International Trade and Business Practices: A comparative attempt in the apparel market

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The Greek apparel industry: a brief overview

The apparel industry is an important branch of Greek manufacturing, with a significant contribution to production, employment and exports.

According to data from the Chamber of Commerce in the apparel industry in Greece includes some 437 companies. It employs 14,257 workers, i.e. 8.1% of the annual average employment of the aggregate Greek industry employment. During 1995-2002, the industrial production sector decay rate of 3.2% annually. Estimated, however, that the index of industrial production in 2003 was a much smaller decline of 0.7%. It is worth noting that a significant share of the production industry has a system of outward processing (outsourcing), estimated that about 12% of the production is done with this method. In recent years, there is a significant reduction in the number of businesses operating in the production of clothing. More specifically, in 2002, companies reduced to 470. A similar trend followed the average annual employment, recording rate reduction of 8.3% annually. Despite the decline in employment, average wage in this sector increased by 8.7% per year on average, offsetting to some extent the general downturn in the industry.

Globalization has greatly influenced the clothing industry, and led to the development of subcontracting (facon), method by which the business units of the developed countries split the stages of their production process and outsource labor-intensive stages in companies operating in developing countries where labor costs are low.

Under pressure from labor costs, the Greek garment industry had since early 2000 to make moves that would allow it to maintain its competitive position. A path followed by quite a number of Greek companies was to establish production facilities in the Balkan countries. This offered a large production base at low cost. To date, a significant number of Greek companies have implemented all the labor-intensive activities (sewing-box) in the neighboring Balkan countries and their number is growing. It is estimated that today, more than 200 Greek businesses active clothing in the Balkans.

To increase competitiveness, Greek apparel companies consolidated their activities both in terms of geographic location, as well as the object of their work. Greece is a country with a tradition of producing knitted garments, whereas constant wear has a rather limited activity. The overwhelming proportion of the apparel business is located in Northern

Greece and especially in the area of Thessaloniki. The concentration of industry in northern Greece is also due to the incentives provided by the Greek government in the framework of the Development Laws, geographic proximity to the Balkan countries and availability of skilled work force.

The Greek apparel is a tough arena for Greek companies among themselves, but moreover, the industry as a whole faces fierce competition from multinational brands (brand name) with high recognition.

The strategies followed are based mainly on product differentiation through pricing and advertising. Distribution network enlargement plays also a significant role in strengthening individual company's positioning in the industry. A number of companies expanded through branching and others through franchising. Some of them sought also cooperations with major international companies. The sales network expansion was both within the country, as well as in other Balkan countries.

The main problem hindering this evolution is that the industry is fragmented in many small businesses, mainly family owned with poor and inefficient administration (organization, planning, etc.), production plants are small and cannot develop scale advantages, and in some cases production lines do not consist of state-of-the-art equipment, due to poor investment rates.

Still, there is room for growth in the sector, even in this crisis period. Lessons can be taken from established international brands.

The international experience: a comparative attempt of three successful international companies

Since the 60,s the apparel market has gradually become more open and offers more possibilities to new entrants. Globalisation ignited this process, which in return allowed the recent and quick development of giants in the apparel business. The paper makes a comparative review of three well established brands in Greece and the rest of the world: Benetton, H&M and ZARA. The paper studies the background, business structure, culture and business model of the above companies. It concentrates on Benetton, as this company is close to Greek companies in the sense that it has a family-owned structure, originates from a neighbouring Mediterranean country, and is specialising on knitted garments, an area of specialization of most Greek apparel business.

The paper reviews the company background, and addresses its early success, studies market evolution and compares to peers.

Methodologically the paper uses Porter's five forces and a SWOT analysis.

Benetton Group S.p.A.

Company Profile

Benetton Group S.p.A. manufactures and retails clothing, sportswear and accessories for men, women and children, with a global brand name (United Colours of Benetton) and with the Sisley, Killer loop and Playlike brands. The company markets its products worldwide, with Europe being the main market. Benetton still distributes most of its casualwear and sportswear products through a network of franchising partners, but has recently embarked on a direct retailing strategy with the opening of directly operated stores and megastores. The Benetton family is the core shareholder.

Market evolution

One of the tools to evaluate market evolution is Porter's 5 forces analysis. It is a framework for the industry analysis and business strategy development. It used concepts of Organisational Economics to derive 5 forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one where the combination of forces acts to drive down overall profitability.

Companies can achieve competitive advantages essentially by differentiating their products and services from those of competitors and through low costs. Firms can target their products by a broad target, thereby covering most of the marketplace, or they can focus on a narrow target in the market. According to Porter, there are three generic strategies that a company can undertake to attain competitive advantage: cost leadership, differentiation, and focus.

60s	**MARKET ENTRANTS**	today
More barriers as technology concentrated in industrialised countries		Less barriers as technology diffused to emerging countries
More barriers as capital concentrated in industrialised countries		Less barriers as capital available also in emerging countries
More barriers due to trade regulation and tariffs		Less barriers due to freer trade
More barriers as single currencies do not allow unified and transparent pricing		Less barriers as the market is more transparent
More barriers due to national taste and dress codes		Less barriers in a globalised taste and dress code

Since the 60,s the market is more open and offers more possibilities to new entrants. This is also the reason for the recent and quick development of new giants in the apparel business, rivals to Benetton as H&M and ZARA.

60s	**Supplies Power**	today
Less suppliers due trade regulations and technology, cost of capital and capital intensity to produce yarns and other resources to the apparel business		Larger number of competing suppliers in raw materials and semi-finished products
Higher prices due to weaker competition		Strong completion and more transparent pricing as well as communications limit the power of suppliers

60s	**Supplies Power**	today
Raw materials mainly natural eg cotton, wool and linen.Raw materials mainly natural eg cotton, wool and linen.		More variety in raw materials with a number of synthetic ones, limits the power of suppliers.
Geographically limited suppliers because of the cold war political context		Ex centralised economies with emphasis on capital goods are now producers of consumer industry resources
More barriers due to national taste and dress codes		Less barriers in a globalised taste and dress code

The power of suppliers is less nowadays as technology is diffused, cost of capital is lower, knowhow is available to a larger number of countries and monetary and communications conditions allow for a more transparent market, hence pushing the power of suppliers to the apparel down.

60s	**Buyer Power**	today
Fragmented smaller national markets limited the choice possibilities of buyers		Globalised markets provide more choice and hence increase the power of the buyers
Tariffs and trade regulation protected the apparel business in terms of pricing and quality offered		Free trade in a global environment empowers buyers through price and quality choices
Limited communications resulted in less buyer awareness		Internet and extensive travelling increases the awareness of the buyers
A post war recovering world economy does not provide a high economic income per capita, and other more basic needs have priority over consumer items		Basic needs well covered in a large number of countries, as a result of prolonged piece and development. Average higher income per capita , more widely and equally distributed increases buyer potential and his power
Size of markets is smaller due to politics (closed up countries) and demographics		Bigger market due to openness, larger populations, more age-groups markets(incl seniors and younger people)

60s	**Buyer Power**	today
Less mature buyers due to general social conditions, incl education, income, information		More demanding and taste aware buyers, empowered also by more democracy
A lot of home and tailor-made garments due to the less developed prêt-a porter manufacturing and limited distribution channels		Distribution brings proximity, possibility to purchase but also to compare and empowers both buyers and distributors
National currencies limit comparison possibilities and competition, and increase arbitrage gains for apparel business		The euro and an integrated EU market empowers buyers with transparency of price

Over the years the buyers' power has increased considerably due to economic, political, social, educational, demographic and monetary reasons.

60s	**SUBSTITUDES**	today
More home made and tailor-made garments as labor was cheaper, women had more time, habits were different		Less possibilities to substitute apparel business products
Mainly natural fibres garments		Possibilities for garments from new technological fibres
Almost no leisure dressing		Possibilities to substitute garments of one sort with other sorts ie business with more casual, evening with leisure etc

There are no real substitutes for apparel, but there is increased possibility to substitute one type of garment with another. Apparel can thus find itself competing with sports manufactures etc.

60s	**Competitive Rivalry**	today
Large number of smaller firms operating at national or regional level, with few at international level		Fewer number of bigger firms, operating internationally in an integrated way, vertical and horizontal integration

60s	**Competitive Rivalry**	today
Smaller aggregate industry size		Big aggregate industry size with expanding trend
More labor intensive		More capital intensive with hi-tech applications for agile service and lean inventories
Emphasis on quality or price		Emphasis on quality and price
Distribution through multi-brand stores		Distribution through megastores, one-label stores and internet developing

Over the years there is a concentration in the industry, with fewer, bigger and global players. They are now all at different degrees integrated vertically and/or horizontally. Hi-tech breakthroughs can make the difference for agile and lean service to the customer, so as to minimise lead-times while trying at the same time to emphasise quality and price. The current economic crisis if it persists will minimise the possibility of differentiation based on service. The model 'quality and price' will persist with quality to give in if the impact of the crisis is severe and overtime. The model of 'integrated approach' might though change as a consequence, with companies sticking to core.

The Porter analysis above showed that the market has indeed changed with less barriers for entrants, semi- or quasi-substitute possibilities, very highly empowered buyers, and fierce competition on more or less the same model of 'quick response' and 'fast fashion' with fine tuning differentiations.

As a consequence, the industry players tend to be the so called New Verticals, who apply complete outfits, short order and delivery cycles, weekly changing themes, focused consumer groups/young fashion. They keep the option open to invest in own sales channels if the concept turns out viable. They go along the business model of Zara, H&M and to a lesser extent Benetton (as this is quite differentiated from the two former ones).

Brand reputation became crucial, and therefore, private label producers, and companies that do not offer complete collections ("outfits"), but only cover special product categories are strongly put under pressure. Benetton has been initially affected by the change in industry among other things because of the latter point, i.e. not offering complete collections.

To be continued...