrating the type of insight that could be derived using the approach given appropriate time and resource.
| 1. | Strategic Segmentation | Slide 3 |
| 2. | Determining the Value Chain for Each Segment | Slide 18 |
| 3. | Applying the Approach in Bangladesh | Slide 24 |
| 4. | Applying the Approach in Sri Lanka | Slide 32 |
| 5. | Applying the Approach in Turkey | Slide 40 |
| 6. | Alternative Strategies | Slide 57 |
1. STRATEGIC SEGMENTATION
INDUSTRY-SPECIFIC GLOBAL VALUE CHAINS
Analysing the “Apparel” Industry (GVC Style)

1. What does the apparel industry consist of today? And tomorrow?
   What trends are we seeing? What are the (emerging) strategic segments?

2. What does this mean for the organization of the value chain?
   Where do the various functions take place? What occurs locally, regionally and globally?

3. Which chain does it make sense for me to be in?
   How is the value added distributed? Within each chain? And across chains?
What are the emerging Strategic Segments within the apparel industry?

INTUITIVE / KNEE JERK SEGMENTATION: Low-priced fashion, brands or haute couture:

By Certified eco or ethical fashion labels, or by recyclable, recycled or wearable Technology?....

By type of floor organization, by type of inventory management or by retail channel?....
How Do We Identify Strategic Segments in the Apparel Industry?
First we must identify and understand global industry trends:

- Post-MFA: intensification of competitive pressures and consolidation of production
- Pressure towards faster response times and more efficient logistics
- Emergence of large consumer base in middle-income countries
- More stringent social and environmental standards (inputs, processes and products)
- Omni-channel retail and the growing importance of buyers’ experience
- Return of customized design and production
Post-MFA: intensification of competitive pressures and consolidation of production

The consolidation of production since 2004 has led to a redistribution of activities:

- **Growth suppliers**: Bangladesh, Cambodia, China, India, Pakistan, Sri Lanka, and Vietnam
- **Steady suppliers**: EU-15, Morocco, Tunisia, and Turkey
- **Declining suppliers**: Canada, Mexico, Poland, Romania, USA
- **Past-prime suppliers**: Hong Kong, Korea, Philippines, Taiwan

Source: WB ‘Sewing Success.’
Pressure towards faster response times and more efficient logistics

Meanwhile fast fashion product cycles require much lower lead times and batch sizes.

Source: Adapted from Felipe Caro, Business Model Overview and Research Opportunities

Source: Team interviews
Emergence of large consumer base in middle-income countries

While a shift in economic gravity.....

Opens up space for regional retail operations in middle-income countries


Source: Homi Kharas, Brookings Institution.
More stringent social and environmental standards

EU/US buyers are ratcheting up compliance requirements

Even though consumers are not willing to pay for them

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**THE PRICE OF SAFETY AND DIGNITY**

How much would that T-shirt cost if garment makers in Bangladesh were better paid and working in safe, healthy conditions?

<table>
<thead>
<tr>
<th>Retail Cost</th>
<th>Minimum Wage</th>
<th>Double Minimum Wage</th>
<th>Living Wage*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$18.08</td>
<td>$19.56</td>
<td>$20.08</td>
<td></td>
</tr>
<tr>
<td>Min. Wage</td>
<td>$26.00</td>
<td>$53.00</td>
<td>$1.09</td>
</tr>
<tr>
<td>Fire Safety Cost</td>
<td>$0.00</td>
<td>$8.60</td>
<td>$8.60</td>
</tr>
</tbody>
</table>

*This figure is derived from the Asia Floor Wage. See the methodology page for more.

**Figures are in US dollars and reflect pricing and exchange rates between the US dollar and Bangladeshi taka that prevailed on January 1, 2011. See the methodology page for more.**

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Graphic by Liz Shannon
Omni-channel retail and the growing importance of buyer experience

The merging of social media and editorial content provides context and content for purchasing online.

Social media

Social media and stores serve as important brand-building mediums.

E-commerce

Extensive data-gathered from online can be used in-store to provide an increasingly personalised experience to consumers across all channels.

Stores let consumers try on clothes before buying. Letting consumers collect and return online purchases in stores combines the convenience factors of online and in-store.

Mobile

Mobile devices facilitate impulse buying when out and about.

Mobile connects the tactile in-store experience to the convenience and greater variety available online.

In-store

Beacon Technology

Source: Adapted from Euromonitor Presentation on “New insights in the Apparel and Footwear Market in 2015”
Which are most relevant for WB client countries over next 5-10 years?

- Pressure towards faster response times and more efficient logistics
- Emergence of large consumer base in middle-income countries
- More stringent social and environmental standards (inputs, processes and products)
### Strategic segmentation for Global Apparel Industry

Each strategic segment has its own distinct *ideal* value chain. These *ideal* value chains are *not country specific.*

<table>
<thead>
<tr>
<th>SIMPLE PRODUCTS</th>
<th>FORECASTED RESPONSE</th>
<th>REACTIVE RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Segment 1 (Target - staple items)</td>
<td></td>
<td>Strategic Segment 2 (Zara – ‘fast fashion’)</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>COMPLEX PRODUCTS</th>
<th>FORECASTED RESPONSE</th>
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<tbody>
<tr>
<td>Strategic Segment 3 (Hugo Boss - luxury/lifestyle technical textiles)</td>
<td></td>
</tr>
</tbody>
</table>
What makes each segment individually distinct?

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</thead>
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<tr>
<td>Strategic Segment 1</td>
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</tr>
<tr>
<td>(Target - staple items)</td>
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<thead>
<tr>
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<th>REACTIVE RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Segment 2</td>
<td>Strategic Segment 2</td>
</tr>
<tr>
<td>(Hugo Boss - luxury/technical textiles)</td>
<td>(Hugo Boss - luxury/technical textiles)</td>
</tr>
</tbody>
</table>

- High lead times
- Large batch sizes
- Few physical inputs
- Indirect relationships
What makes each segment individually distinct?

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Strategic Segment 1 (Target - staple items)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| COMPLEX PRODUCTS | | |
|-----------------| | |
| Strategic Segment 2 (Zara – ‘fast fashion’) | | |

- Low lead times
- Small batch sizes
- Few physical inputs
- Direct relationships
What makes each segment individually distinct?

<table>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

- High lead times
- Small batch sizes
- Many physical inputs
- Direct relationships
2. DETERMINING THE IDEAL VALUE CHAIN FOR EACH SEGMENT
INDUSTRY-SPECIFIC GLOBAL VALUE CHAINS
The most important questions: How is value added distributed within each segment?

How do country characteristics affect the viability of each segment?

<table>
<thead>
<tr>
<th>Segment</th>
<th>Requirements</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Forecasted demand, simple products</td>
<td>Low labor costs, environmental/social compliance</td>
<td></td>
</tr>
<tr>
<td>2: Reactive demand, simple products</td>
<td>Efficient logistics/position on trade routes/proximity to large markets, environmental/social compliance</td>
<td></td>
</tr>
<tr>
<td>3: Forecasted demand, complex products</td>
<td>Local market/middle-class with homogenous/predictable tastes, environmental/social compliance</td>
<td></td>
</tr>
</tbody>
</table>
Ideal Value Chain Structure – Segment 1: Simple Product / Forecasted Response

Local/Cluster Value Chain

Global Value Chain

Regional Value Chain

- CUT, MAKE, TRIM
- LAB

- EQUIPMENT MANUF
- SOURCING INTERMEDIARIES

- DESIGN CONCEPT
- PRODUCT DEV

- NATURAL YARNS
- ARTIFICIAL YARNS
- KNIT FABRIC MANUF
- WOVEN FABRIC MANUF
- ACCESSORIES MANUF

- RETAIL
- LOGISTICS
- MKTG / BRANDING

Colour Code and Key
Ideal Value Chain Structure – **Segment 2: Simple Product / Reactive Response**

**Local/Cluster Value Chain**
- **WOVEN FABRIC MANUF**
- **KNIT FABRIC MANUF**
- **ACCESSORIES MANUF**
- **CUT, MAKE, TRIM**
- **FINISH, PROCESS, PACKAGE**
- **LOGISTICS**
- **PRODUCT DEV**
- **RETAIL**
- **RETAIL SUPP SERV**

**Regional Value Chain**
- **ARTIFICIAL YARNS**
- **NATURAL YARNS**

**Global Value Chain**
- **R&D – NEW TECH**
- **EQUIPMENT MANUF**
3. APPLYING THE APPROACH IN BANGLADESH
INDUSTRY-SPECIFIC GLOBAL VALUE CHAINS

HIGH LEVEL SUMMARY ONLY
PLEASE SEE ANNEX C FOR DISCUSSION AND DETAIL
Where is Bangladesh currently positioned and where might it be going?

**FORECASTED RESPONSE**

**SIMPLE PRODUCTS**

Strategic Segment 1: (Target - staple items)

**COMPLEX PRODUCTS**

Strategic Segment 3: (Hugo Boss - luxury/lifestyle technical textiles)

**REACTIVE RESPONSE**

- High lead times: 60-90 days
- Large batch sizes: 10,000s / 100,000s
- Few physical inputs: 5-pocket jeans, men’s briefs etc
- Intermediaries: 85% of market
Bangladesh is firmly entrenched in the simple-scheduled segment and it will remain a top sourcing destination in the short run. Costs are competitive for staple items.

<table>
<thead>
<tr>
<th>Export Rank/Indicator/Country</th>
<th>Rank &amp; World Unit Values (based on Number of Items, 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trouser (1)</td>
</tr>
<tr>
<td>1 China</td>
<td>4 / $6.5</td>
</tr>
<tr>
<td>3 Bangladesh</td>
<td>3 / $6.3</td>
</tr>
<tr>
<td>6 India</td>
<td>5 / $6.9</td>
</tr>
<tr>
<td>11 Pakistan</td>
<td>8 / $8.2</td>
</tr>
<tr>
<td>10 Sri Lanka</td>
<td>7 / $7.5</td>
</tr>
<tr>
<td>5 Vietnam</td>
<td>6 / $7.0</td>
</tr>
<tr>
<td>8 Cambodia</td>
<td>2 / $6.3</td>
</tr>
<tr>
<td>7 Indonesia</td>
<td>1 / $6.0</td>
</tr>
<tr>
<td>World</td>
<td>$7.8</td>
</tr>
</tbody>
</table>

Bangladesh remains the top future sourcing location; Ethiopia appears on the list for the first time.

“What will be the top 3 sourcing destinations over the next 5 years?”
Respondents who ranked the respective countries within the top 3, n = 40, %

- Bangladesh: 48%
- Vietnam: 33%
- India: 30%
- Myanmar: 30%
- Turkey: 30%
- China: 23%
- Ethiopia: 13%
- Indonesia: 10%
- Egypt: 5%
- Sri Lanka: 5%
- Tunisia: 5%

Source: McKinsey survey of chief procurement officers, Jan/Feb 2015
Bangladesh is completely competing in Segment 1 – Simple Product / Forecasted Response
But producer margins in this segment is very low

Competitive pressures are strong

**Threat of entry:** Moderate - CMT production is modular and easily scalable; though increasingly harder to obtain environmental and social certifications needed to export

**Power of buyers:** High - final purchasers or intermediaries dictate suppliers and outsourcing options; also impose remediation costs on suppliers

And most of the margin is captured by developed country buyers

Source: Team interviews
And there are high entry barriers to other segments…

Skill levels preclude a shift to luxury/technical textiles

Quality lags competitors even in same basic segment…

Reject/waste rates (percent)

<table>
<thead>
<tr>
<th>Rejections in factory</th>
<th>Rejections by client</th>
<th>Wastage/scrap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>China</td>
<td>Ethiopia</td>
</tr>
</tbody>
</table>

Reducing lead times would require a 10-year investment

<table>
<thead>
<tr>
<th></th>
<th>Bangladesh</th>
<th>Sri Lanka</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening back to back letter of credit</td>
<td>4-6 days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw material production</td>
<td>15 days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shipping time for raw materials</td>
<td>21 days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clearance at port</td>
<td>5 days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production of garments</td>
<td>20 days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shipping to importer</td>
<td>25 days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>90 days</td>
<td>30 days</td>
<td>20 days</td>
</tr>
</tbody>
</table>

Sources:
- Source: Global Development Solutions, DTIS.
This means few profitable local investment opportunities
But a strong role for IFC/WB in curbing negative externalities

Worker safety has improved post-Rana Plaza

But still concerns over environmental standards
4. APPLYING THE APPROACH IN SRI-LANKA
INDUSTRY-SPECIFIC GLOBAL VALUE CHAINS

HIGH LEVEL SUMMARY ONLY
PLEASE SEE ANNEX C FOR DISCUSSION AND DETAIL
Where is Sri Lanka currently positioned and where might it be going?

<table>
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<td><strong>REACTIVE RESPONSE</strong></td>
</tr>
<tr>
<td>Strategic Segment 1 (Target - staple items)</td>
<td>• High lead times: 10-14 weeks</td>
</tr>
<tr>
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<td>• Large and small batch sizes</td>
</tr>
<tr>
<td>Strategic Segment 3 (Hugo Boss - luxury/lifestyle technical textiles)</td>
<td>• Many physical inputs and complex supply chain management – brassieres, tailored jackets</td>
</tr>
<tr>
<td>• Few or no intermediaries</td>
<td></td>
</tr>
</tbody>
</table>
Post-MFA Sri Lanka has emerged as a global exporter of complex niche garments

Achieved through:
- Supply chain management
- Logistics
- Targeted backward integration
- Innovation, skilled workers
- Air shipment (high value-to-weight ratio)
- Shorter time for panties by supply through BGD factory

SPEED ➔ sales growth, same (or less) inventory, less markdowns
Following a deliberate upgrading strategy

PHASE ONE : ADD VALUE

- Innovation
- Direct relationship with buyers
- Value Chain management
- Design
- Effective industry group – Government partnership

And a strong reputation for social and environmental compliance

PHASE TWO: NARROW & DEEP

- Strategic relationships with a few key buyers
- Targeted backward integration
- Flexibility, small volumes
- Innovation
- Scale
And integrating forward to capture the gains from branding

Value addition and margins along the value chain for a bra (US$), 2014

- Relatively high labor cost: highly educated but expensive workers
- Small population: insufficient scale for staple products
- As wages rise and labor shortages persist ➔ look outside for CMT (Myanmar etc.)

- labor
- services, util, rent, etc
- air freight/insr
- US gen, admin, store operations
- Brand margin

- raw materials
- manufacture margin
- US tariff
- US income tax
Sri Lanka is well-established in the complex-forecasted Segment 3 in niche products such as brassieres, rubber-coated gloves.
Its future lies in pre- and post-production.

As a logistics hub

**Strategic location on trade routes:** potential for entrepot trade, trans-shipment

**Permissive regulation:** free port legislation, 80% foreign ownership for FDI in logistics

**Inward investment:** Expolanka Freight-Japan’s SG Group; Marks & Spencer

And as a regional value chain coordinator

<table>
<thead>
<tr>
<th>Factor</th>
<th>Sri Lanka</th>
<th>India</th>
<th>Bangladesh</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value chain management</td>
<td>+</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Compliance reputation</td>
<td>+</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Strategically located port</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheap labor</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Availability of labor</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Skilled workers</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cotton/Backward integration</td>
<td>-</td>
<td>+</td>
<td></td>
<td>+</td>
</tr>
<tr>
<td>Land</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Tariff Preferences to key markets</td>
<td></td>
<td></td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Low tariffs for imported inputs</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Large domestic market</td>
<td>-</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proximity to major market</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>
What does this mean for WB / IFC?

- Investments in the Distribution and Logistics Hub: logistics firms, quality testing, final packaging etc.
- Support transformation of industry with financing modern small and medium factories, as large players manage chain activities. Lagging regions and post-conflict zones.
- Support Regional connectivity investments - Regional Supplier Finance Facility
- Support sustainability investments - energy, chemical use, water
5. APPLYING THE APPROACH IN TURKEY

INDUSTRY-SPECIFIC GLOBAL VALUE CHAINS

HIGH LEVEL SUMMARY ONLY
PLEASE SEE ANNEX C FOR DISCUSSION AND DETAIL
Where is Turkey currently positioned and where might it be going?

**FORECASTED RESPONSE**

- **SIMPLE PRODUCTS**
  - Strategic Segment 1 (Target - staple items)

- **COMPLEX PRODUCTS**
  - Strategic Segment 3 (Hugo Boss - luxury/lifestyle technical textiles)

**REACTIVE RESPONSE**

- **SIMPLE PRODUCTS**
  - Strategic Segment 2 (Zara – ‘fast fashion’)

**Product Segments**

- **SIMPLE PRODUCTS**
  - Higher lead times: 10-14 weeks
  - Small batch sizes
  - Not many physical inputs but high quality requirements (single products for premium brands)
  - Few or no intermediaries

- **COMPLEX PRODUCTS**
  - Few or no intermediaries
  - Higher lead times: 10-14 weeks
  - Large and small batch sizes
  - Many physical inputs and complex supply chain management – brassieres, tailored jackets
  - No intermediaries

- **FORECASTED RESPONSE**
  - Short lead times: 2-4 weeks
  - Small batch sizes
  - Few physical inputs

- **REACTIVE RESPONSE**
  - Short lead times: 10-14 weeks
  - Large and small batch sizes
  - No intermediaries
Turkish apparel businesses operate in multiple segments, but they are strongest in complex/scheduled and reactive simple…

The vast majority of Turkish businesses in apparel are still only suppliers to major European and global brands, there are no more than 20 retailers operating in all three simple/reactive-scheduled, and complex-scheduled segments…

**Simple Scheduled:**
- About 30% of Turkish exporters are in this segment, but only for premium buyers (for products selling in 80USD and over price bands)
- A significant number of informal SMEs supplying domestic “non-branded” demand can be considered in this segment (Approximately 91% of all firms in this industry)

**Simple reactive:**
- A significant number of the emerging retailers can be considered in this segment (Such as LcWaikiki, Mavi and Koton)
- About 15% of apparel exporters operate in this segment and supply fast-response-fashion-sensitive markets (Such as Taha Holding), some apparel manufacturers that supply domestic retail markets can be also considered in this segment

**Scheduled complex:**
- Over 50% of Turkish exporters serving premium European brands are in this segment
- In addition, a small number of Turkish retailers, originally supplying luxury brands can be considered in this segment (Damat, Tween, Vakko)
Most Turkish businesses are in **Simple Product / Forecasted Response**.
Some also moved into **Complex Product / Forecasted Response** to capture better margins and remain viable.
Exports of the apparel sector appear to have moved into middle and higher sophistication product areas (e.g. outer garments).

Source: CEM 2014 and Related Background Papers
These two groups in the simple/complex scheduled segments thanks were able to improve their margins thanks to:

- **Vertical specialization and industrial upgrading** (that involves a wholesale organizational learning of an industry);

- Continuously focusing on “**full package**” **provision**, including significant design services (some going as far as to provide “full collections” to buyers);

- **Nimbleness and speed** – being able to work fast with small and/or constantly changing batch sizes and orders, and adapting their own supply-networks accordingly;

- **Maximizing their capacity utilization** by supplying across different segments that require both short and long lead times;

- Providing consistency and reliability in **quality**;

- Helping buyers **manage inventory costs** (going as far as to offer inventory services to buyers);

- **Proximity to the European markets**, bolstered by the Customs Union

- Taking advantage of **global sourcing, as well as with investments in overseas**, in places such as Egypt, India, Bangladesh and Ethiopia.

- **Removing intermediaries**, where possible.
However, as manufacturers in complex/scheduled and simple reactive segments, additional gains will be limited due to...costs and demand factors...

Turkey is a high cost producer.

Minimum Wage in Comparator Countries (in USD, 2014)

- China
- Sri Lanka
- Bangladesh
- Turkey

And demand for premium apparel is limited...

While some Turkish manufacturers have taken advantage of the reactive response segment, this was a move towards viability, rather than an opportunity to achieve higher margins...

Although the leading manufacturers can achieve around 9% profit margin, this is still low in comparison to the margins achieved by reactive response retailers (around 20%)

Comparison of global total apparel demand to demand for luxury goods

<table>
<thead>
<tr>
<th>Country</th>
<th>2012</th>
<th>2025 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate net luxury goods sales of top 75 retailers in 2012</td>
<td>172</td>
<td>14</td>
</tr>
<tr>
<td>Total apparel demand in China</td>
<td>150</td>
<td>540</td>
</tr>
<tr>
<td>EU-27</td>
<td>350</td>
<td>440</td>
</tr>
<tr>
<td>United States</td>
<td>225</td>
<td>285</td>
</tr>
<tr>
<td>India</td>
<td>45</td>
<td>200</td>
</tr>
<tr>
<td>Japan</td>
<td>110</td>
<td>150</td>
</tr>
<tr>
<td>Russia</td>
<td>40</td>
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<td>Brazil</td>
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<tr>
<td>Canada</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Australia</td>
<td>25</td>
<td>45</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>75</td>
<td>195</td>
</tr>
<tr>
<td>World</td>
<td>1105</td>
<td>2110</td>
</tr>
</tbody>
</table>

Source: AT Kearney, Statista 2015
Going forward, margins for the manufacturers in these segments can be improved, albeit not much, with…

- **Continued formalization** of the sector - only 9% of textile/apparel SMEs employ more than 19 people, and most of these firms are informal (employing as much as 1 million people).

- Increase in formalization will **increase productivity gains** in the sector too (there is an estimated productivity gap of 30-40% between formal and informal businesses);

- Consistent and reliable **access to high quality and low cost imported inputs**;

- **Better trade deals** (Turkish suppliers would like the Turkish Government to be more active on this front);

- **Increased foothold as global investors**, to this day, only a handful of established Turkish manufacturers invest in production facilities overseas;

- **Increased “better work” standards**, coupled with global pressures for such employers;

- **Increased stability in Eastern Turkey**, which may allow for cheaper production costs;
… However, Turkey has another outlet…a small but fast growing cohort of fast fashion retailers…

<table>
<thead>
<tr>
<th>Company</th>
<th>Fast fashion aspects</th>
<th>Local sourcing</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Koton</td>
<td>55 new products on its shelves everyday</td>
<td></td>
<td>13% ROE, just went public</td>
</tr>
<tr>
<td>Mavi</td>
<td>Same day delivery, 80% customer royalty</td>
<td>80%</td>
<td>100 – 400 million total assets since 2008</td>
</tr>
<tr>
<td>LcWaikiki</td>
<td>10 million customers in its stores every week</td>
<td>70%</td>
<td>Commands 15% of the local market share</td>
</tr>
</tbody>
</table>
Turkish businesses in **Simple Product / Reactive Response**

**Local/Cluster Value Chain**

- **Cut, Make, Trim Lab**
- **Logistics**
- **Product Development**
- **Retail**
- **Supply Chain Management, ERP, CRM**

**Regional Value Chain**

- **Knit Fabric Manufacture**
- **Accessories Manufacture**
- **Cut, Make, Trim**
- **Logistics**
- **Product Development**
- **Retail Supply Services**

**Global Value Chain**

- **R&D – New Tech**
- **Equipment Manufacture**
- **Textile Production**

**Colour Code and Key**

- **Knit Fabric Manufacture** (KNL, green)
- **Accessories Manufacture** (KNL, green)
- **Cut, Make, Trim** (KNL, green)
- **Logistics** (KNL, green)
- **Product Development** (KNL, green)
- **Retail** (KNL, green)
- **Retail Supply Services** (KNL, green)
- **Knit Yarns** (CAP, yellow)
- **Artificial Yarns** (CAP, yellow)
- **Natural Yarns** (CAP, yellow)
- **Equipment Manufacture** (CAP, yellow)
- **R&D – New Tech** (CAP, yellow)
- **Suppliers** (KNL, orange)
- **Businesses** (KNL, grey)
- **Retail** (KNL, grey)

**Notes:**

- **Simple Product / Reactive Response**
- **Colour Code and Key**
- **Supply Chain Management, ERP, CRM**
- **R&D – New Tech**
- **Equipment Manufacture**
- **Textile Production**

For Turkish businesses, potential is the greatest in reactive response retail, given their margins and potential for fast growth…

Below, financial performance (2013 - 2014) of the two significant Turkish retailers also provide some insights into this trend (Koton – reactive response, low to mid price, new age company; and Vakko – scheduled response, premium, decades old company)

<table>
<thead>
<tr>
<th></th>
<th>KOTON</th>
<th>VAKKO</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>13%</td>
<td>43%</td>
</tr>
<tr>
<td></td>
<td>-5%</td>
<td>-4%</td>
</tr>
<tr>
<td>Net margin</td>
<td>2%</td>
<td>7%</td>
</tr>
<tr>
<td>Total sales</td>
<td>1,413,141,365.00</td>
<td>995,502,049.00</td>
</tr>
<tr>
<td>operating expenses</td>
<td>768,050,519.00</td>
<td>538,285,018.00</td>
</tr>
<tr>
<td>ROA</td>
<td>3%</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>645,090,846.00</td>
<td>457,217,031.00</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>768,050,519.00</td>
<td>538,285,018.00</td>
</tr>
<tr>
<td>Operating income</td>
<td>115,394,961</td>
<td>106,858,229</td>
</tr>
<tr>
<td>Operating margin</td>
<td>8%</td>
<td>11%</td>
</tr>
</tbody>
</table>

The strength of this segment can also be seen in some of the highlights of the performance of the leading retailers like LcWaikiki and Mavi, among others:

- LcWaikiki – 15% of the domestic market share (the next 9 combined has 13%)
- Mavi has grown 300% since 2008, and the most growth is still coming from the existing stores
These have also been important sources of employment...

While still few and far in between, successful retailers are also important sources of employment. 9 listed here, most of which emerged in the last 15 years, account for over 50 thousand jobs...

### Turkish apparel retailers employment (2015):

<table>
<thead>
<tr>
<th>Firm</th>
<th>Number of People Employed</th>
<th>Notes</th>
<th>Notes 2</th>
<th>Notes3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collezione</td>
<td>3000 (plus)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>De facto</td>
<td>6188</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desa</td>
<td>1712</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derimod</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hasema</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jimmy Key</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kip</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Koton</td>
<td>6757 over 4600 are designers</td>
<td></td>
<td>there are 3000 in corporate offices alone and 500 openings at any point in time</td>
<td>Taha holding employs 1200 people</td>
</tr>
<tr>
<td>LcWaikiki</td>
<td>24000 (over)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIG</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mavi</td>
<td>2150 plus 250 overseas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sarar</td>
<td>5000</td>
<td></td>
<td>only 242 are on the factory floor</td>
<td></td>
</tr>
<tr>
<td>Vakko</td>
<td>1482 factory floor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dagi</td>
<td>407</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50696</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

… fueled by the size of the domestic demand…

...per capita income by province in 2010. Those in the darkest red have an income over US$ 14,000, while those in the lightest yellow have an income below US$4000.


Size of the Domestic Apparel Market in Turkey

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Apparel Market Demand</td>
<td>26.4</td>
<td>28</td>
<td>26.3</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Total Branded Apparel Demand</td>
<td>12.4</td>
<td>14.1</td>
<td>16.2</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Total clothing imports</td>
<td>3.2</td>
<td>3.1</td>
<td>2.7</td>
<td>3.3</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: Turkish Clothing Manufacturers Association, 2015, & WITS 2015
Turkish businesses in **Simple Product / Reactive Response**

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**Local/Cluster Value Chain**

- **KNIT FABRIC MANUF**
  - CAP
- **ACCESSORIES MANUF**
  - CAP
- **CUT, MAKE, TRIM**
  - LAB
- **LOGISTICS**
  - KNL
- **PRODUCT DEV**
  - KNL
- **RETAIL**
  - KNL
- **BRANDING/MKTG**
  - KNL
- **FINISH, PROCESS, PACKAGE**
  - LAB
- **SUPPLY CHAIN MGMT, ERP, CRM**
  - KNL

**Regional Value Chain**

- **WOVEN FABRIC MANUF**
  - CAP
- **ARTIFICIAL YARNS**
  - CAP
- **NATURAL YARNS**
  - CAP

**Global Value Chain**

- **R&D– NEW TECH**
  - CAP
- **EQUIPMENT MANUF**
  - CAP

---

**Colour Code and Key**

- **KNL**: Local/Cluster Value Chain
- **KPL**: Regional Value Chain
- **WTR**: Global Value Chain

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**Presentation Title**

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**World Bank Group**

Trade & Competitiveness
Reactive Retail has grown as a result of:

• Being able to tap into a growing, young, middle income domestic consumer market (over 40% of the population, with a median age of 29):

• A focus on growing capacity in retail, divorcing themselves from their manufacturer parent companies. (Most of these home-grown retailers are spin-offs of former successful manufacturers, and suppliers to European and global brands.)

• An initial focus on domestic markets (i.e. when Taha holding first acquired LcWaikiki it closed down all its European operations)

• Prioritizing speed over price, sourcing competitively and globally when needed, but supplying 70-80 percent from the local markets to achieve better lead times and reactiveness

• Leveraging skills acquired in terms of manufacturing, and pre/post production services, and developing/acquiring new skills in retail, consumer data management, etc.

• Taking advantage of the shopping mall boom
... But more is possible ... What does this mean for WB / IFC?

Going forward, more gains may be achieved by the reactive response retailers if the underpinning conditions for this segment can be strengthened...

Today, only a fraction of the 17000 branded apparel suppliers are working with Turquality to become retailers.

Most of the existing reactive response retailers in Turkey point to skills shortage in retail, marketing, consumer data management, overall IT systems, and shop-floor management as the most important binding constraint to their continued growth and success. World Bank and IFC can help with:

- Investments in skills and other capacity needs that greatly affect reactive retail’s success;
- Invest in and support ancillary service industries such as IT/data management, commercial real estate consultancies, retail consultancies, interior design, and logistics;
- Promote alleviations in relative regulatory restrictiveness in services;
- Promote continued formalization of the sector;
- Shift the emphasis onto retail capacity building, as opposed to brand development (which is the current focus of the Turkish government)…
5. ALTERNATIVE STRATEGIES
INDUSTRY-SPECIFIC GLOBAL VALUE CHAINS

WORLD BANK GROUP
Trade & Competitiveness

HIGH LEVEL SUMMARY ONLY
PLEASE SEE ANNEX C FOR DISCUSSION AND DETAIL
Alternative strategies to investing in product design and productivity

(1) INVESTING IN RETAIL

Support manufacturers in creating their own direct routes to market and compete in the apparel business.

• Growing trend towards retail integration in Turkey, ex: LC Waikiki, Koton, Mavi…

• In countries such as Spain many companies have already invested in this model creating a well established market of firms adapting the reactive response value chain. Some ex. are: Zara, Mango, Desigual but also:

(2) REAL ESTATE DEVELOPMENT AND INNOVATION

• Real estate entrepreneurs in emerging markets sign exclusive partnerships with large luxury brands, such as Brazilian executive José Auriemo Neto;

• Mall developers are also linking to innovation and business models in retail and associated services through entering the Venture Capital space.

• Simon Property Group, the largest US mall developer, has funneled $20 million into 18 start-up over the past 15 months through its venture capital arm, Simon Venture Group. Westfield, another wall developer, also invests and works with start-ups.

<table>
<thead>
<tr>
<th>Brownie</th>
<th>Misako</th>
<th>Eseoese</th>
<th>Fridays project / Shana/ Double agent</th>
<th>System action</th>
</tr>
</thead>
<tbody>
<tr>
<td>N of stores</td>
<td>13</td>
<td>170 10 Portugal</td>
<td>11</td>
<td>350 China, US, Colombia</td>
</tr>
<tr>
<td>Turnover (million $)</td>
<td>7</td>
<td>35</td>
<td>13</td>
<td>141</td>
</tr>
</tbody>
</table>
(3) IN LOGISTIC PLATFORMS/HUBS FOR VALUE ADDED SERVICES

Reduce financial costs and grant access to the latest supply chain management technology.

TAGUSA (Apparel logistics group)
- Located in a FTZ in North Dallas, 240,000 sq. ft. and expanding,
- 201-500 employees.
- More than 30 years of supply chain outsourcing.
- TAL is the parent company 25,000 employees in southeast Asia and 800$ million revenue (2013).

Logisfashion
- Turnover of 14 millions (2014).
- Growing fast in new markets such as Mexico and China.
- Spain, Chile, Colombia, Hong Kong, Vietnam, Mexico, Panama, USA and China.
- 30 years of supply chain outsourcing
- 500 professionals in 14 logistics centers worldwide. More than 150.000 m2.
Resource intensity and economies of scale

Knowledge Intensive VC Activities (training)
- High
- Medium
- Low

Capital Intensive VC Activities (investment)
- High
- Medium
- Low

Labor Intensive VC Activities (labour % cost)
- High
- Medium
- Low

Natural Resources (reliance on environmental factor conditions)
- High
- Medium
- Low

Energy Intensive VC Activities (energy % cost)
- High
- Medium
- Low

Value Chain Linkages by time and information intensity

Just In Time linkage (24-48 hours)
- Low information exchange | High Information exchange

Made to order linkage (weeks)
- Low information exchange | High Information exchange

On stock linkage (months)
- Low information exchange – High Information exchange