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USIG THE GLOBAL VALUE CHAIN APPROACHES IN THE CLOTHING INDUSTRIE

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Abstract: The concept of the global value chain recognizes that the design, production and marketing of many products now involves a chain of activities divided among enterprises located in different places. The value chain describes the activities required to bring a product from its conception to the final consumer. Throughout this paper, we emphasize the global character of value chains in clothing industries. The paper will be outlined first, the global value chain framework with emphasis on the structure and dynamics of buyer-driven chains and second, the role of each of the big buyers (retailers, marketers and manufacturers) in forging global sourcing networks in the apparel value chain is examined.

1. INTRODUCTION

The world economy has changed in significant ways during the past several decades, especially in the areas of international trade and industrial organization. Two of the most important new features of the contemporary economy are the globalization of production and trade, which have fueled the growth of industrial capabilities in a wide range of developing countries, and the vertical disintegration of transnational corporations, which are redefining their core competencies to focus on innovation and product strategy, marketing, and the highest value added segments of manufacturing and services, while reducing their direct ownership over “non-core” functions such as generic services and volume production.

The apparel sector has been a pioneer in globalization: global relocation and global sourcing date back to the 1970s and 1980s, when the word “globalization” was not so oft used. This industry is identified as a buyer-driven value chain that contains three types of lead firms: retailers, marketers and branded manufacturers. With the globalization of apparel production, competition between the leading firms in the industry has intensified as each type of lead firm has developed extensive global sourcing capabilities. In global capitalism, economic activity is international in scope and global in organization. While “internationalization” refers to the geographic spread of economic activities across national boundaries, “globalization” implies the functional integration and coordination of these internationally dispersed activities [1]. As such, it is not a new phenomenon. It has been a prominent feature of the world economy since at least the seventeenth century when colonial powers began to carve up the world in search of raw materials and new markets.

“Globalization” is more recent, implying functional integration between internationally dispersed activities. Industrial and commercial firms have both promoted globalization, establishing two types of international economic networks. One is “producer-driven” and the other “buyer-driven”[2].

In Gereffi's (1999) concept of 'buyer-driven commodity chains', the drivers of globalization are retailers and other non-manufacturing branded firms (marketers) from industrialized countries, which are sourcing their goods from manufacturers based in developing countries. The concept explicitly defines these buyer-driven chains in contrast to producer-driven chains, where (multinational) manufacturers organize global production networks.[3]

Figure 1.1 offers a stylised view of a typical chain. The chain includes all of a product's stages of development, from its design, to its sourced raw materials and intermediate inputs, its marketing, its distribution, and its support to the final consumer.

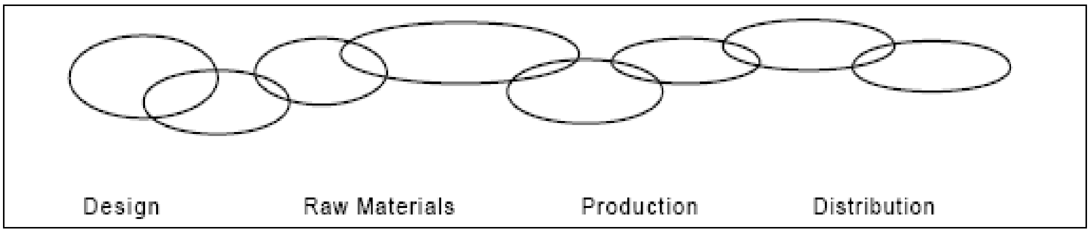

Figure 1. Chain of value adding activities

A global value chain is defined as a "network of labor and production processes whose end result is a finished commodity" [4]. In contrast to Porter's use of the value chain, the global value chain framework is not firm-driven. Its focus is on how various functions of a product's (or industry's) supply chain are splintered and globally dispersed.

2. APPAREL VALUE CHAIN

The apparel value chain is organized around five main parts: raw material supply, including: natural and synthetic fibres; provision of components, such as the yarns and fabrics manufactured by textile companies; production networks made up of garment factories, including their subcontractors; export channels established by trade intermediaries; and marketing networks at the retail level (see Figure 2)

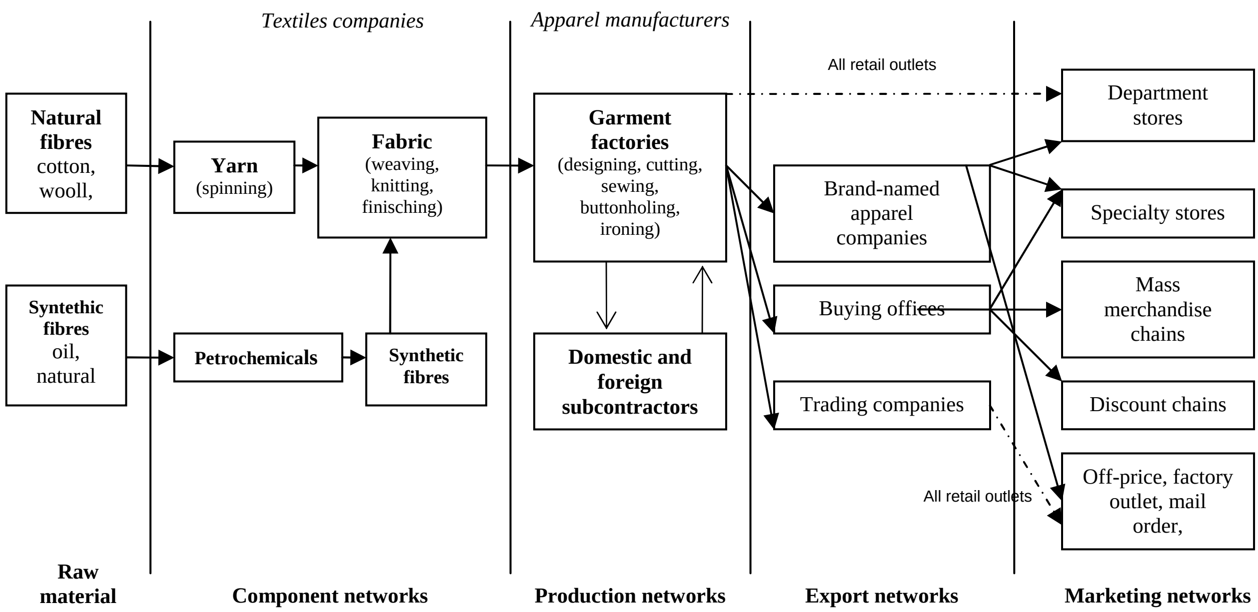

Figure 2. The Apparel value chain [5]

2.1. Production networks

Aside from the upstream activities there are more stages of moving up the chain:

- **Assembly of imported products** (typically in export processing zones near major ports). Assembly is a form of industrial subcontracting, in which garment sewing plants are provided with imported inputs for assembly, most commonly in export processing zones (EPZs).
- **Original equipment manufacturing (OEM).** Production for transnational corporations (design specification comes from foreign company, which is responsible for marketing and branding). Supplier lacks control over distribution. A variant is global logistics contracting. The supplying firm makes a product according to a design specified by the buyer; the product is sold under the buyer's brand name; the supplier and buyer are separate firms; and the buyer lacks control over distribution. Some have called OEM production "full-package" supply (Gereffi 1994, 1999), where supplier are not only able to capture a greater share of the total value added to the final goods they produce, but have longer-term, more relational ties with their buyers. Many East Asian firms in Taiwan, South Korea, Hong Kong and now China, fit these traits.
- **Own brand manufacturing.** Original brand name manufacturing (OBM) is the upgrading by manufacturers from the production expertise of OEM to first the design and then the sale of their own brand products.
- **Own design manufacturing.** Design of products sold under the brand of foreign firms.
- **Outward-processing trade (OPT)** in the clothing sector is the practice where companies export fabrics, or parts of garments, to be further processed in a third country and then re-import them as finished garments in an EU country. If foreign production or sourcing does not involve the temporary export of fabrics, then importation occurs under a regime of direct imports. The main attraction of OPT is reduced labour costs.

Entry barriers are low for most garment factories, but they get progressively higher in the move upstream to textiles and fibres.

2.2. Export networks

During recent years, research has been undertaken on the buyers as the driving actors of the global chains. Most of these studies have compared buyers from different countries and have assumed that buying strategies are embedded into different national business systems by which differences in buying strategies can be explained [6]. The apparel chain has three categories of buyers: retailers, branded marketers and branded manufacturers. The retailers account for 50 percent of imports, branded marketers and branded manufacturers 20 percent each, and various others for the rest [7] .

- **Retailer.** Such international retailers as Wal-Mart and Sears Roebuck, once the apparel manufacturers' main customers, are now their competitors. In the 1980s many retailers began to compete directly with the national brand names of apparel producers and marketers by expanding their sourcing of "private label" merchandise. These products are sold more cheaply than the national brands, yet they are also more profitable to the retailers, who can eliminate the middlemen in the chain. As each type of buyer in the apparel commodity chain has become more active in offshore sourcing, the competition between retailers, marketers and manufacturers has intensified, blurring the traditional boundaries between these enterprises and realigning interests within the chain.

- **Branded Marketer.** Well-known manufacturers without factories—such as athletic footwear companies (Nike, Adidas, Puma) and fashion oriented apparel companies (The Gap)—carry out no production. Instead, they just design and market their goods. As pioneers in global sourcing they provided knowledge that allowed overseas suppliers to upgrade their own positions in the apparel chain. To deal with new competition, branded marketers are discontinuing some support functions (such as pattern grading and sample making) and reassigning them to contractors. They are instructing contractors where to obtain needed components, reducing their own purchase and redistribution activities. They are shrinking their supply chains, using fewer but more capable manufacturers and are adopting more stringent vendor certification systems to improve performance.
- **Branded Manufacturer**. Apparel manufacturers have been caught in a squeeze because foreign producers can often provide the same quantity, quality and service as domestic producers, but at lower prices. Feeling that they are unable to compete with the low cost of foreign-made goods, they are defecting to the ranks of importers. The decision of many larger manufacturers in industrialized countries is no longer whether to engage in foreign production but how to organize and manage it. They supply intermediate inputs (cut fabric, thread, buttons and other trim) to extensive networks of offshore suppliers, typically in neighboring countries with reciprocal trade agreements that allow goods assembled offshore to be reimported with a tariff charged only on the value added by foreign labor.

2.3. Marketing networks

Global retailing is dominated by large organizations that are developing greater specialization by product (the rise of specialized stores selling only one item, such as clothes, shoes or office supplies) and price (the growth of high-volume, low-cost discount chains). Furthermore, keeping the distribution pipeline filled means these retailers are developing strong ties with global suppliers, particularly in low-cost countries.

Romanians are getting increasingly comfortable and are adopting the western lifestyle that will become even more prevalent in the years to come as a result of Romania's entry into the EU in 2007. Specialised stores are quickly becoming out of date as people prefer to shop in larger hypermarkets or department stores where there is a wide variety of products at cheaper prices than in smaller shops.

It is striking, that many of the verticals active in Romania, just like the pioneer Steilmann, are foreign owned companies. During the 2000s alone, Inditex (Zara), Benetton, Mango, Cortefiel (Springfield) from Spain, Lindex from Sweden, WE from the Netherlands, Palmers from Austria and Liz Claiborne (Mexx) from the USA started their expansion in Germany.

The spread of the verticals' stores is also supported by their clear formalization or standardization which makes them the ideal tenants of the new shopping centers, which are constructed and run by specialized corporations and are highly standardized themselves. This enables (and requires) a standardization of the interaction with their tenants.

The mall industry in Romania is in full development process, stimulated by higher demand. There are an increasingly high number of Romanian consumers who have developed a taste for shopping as a leisure activity, especially from the capital and a few other big cities in Romania. The spread of new shopping centers, most of them are located in relatively central city areas, is a main reason for the decline of traditional shopping streets and pedestrian shopping zones where department stores together with a broad range of specialized stores had formed a shopping system, which – especially after 2005- less and less competitive.

3. CONCLUSIONS

This paper uses the global value chains framework to explain the transformations in production, trade and corporate strategies that have altered the global apparel industry and changed the prospects for developing countries in entering and moving up these chains. The apparel industry is identified as a buyer-driven value chain that contains three types of lead firms: retailers, marketers and branded manufacturers. As apparel production has become global and competition has intensified, each type of lead firm has developed extensive global sourcing capabilities. While de-verticalizing out of production, they are building up their activities in the high-value-added design and marketing segments of the apparel chain, leading to a blurring of boundaries and a realignment of interests and opportunities within the chain. A hypothesis of the global value chains approach is that national development requires linking up with the most significant lead firms in an industry. These lead firms are not necessarily the traditional vertically integrated manufacturers, nor are they necessarily involved in making finished products. Lead firms, such as fashion designers or private label retailers, can be located upstream or downstream from manufacturing, or they can be involved in the supply of critical components. What distinguishes lead firms from non-lead firms is that they control access to major resources (such as product design, new technologies, brand names or consumer demand) that generate the most profitable returns.

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