

Vertically Challenged

In a constantly changing industry, with many companies closing their doors never to open again, it's refreshing to realise that some companies see opportunity in change and are adapting their business model, by providing a customer driven service and (the buzz word of the moment) flexibility.

Designer Textiles International

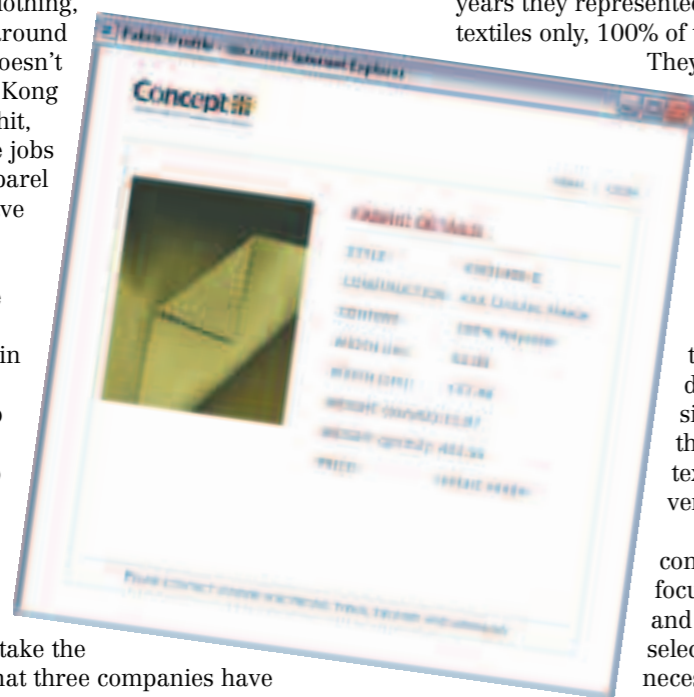
The textiles and clothing sectors are closely linked. Textiles provides the main input to the clothing industry which creates vertical links between the two. The two sectors have become even more integrated through vertical supply chains, increasingly we are also seeing major retailers becoming the managers of the whole chain, we only need to look at Wal-Mart in the USA and Tesco in Europe.

We can all easily see the changes to what were major textile and apparel manufacturing areas. The end of tariffs and quotas elimination is adding to the need for change and adaptation. According to the US

Department of Commerce and the Bureau of Labour Statistics in less than 15 years almost 1 million jobs have been lost in the USA in textiles and clothing, in Europe that figure is around half a million, but Asia doesn't escape losses with Hong Kong being particularly badly hit, losing over 50% of textile jobs and almost a third of apparel jobs, Taipei and India have also taken losses. As you would expect China has some gains but these are mainly in apparel, they have also seen a decline in textiles. We are more mechanised, so some job losses have been inevitable but changes to the way we do business and the requirements of customers has led to another change.

As the supply chain changes and adapts, we take the opportunity to look at what three companies have done in three very different areas of the world and we review some of the other options open to manufacturers in the global economy.

They now have the ability to offer a totally vertical supply, from chemical raw materials through to finished garment



Sourcing goes vertical

The opportunity to offer verticality - "raw material through garment" sourcing - has emerged as a critical business model for the textile and apparel industry today. While it offers many advantages to the supplier and the customer, it is also proving of critical importance that to be successful companies need to be able to drive volume and manage the logistical costs.

One company Concept III Textiles International, with marketing offices throughout the USA, and in the UK—to support Western European operations, was established in 1983 by its President David Parkes for the purpose of supplying performance textiles and finishes to the outdoor sports industry. For 15 years they represented USA and Canadian mills and supplied textiles only, 100% of their business being domestic textiles.

They watched their business changing,

David Parkes commented "A successful business model for 15 years had become redundant, and from being an exciting textile resource we became asphyxiated by the surge of overseas sourcing, and needed to transition for five years to create our current business offering."

By 2005, the average international textile prices in their categories had dropped 35%, they were performing to a similar dollar volume but now just 15% of this was being generated from domestic textiles, 20% overseas textiles and 65% vertical production.

Concept III stand firmly behind a conviction that creative, performance focused textiles drive the finished product and differentiate the character of the selection offered to the customer. The necessity to compete globally, however, demanded the removal of cost centres within

the supply chain, and to service a need to reduce lead times vertically became inevitable.

Concept III now represent a mixture of US, Canadian and overseas companies, through one carefully chosen Taiwanese company they have the ability to offer a totally vertical supply, from chemical raw materials through to finished garment, in woven and knits. James Huang, Vice President, Marketing for Kingwhale Industries, headquartered in Taipei, explains "we saw the opportunity to have an impact on the market place and to offer a seamless solution in the late nineties. We were able to employ our textile and garment manufacturing background within our home base of Taiwan and create a garment operation of more importance in Jordan. The USA, Jordanian and Israeli governments had initiated a Trade Agreement presenting duty and quota free status to product manufactured in the area and we were one of the first companies to build a garment manufacturing facility within a Qualified Industrial Zone (QIZ) in Jordan".



Kingwhale had already established themselves internationally as a quality supplier of performance knits, fleece and woven fabrics but by building a garment manufacturing division in a financially advantageous area

they immediately appealed to many of the premier brands in the USA. They have subsequently followed this initiative by opening a facility in Vietnam, designed particularly for their European customers.

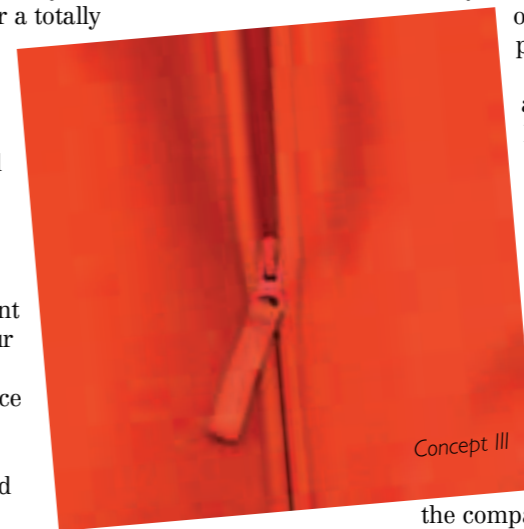
The market is extremely price driven and verticality assists with this challenge. However there are other factors that make verticality particularly successful. The management of the supply chain from raw material to finished product enables the end customer to have control of the great majority of the production, process-trims, packaging and certain materials being the exception. In itself this assists cost and enables the supplier to service programs better. It can also present other marketing opportunities to develop between the "partners".

Kingwhale and the family that own the company have a wealth of history in the Taiwan and Asian textile industry and supply various products in addition to textiles. To venture from textiles to garments was a natural transition which they successfully accomplished. Their manufacturing capability is well respected but the further accomplishment was to find a marketing organisation with strong contacts in the USA and Europe that could take this business model and establish the reality of the success. Concept III International became that vehicle.

European Perspective

We are all aware that it is no longer enough to simply offer a good price for a product, suppliers are now in a situation where they have to think through the chain putting themselves in their customer's position and inevitably in the end consumers. What are the needs of the end consumer, why will they buy this product instead of another down the high street? Differentiation is important but customisation is even more so, ensuring that the product offered fits with the customer's brand and environment.

Guy Mathiot, the Head of UK company Design IQ, took a major decision to change their company philosophy in 2004, moving the company from a design house to a supplier of finished product. They are now a design, development and sourcing company, providing design and finished product



solutions for brands and retailers, supplying bags, luggage and accessories in the lifestyle, outdoor and sports sectors.

The principle behind their business model is to anticipate and develop what retailers and brands need just in time to catch the latest trends.

Not just sourcing, Design IQ designs the products, has them manufactured and then allows the customer to select, ensuring a simplified supply chain. Guy talked about what competition they have and their advantage, "the strange thing is – on one hand we have to compete with sourcing agencies – freelance designers on the other, brands who do Private label on another level and even with Chinese factory's who are hiring their own designers – the bottom line is we believe that the key to our competitiveness is our research skills, trend spotting ability and finally our willingness to stand up and be counted by making our own 'flash ranges' of products 'ready made' for clients. We offer a designer level of Private label service".

Design IQ chose a very specific area to specialise in, but this happened organically, previously their customers had always asked them to design bags and although they never sought bag business it came to them. They were in a position where they knew the sector and they offered something different. They never copy; they think about the product and how it works, they are adapt at producing something different.

They have not closed the doors on the customers they already had, still offering a design consultancy, working for select customers and producing designs for the clothing sector, after all this is the area in which they have 20 years' experience.

Guy is a true designer, "I insist that every product that Design IQ develops is aesthetically pleasing, elegant or has a certain 'flow' to its appearance. I am impatient with poor design and am my own most vocal



I insist that every product that Design IQ develops is aesthetically pleasing, elegant or has a certain 'flow' to its appearance.

critic when I see a sample that does not work well– every day we must work hard to be better – always learning - always improving."

Working with brands, they ensure that they examine why the consumer likes a product, what is the look and mood of the brand. Working with many suppliers, from top level technical bag producers to inland budget manufacturers, ensures they can meet all price levels, fabric and trim supply and quality. One of their Chinese suppliers they consider extra special, 'he has the ability to see and understand what we have drawn – and anticipate problems before they happen. Unlike many people working with Chinese company's we are very fortunate to have a Chinese partner who is very intuitive and proactive – this helps us get our products right – faster!"

From Sheep to Shop

Larger than the French, Austrian and Swiss Alps combined, New Zealand's Southern Alps is an extreme alpine environment with temperatures changing from -20° Celsius in winter to over 30° in summer. This is the place that the New Zealand Merino sheep calls home.

As part of an annually renewable growth cycle, the New Zealand Merino sheep lives in a beautiful area of the world, starting life in warm weather with a plentiful diet. In March and April they are moved to the lowlands ready for winter where the climate is milder and winter-feed can be distributed ensuring that no stress is placed on the merino's fine white fleece. August is the busiest month, as the flock is gathered for shearing. A meticulous cleaning ritual follows, and each fleece is shorn, gathered, classed and tested ready for use. Working closely with the next step in the chain ensures that the quality of the merino meets the requirements of the end product.

Part of the Pod Group of leading fashion and textiles business in New Zealand, Designer Textiles International

(DTI) has been a supplier of premier merino knitted fabrics and garments since 1965 through its offices in Melbourne, Australia, Tokyo, Japan, San Francisco, USA and the UK . DTI



Designer Textiles International



Designer Textiles International

has created a unique company that manages the whole demand chain for the manufacture of MAPP merino products. MAPP uses a combination of scientific analysis, natural merino breeding and innovative processing to produce merino performance fabrics for outdoor activities.

When the fleece is ready it is tested to DTI's requirements ensuring that only the best merino fibres go into the final fabric. DTI has been manufacturing merino wool fabric brands for 10 years, MAPP (Merino Advanced Performance Programme) for the outdoor / active sports market and Designer Merino for the fashion and luxury brands. Currently they manufacture in New Zealand, Fiji and Sri Lanka with plans to have sourcing available from China later this year. Designer Textiles supplies MAPP both as a fabric and as complete garments.

Working with the sheep farmers (growers), means that DTI can guarantee the source, processing and functionality of this exclusive, 100% New Zealand merino fabric. The broker ensures the MAPP standards are achieved; strict quality control, testing and processing (combing, spinning and knitting) gives DTI control over the complete chain and the final garments meet with the retail brand requirements. Offering all the usual pattern/ sampling and development, DTI have an experienced apparel division with all facilities. The apparel supply business now represents approximately 70% of their total global merino wool business.

Valuable input from specialist partners the New Zealand Merino Company, the University of Otago, and Canesis of New Zealand, have helped them to develop cutting-edge competencies in the total Merino manufacturing process - from fabric, design and production co-ordination, to fully labelled and packaged garments.

Providing New Options

Last year Nextec Applications, Inc, USA announced a joint venture with Indonesian company Argo Manunggal Textile, one of the largest textile producers in Indonesia. The agreement meant that Argo Manunggal is able to produce Epic fabrics completely in-house, from spinning to weaving to dyeing and including the Nextec patented encapsulation process. In addition customers can also take advantage of Argo Manunggal's capability to produce finished garments, giving a complete vertical chain offering. According to Arun Taneja, CEO of Nextec Euroasia, 'perhaps the greatest advantage of the AMT-Nextec alliance is the simplification of manufacturing logistics. With every stage of the production process being totally in-house, dependence on upstream suppliers is eliminated. Efficient quality control is assured and



Designer Textiles International

products can be delivered to customers with reliable lead time."

In Turkey the business model seems to be almost the norm with several companies offering a complete package. Imteks Giyim Sanayi ve Tikaret a.s. is a supplier of knit finished goods to major international brands, with the

Efficient quality control is assured and products can be delivered to customers with reliable lead time.

capacity to produce 8 million pieces. Sahinler Holding, although German headquartered, is one of the largest Turkish held businesses outside of Turkey. After establishing Santex Moden GmbH in Germany they have gone on to have

companies in 14 countries, including over 35 companies in Turkey. Sahinler manufactures fabric and apparel for sportswear, intimate apparel, childrens, mens and womens wear. Yesim Tekstil started in 1985 as a supplier of home textile products; today it also supplies ready-made clothing, with the capacity to produce 150,000 pieces of clothing and 100,000 of home textiles per day. Its speciality is cotton, and its vertical supply chain reaches from yarn spinning to finished garment.

The list is certainly not complete, but it also isn't endless. China and Hong Kong also have many companies with a vertical business model but the focus here has been on companies that have shown how to survive in an industry where many feel they cannot win and they are doing so with a keen eye on customer service, versatility, and changing with the world instead of fighting against it.

Companies that are flexible in their approach to business have a greater chance of succeeding.



Designer Textiles International