

## Developing a Competitive model for Tirupur's hosiery industry



### Management

**KEYWORDS :** competitiveness, global markets, quota restrictions, WTO

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### ABSTRACT

*The export- import trade among the countries was broadly guided and facilitated by General Agreement on Trade and Tariffs (GATT) before the setting up of WTO in 1995. During GATT regime under the Multi-Fibre Agreements (MFA), a popular system known as Quantitative Restrictions (QR) was in place in Textile and Clothing segment which included the hosiery products. Under this system a country could import from a particular country only up to the limit prescribed by QR. The hosiery industry of Tirupur, a major exporter of hosiery products to global markets was assured of its quota of exports and thus flourished under this system. But with the advent of WTO in 1995, the ATC declared that the QR would be phased out from January 2005. This carried new opportunities and threats for Tirupur's exports which also meant that this industry must now acquire new strengths in order to compete in the new regime.*

*Under such circumstances, this paper makes an attempt to develop a framework for analyzing the competitive structure of this industry and to suggest appropriate strategies for enhancing its competitiveness under the WTO regime.*

### Introduction

The hosiery industry in Tirupur, started with an export of Rs.19 crores in 1985, and touched an impressive figure of Rs.11,000 crores per year in 2007. After dismantling the quota system in 2005, the industry started experiencing mixed trends. Tirupur's hosiery exports jumped from Rs.6500 crores in 2004-05 to Rs.8000 crores in 2005-06, immediately after the removal of QR but started showing signs of decline subsequently. It decreased from 11000 crores in 2006-07 to 9,950 crores in 2007-08. Intense competition and appreciation in rupee value were cited as the two main reasons for this. Besides, the industry also experienced problems domestically such as acute power shortage, labour shortage, high transportation costs and environmental issues. Consequently the industry has reported a contraction of around 10-15 per cent in three years from 2009-10 to 2011-12.

### Objectives of the study

1. To develop a competitiveness model for Tirupur's hosiery industry.
2. To assess the role of nation, government, industry and firm in enhancing the competitiveness of this industry.
3. To suggest strategies to compete in the post quota regime.

### Methodology

The methodology used for this study included review of literature, field visit to Tiripup and interviews with those connected with the industry.

### The Competitive Model

There are several theories and arguments to explain competitiveness, starting from classical economists Adam Smith and Ricardo to contemporary economists like Porter. The present pattern of trade among nations has changed due to technological advancements and changing pattern of trade relations among nations. Nation, Government, Industry and individual firm are the four key factors that determine the competitive advantage in the paradigm shift in trade among nations. This has been analysed by Michael E.Porter in his famous work 'The competitive advantage of Nations.' This four factor analysis is relevant in the case of the hosiery industry of Tirupur. First, a model is built with the four factors and then Tirupur's hosiery industry is fitted on to it.

### COMPETITIVE STRUCTURE OF TIRUPUR'S HOSIERY INDUSTRY before QUOTA REMOVAL

Competition was nonexistent for Tirupur's hosiery exports before quota removal and the then existing structure was simple as given below.

**Fig. 1**



**Nation: Powerful supplier of factor endowments**

### Global Market

The international market was governed by the quota system with no scope for competition. The system eliminated threat and also offered an assured market for Tirupur. However opportunities were limited because countries were not allowed to export beyond the quotas sanctioned.

### Nation

The geographical location of Tirupur facilitated procurement of cotton yarn and workers at cheaper rates, thereby reducing the cost of production. Favourable climatic conditions helped cotton farming. All this made hosiery business a lucrative one.

### Government

The Indian government was proactive towards the SSI sector right from the beginning. The hosiery units in Tirupur which were set up as small scale units enjoyed the benefits and protection given by the government. The success in export business resulted in large number of small scale units springing up everywhere in Tirupur.

### Industry

There was strong social network present in the industry. This ensured guidance and support to one and all engaged in the business, besides facilitating quick transfer of vital information. As the industry was highly fragmented, it adopted outsourcing to handle large orders. The industry was relatively modernized with the units adopting latest available manufacturing technol-

ologies with imported machineries.

**Firm**

The small size has been the biggest advantage of hosiery firms in Tirupur. This promoted managerial efficiency such as better control, quick decisions and close supervision which ultimately resulted in better quality and prompt delivery.

**CHANGING COMPETITIVE STRUCTURE OF TIRUPUR AFTER QUOTA REMOVAL**

With the advent of WTO and the removal of quota system, Tirupur’s hosiery industry has been thrown open to a vastly different business environment, different from the one that existed before the quota removal as explained above. The changing structure of this business environment is presented below.

Fig. 2



**Global Market**

As the quota system has been dismantled the industry has both newer opportunities as well as threats from other countries like China and Bangladesh. The implications are a competitive environment and squeezing profits.

**Nation**

Before globalization resource endowments constituted a major strength for this industry. But under globalization these factors cease to be strengths any longer, as a country like China can fabricate the knitted fabric using its cheap cotton and more productive labour and export the same to Tirupur’s hosiery industry at a lower cost for further process.

**Government**

Under various rules the WTO discourages the governments of nations promoting their exports through concessions and subsidies. The implication is that the industry will have to fend for itself.

**Industry**

As the industry is likely to face severe competition, it must through its associations gear up to face the challenge of converting the threats into business opportunities by enhancing its competitiveness.

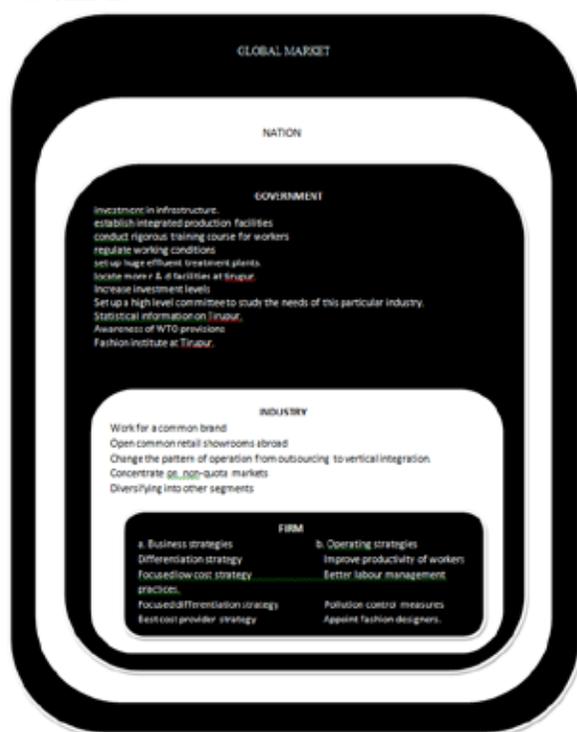
**Firm**

So far a typical hosiery firm was thriving well under a protected environment but now if the firm does not compete it will be competed away in the global market. The implication is that the firm has to gain enormous competitive strength.

**STRATEGIES FOR ENHANCING COMPETITIVENESS**

In order to compete globally in the post quota regime, there is an urgent need to formulate action plans and strategies by the government, the hosiery industry and the individual firms. They are presented below.

**Government**



The government has played a limited role in the development of Tirupur so far. But the phasing out of quotas now calls for special attention from the government. Government support and assistance is required in the following areas.

**1. Investment in infrastructure.**

Tirupur’s infrastructure problem has not been addressed effectively right from the beginning. Assured market and absence of competition were the two main reasons for that. It would be appropriate if the government starts more infrastructure development projects on Public Private Partnership (PPP) mode.

**2. Establish integrated production facilities.**

In Tirupur there are very few firms with integrated production facilities. Even these firms have not set up all their production facilities under one roof. It is crucial to have all the production facilities under one roof for it will reduce cost, save time and would bring consistency in quality.

**3. Conduct rigorous training course for workers.**

Even though industry associations and support institutions are actively engaged in conducting training programmes for workers at different levels, the government should supplement their efforts for two reasons, first, there is consistent shortage of trained workers, second, the productivity of Indian worker is the lowest in the world as depicted in the following table.

**Table- 1**  
**Productivity level (no of pieces per day)**

Country	Blouse	Shirts	Ladies dress	Ladies skirts	Trousers
South Korea	14.59	17.39	8.77	17.54	15.55
Taiwan	18.89	18.18	12.44	16.63	16.12
Hong Kong	20.56	20.87	20.17	19.25	19.25
China	10.93	13.96	7.83	13	6.71
Thailand	16.97	19.75	12.19	20.47	13.08
India	10.98	9.12	6.25	9.62	6.84

(Source: The calculations are based on data from statistics of ITMF, International Shipment statistics (Zurich), 2000.)

#### 4. Regulate working conditions.

Sanitary and phytosanitary measures emphasize good working environment and health standards for workers. Unfortunately Tirupur does not maintain any norms for workers. If this issue is not addressed by the government, importing countries may cancel the orders citing this as a reason.

#### 5. Set up huge effluent treatment plants.

Environmental issues have acquired more importance in the WTO context. The high level of pollution in Tirupur due to bleaching and dyeing units is definitely a disturbing feature. Since the cost of installing effluent treatment plants is quite high, the government can set up common effluent treatment plants and permit the firms to utilize them for a fee.

#### 6. Locate more R & D facilities at Tirupur.

Government sponsored testing laboratories are to be located in Tirupur. This step would help the hosiery firms in Tirupur which cannot invest in R&D facilities.

#### 7. Increase investment levels

The small size of investment cripples backward, forward integrations and supply chain management. The government can work out plans for converting sole trader and partnerships into public Ltd companies.

#### 8. Set up a high level committee to study the needs of this particular industry.

The government must appoint an exclusive committee to study the structure and the requirements of hosiery industry in the post quota period.

#### 9. Statistical information on Tirupur.

No reliable statistical data on the hosiery cluster exist except that industry associations such as TEA maintain certain important data. The government must take steps to collect, maintain and update information about Tirupur which is very much essential for framing development plans for the industry.

#### 10. Awareness of WTO provisions.

The exporters in Tirupur do not have a clear understanding of WTO provisions and their impact. The government must create a division under any of the existing government offices to impart up to date information on world trade.

#### 11. Fashion institute at Tirupur.

Tirupur is far behind in design capabilities. It would be appropriate if the government urges all India fashion institutes such as National Institute of Design (NID), National Institute of Fashion Design, and School of Fashion Technology to assist Tirupur in enhancing its design abilities.

### Industry

#### 1. Work for a common brand

The industry has to speed up its efforts towards establishing a common brand. Only this would help the products to have an identity in the world market.

#### 2. Open common retail showrooms abroad

Having chains of retail showroom is the practice in European countries. As it is not possible for individual firms, the successful export firms together can set up retail showrooms abroad.

#### 3. Change the pattern of operation from outsourcing to vertical integration.

Outsourcing has become detrimental in the present context. It is high time to think of other alternatives to replace outsourcing. Consortium exports could be considered for that matter.

#### 4. Concentrate on non-quota markets

So long the industry has been concentrating on the quota markets due to favourable currency exchange rates. Concentrating on non-quota markets and following a multi country strategy may yield good result in the new environment.

#### 5. Diversifying into other segments.

Tirupur has been focusing on knitwear meant for summer season. But western countries experience short summer and long winter. Focusing on winter knitwear could turn out as an alternative strategy. Similarly the industry can concentrate on other segments like home textiles and technical textiles.

### Firm

Firms in Tirupur will now have to adopt new strategies to compete in the new environment. Some such strategies are discussed below.

#### a) Business Strategies

##### 1. Differentiation strategy

This strategy will fetch good results if the buyer needs and preferences are too diverse to be fully satisfied by one product or by sellers of the same capabilities. To implement this strategy first of all the firm must analyse what the buyer values and is ready to pay for, then it must build in those features into the product.

##### 2. Focused low cost strategy

The focused low cost strategy aims at serving a particular segment of the buyers with lower costs and lower prices compared to its rivals. This strategy has considerable attraction because by limiting its customer base a firm can significantly lower its cost.

##### 3. Focused differentiation strategy

The focused differentiation strategy aims at providing a particular segment of the buyers with product that suits their tastes and preferences. The success of this strategy depends upon the existence of a buyer segment that is looking for special features in a product.

##### 4. Best cost provider strategy

The best cost provider strategy aims at giving customers more value for the money. To implement this strategy a firm must have capabilities and resources to incorporate good-to-excellent features in a product, all at a lower cost than its rivals.

#### b) Operating strategies

##### 1. Improve productivity of workers

Training is needed for both entrepreneurs and workers. Entrepreneurs must be taught to motivate employees and to follow scientific management principles. Training must be given to workers to increase their efficiency as well as to boost their morale

##### 2. Appoint fashion designers.

Since creation of new designs and patterns would go a long way in procuring orders, firms must permanently appoint a fashion designer in the organization. Firms must also make more investment in machineries and equipments meant for design creation.

##### 3. Install online facilities

When the whole world is shrunk due to advancements in information technology, many firms in Tirupur do not have websites and they do not use online facilities for transacting business. Firms must switch over to online business so as to save time in the fast world.

##### 4. Enter into joint ventures

Firms can use strategic alliances or joint ventures with foreign countries for entering foreign markets. The distribution channels and dealer networks can be shared and thus the gaps in technical expertise and local market knowledge can be filled.

##### 5. Reduce costs

A careful analysis of the firm's supply chain will help to identify those activities that increase costs. By performing these activities more efficiently and by totally eliminating cost generating activities from the value chain, a firm's total cost could be reduced.

### CONCLUSION

With the removal of QR, Tirupur's hosiery industry is facing a major challenge of competition but at the same time it has enough business opportunities to grow provided the industry would become more professional and gain competitive strengths. Though the exporters are confident that they will

able to export larger volumes, thanks to the removal of QR, they are diffident that their profitability will be eroded because of the competition and unfavourable domestic environment. They are under pressure to look for methods to stay competitive and to maintain the profitability. The government, industry and firm by adopting the strategies presented above can play a proactive role by exposing its exporters to professionalism and modern business practices thereby enhancing the competitiveness of this industry.

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