Munich Personal RePEc Archive

Textile and Apparel Market Segmentation in China

Hossain, Md Ekram and Dechun, Huang and Quangdung, Tran

Business School of Hohai University, Nanjing, China, Business School of Hohai University, Nanjing, China, National University of Civil Engineering (NUCE), Vietnam

1 September 2012

Online at https://mpra.ub.uni-muenchen.de/110162/
MPRA Paper No. 110162, posted 16 Oct 2021 04:56 UTC

The 11th Conference of International Federation of East Asian Management Associations (2012)

东亚管理学会国际联盟第 11 届学术大会（2012）

Management Innovation and Win-win Cooperation in East Asia

东亚的管理创新与合作共赢

26—29 th Oct. 2012

2012 年 10 月 26—29 日

International Federation of East Asian Management Associations

Hohai University

东亚管理学会国际联盟

河海大学

School Business of Hohai University, Nanjing, China

中国南京 河海大学商学院

（session A，B）

Textile and Apparel Market Segmentation in China

Hossain Md. Ekram**, Dechun Huang, Quangdung Tran

Institute of Industrial Economics, Business School of Hohai University,

Nanjing-210098, China

Abstract

China is the largest clothing producer overthe world and has the largest production capacity for textile mill products consisting of cotton, man-made fibers and silk. With the improving living standard of the Chinese people, local demand for high-quality textile and apparel goods continues to rise. China is not only the biggest producer and exporter but also a potential buyer and importer of textiles and apparel, backed by a fast-growing domestic market. From July 2010, China has listed 32 developing countries across the world for duty-free access to the Chinese market, which has created enormousopportunities for exporters of those countries to entry into the market. This paper evaluates the market segment, challenges and barriersto entry into the Chinese textile and apparel market, which could be a guideline for the new entrants of textile and apparel.

Keywords: Textile and Apparel (T&A) Industry, Market Segmentation, China

1. Introduction

The textile and clothing industry has been a pillar industry in China for a long time. Since the open door policy and economic reforms began in 1979, this industry has been a driving force in China's exports. Over the past twenty years, the domestic textile and clothing industry, it has also undergone tremendous changes (Larry D. Qiu, 2005; UNCTAD, 2009). Now China is not only the biggest producer and exporter of textiles and clothing, accounting for 50% of world's total fiber production and 58% of world textiles and clothing trade in 2009, but also a potential buyer and importer, backed by a fast-growing market(Larry D. Qiu,2005;Li & Fong group, 2011; ITC, 2011).

The Chinese market has registered strong growth in recent years averaging an annual GDP growth rate of around 10% over the last five years. Key drivers for this growth include a strong trade balance, increasing FDI and the urbanization of China's population which, in turn, has led to greater disposable income and higher consumption.Growth and development have taken place against a background of increasing economic and market liberalization marked by China's accession to the World Trade Organization (WTO). The shifting of these macro factors is giving rise to greater business opportunities for foreign companies. Growth of the Chinese textile and apparel market has been driven by an increase of disposable income, new applications of textiles and a fast growing online fashion market (CAO Dongmei, 2009; CTEI, 2011; EU SME Center, 2011; Jean Ruffer, 2011).

*Corresponding author. Tel.: +86 15951030541
E-mail address: ekram.iml.du@gmail.com

In 2008, influenced by the financial tsunami, the world trade in textiles and clothing declined sharply, consequently affecting China's industry. However, domesticclothing retailing performed well and enjoyed a18.8% increase in 2009 compared with 2008. Furthermore, government policy to stimulate domestic demand has been enlarging the market and providing opportunities for the foreign companies (Li & Fong group, 2011; CTEI, 2011).The sustained opening-up and relaxing of entry regulations into China's domestic market can be seen by its rising imports. Chinese consumers today are provided with many more choices within their home market and are exposed to fashionable value-added imports (ITC, 2011).During this transitional period of industrialization, large numbers of people previously living in rural areas have become urban residents.The Chinese consumer's lifestyle is undergoing tremendous changes, and the domestic clothing market is becoming more versatile, fashionable]\and segmented (CNTEX, 2012).China's per capita fiber consumption increased from 4.1 kg in 2000 to 20.3 kg in 2008. Though the average per capita clothing consumption is low, with its large population and an economy that is likely to continue to grow in the coming years, China provides a promising market with unprecedented potential to many exportersaround the world (CAO Dongmei, 2009; CNGA, 2010**;** CTEI, 2011).

As segmentation can undoubtedly help to identify a diversity of market opportunities and the effective implementation of market segmentation and subsequent targeting leads to success of the companies (Sally Dibb, Lyndon Simkin, 1991), it is very important to the new entrants companies of textile and apparelto know the Chinese market segment.Our present study is carried out to purse the following objectives:

- To access the factors influencing Chinese consumer's booming the domestic market demand.
- Segmentation of the Chinese market for the new entrant foreign companies.
- To find out the barriers and challenges to entry into Chinese T&A market.

This study is a theoretical approach based on secondary data and information, review of related literature and existing stock of knowledge, reports of government and related textile and apparel organizations.The study will assist the exporters, entrepreneurs, industry professionals, and individual enterprises when formulating strategies toentry into the Chinese textile and apparel market.

2. Textile and Apparel Market Size and Sales in China

China is one of the largest consumer markets in the world with a population of 1,334.74 millionof 2009. Theacceleration of economic growth will further stimulate apparel consumption and expand the potential of China's apparel market (Larry D. Qiu, 2005).China has been the biggest textile and apparel exporter in the world since 1994,occupying 40% of world exports in 2010. Despite its strength in manufacturing, China imported USD 29.5 billion T&A products in 2010. Growth of the Chinese extile and apparel market will be driven by an increase of disposable income, new applications of textiles and a fast growing online fashion market(EU SME Center, 2011).The Chinese textile and apparel market (excluding fibers) shrank by 1.1% in

2009 to reach a value of USD 270 billion. In 2014, the Chinese textile and apparel market is forecasted to have a value of USD 473 billion, an increase of 75.2% from 2009, with a compounded annual growth rate of 11.9%. China's total textile and apparel exports declined 9.65% year-on-year to USD 171 billion in 2009 (Jean Ruffer, 2011; EU SME Center, 2011). In the meantime, sizable Chinese manufacturers sold domestically about 80% of their textile and apparel products at a total value of CNY 2,971 billion in 2009, up to 14.69% year-on-year. Total retail value of apparel consumer goods in China rose 18.8% in 2009. Targeting a growing domestic market, international apparel retail heavy weights such as H&M, Zara and C&A each increased its number of shops in China by over 100% (EU SME Center, 2011; CNTEX, 2012).

2.1 Chinese Textile and Apparel Domestic Market's Demand and Imports

The T&A import only accounted for less than 5% of overall the T&A market in China. Main import categories include cotton (36%), manmade filaments (13%), manmade staple (short) fibers (10.2%), wool, animal hair, horsehair yarn and fabric (9.8%) (UNCTAD, 2009; EU SME Center,2012).Impacted by the financial crisis, the T&A import in China declined from USD 25.6 billion in 2006 to USD 21.7 billion in 2009, hitting the bottom at a negative growth rate of 12.9%. But it bounced back to a positive 36% in 2010 to USD 29.5 billion because of low base value in 2009, mild recovery of the developed economies, and an expanding domestic market (EU SME Center, 2012; CTEI, 2012).

2.1.1 Key Growth Drivers in Chinese Domestic Market

Annual disposable income increase

Urban households in China across all income brackets spent around 9-10% on clothing each year. From 2001 to 2009, disposable income of urban households has grown to an average of 9.9%, and total spending on clothing has grown to a higher average of 15% from CNY 513 billion in 2006 to CNY 778 billion in 2009. According to the survey data of Li & Fung Group, in 2010 disposable per capita income of Chinese urban households increased by 7.8 % and of rural resident's growth was 10.9 %. Whereas urban households spent an average of CNY 1444.3 on clothing (including garments, clothing materials, footwear, hats, other clothing, tailoring and laundering service fees) or a share of 10.7 % of their annual expenditure, rural households were spending only an average of CNY 263.4 on clothing, thus, representing a share of 6.8 % of their total spending and this figure gradually increased each year since 2006 (5.9 %) (Li & Fong group, 2011).

Rapid growing E-commerce market

The E-commerce market has grown rapidly over the last ten years, spurred on by the advent of third party platforms such as Taobao and third-party payment systems which have made Chinese consumers more at ease with spending online. It is estimated that around 160 millionChinese are now shopping online and this figure is set to increase to 231 million by 2013 (EU SME Center, 2012). Online purchases have been rapidly increasing with an average growth rate of over 100% each year between

2005 and 2010. In a broad product sector such as fashion, the average annual growth of B2C retails is over 130% between 2005 and 2010, an increase of 68 times from CNY 0.14bn to CNY 9.64bn in the five-year period (CNGA, 2010; EU SME Center, 2012). While many powerful bricks-and-mortar retailers have been laggards in their online efforts, more independent online branded fashion retail companies are quickly gaining new market share.The fast growth of E-commerce (table 1) presents an attractive opportunity for foreign companies to access the Chinese markets, allowing them to promote their goods to a vast market spread across a large geographic area, for relatively little cost (Li & Fong group, 2011; EU SME Center, 2012).

Table 1 Online B2C fashion purchases

	2007	2008	2009	2010	2011	2012e	2013e	2014e
Total value of online fashion purchase in CNY billion	0.54	1.57	4.07	9.64	20.99	44.03	78.33	137.06
% of total B2C online retail	8.78 %	12.71 %	14.81 %	15.89 %	17.41 %	19.28 %	20.27 %	22.24 %

Source: Access Asia, Online Retailing in China 2011

The share of online B2C fashion purchases in total B2C online retail has increased from 8.78% in 2007 to 15.89% in 2010. Access Asia, a UK based market research and consulting company, estimated that this share will further grow to 22%, and the total purchase value will reach CNY 137 billion by 2014.

Non-apparel products make up the largest segment of the textile market in China, accounting for 34.2% of the market's total value. The apparel segment accounts for a further 29.1%4, Fabrics 28.5% and Yarns 8.1% according to the statistics in 2009. Profit margins in both apparel and non-apparel sectors are low due to intense competition, lack of brand differentiation and low value-added products. Men’s wear is the largest segment of apparel retail in China, accounting for 41.6% of the industry's total sales value, women’s wear 36.6%, and children’s wear a further 21.8%(CNGA, 2010; EU SME Center, 2012).

2.1.2Distribution Channels in Domestic Market

Wholesale

The wholesale market plays a vital role in the textile sector by serving as a crucial link between thousands of scattered manufacturers and retailers. Wholesale markets which specialize in textiles prevail in or around major industrial clusters in China (CNGA, 2010; EU SME Center, 2012; CTEI, 2012). These wholesale markets usually focus on volume sales at low prices, but in most cases, they also sell to individuals at a lower price than in a retail store.

Sales agents

Many imported T&A brands rely on sales agents to gain entry to department stores, counters and specialty store outlets. This model depends heavily on the agent’s existing sales channel resources and expertise on market and policy. Advantages of this model include low capital investment, quick market entry, faster brand localization and low operational risks. Disadvantages are price mark-up, limited control of branding and pricing and difficulties in distinguishing good sales agents from poor ones (EU SME Center, 2012).

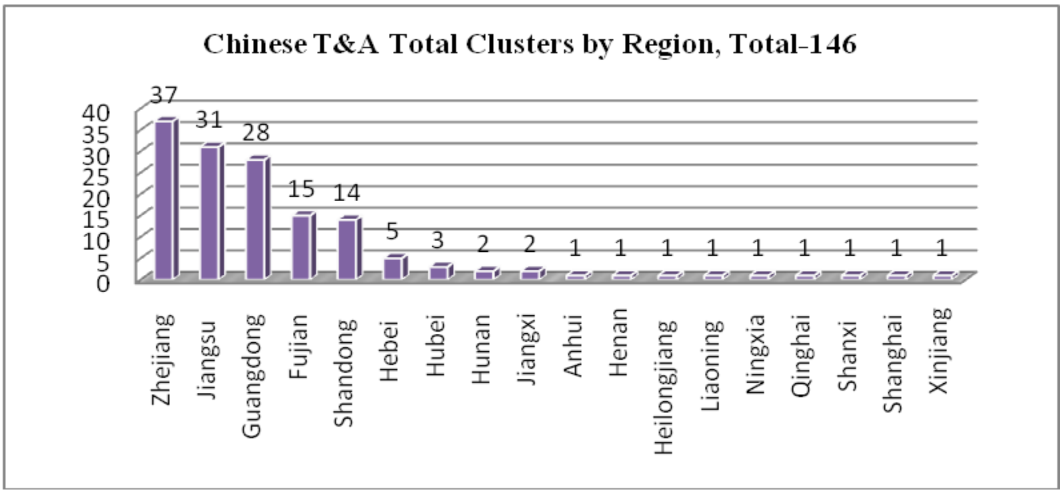
Retail

Household decoration and apparel textiles retail are mostly carried out in wholesale markets. Textiles for curtains can also be found in specialized hyper/supermarkets for home improvement. Apparel retail is highly competitive, fragmented with low entry barriers and high entry and exit rates. High end department stores and shopping malls with extensive floor space and selling a large variety of goods are the preferred choices for the most imported apparel and bedding brands. Boutique stores carrying European designer labels have also mushroomed in first-tier cities, but with a limited audience due to limited number of shops and marketing (EU SME Center, 2012; CTEI, 2012). Highly differentiated products and location are key competitive factors in this form of retail.

2.1.3 Chinese Textile and Apparel Industrial Clusters

Geographically, 80% of China's apparel manufacturing capacity is clustered around the coastal area. Consumption of fashion products is centered in Yangtze River Delta, the Pearl River Delta, and the Bohai Gulf Rim (figure 1), but is gradually expanding into inland China(ITC, 2011; CTEI, 2012).

Figure: Distribution of T&A clusters in China



Source: CETI & CNTAC compiled by the Author

The presence of industrial clusters is one of the major characteristics of the T&A sector. By May 2011, the number of T&A industrial clusters had grown to 146 clusters (Fig.1).

In each of the localities, hundreds of the T&A manufacturers have clustered together. Each of these clusters specializes in the production of one or more T&A products, with a rather complete textile apparel industry chain of spinning, packaging, embossing, weaving, dyeing and finishing, stitching ready-made garments and washing nearby. For policy and economic reasons, the T&A clusters first concentrated in China's eastern coastal provinces, namely Zhejiang, Jiangsu, Guangdong, Fujian, Shandong and Hebei (fig.1). These clusters are also divided into 151 sub-sectors (fig.2).

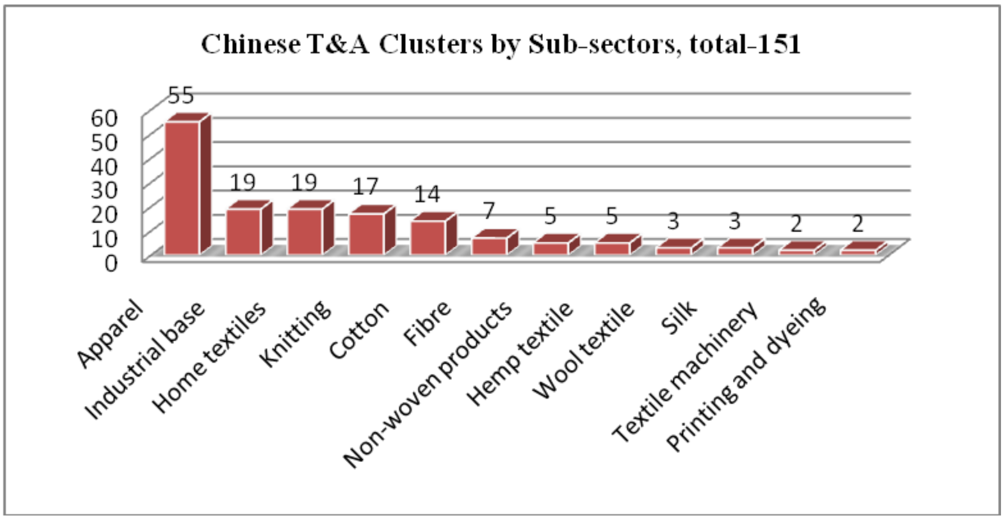


Figure 2 T&A clusters by sub-sector

Source: CETI & CNTAC complied by the Author

2.1.4 Key Players in China's Textile and Apparel Market

Generally, the high-end domestic clothing market in China is dominated by brands of European origin and other imported products, such as Giorgio Armani, Cerruti 1881, Hugo Boss, Dunhill, Chanel, Dior, Ermenegildo Zegna and Salvatore Ferragamo (Li & Fong group, 2011). The middle and low end of the market has a product mix of foreign and domestic brands, with most of the goods being manufactured in China (CTEI, 2012). A small portion of these products is sourced from developing countries and least developed countries (LDCs), and imports from LDCs are growing steadily. To be specific, brands such as Nike, Adidas, Tommy Hilfiger, Zara and H&M are sourced from developing countries and LDCs. For example, in Zara's stores in Shanghai, over 90% of stock-keeping units (SKUs) are imported, with Bangladesh, Egypt, Morocco, Portugal, Spain, Turkey, and Viet Nam and being the main import sources. Bangladesh, Cambodia, India and Indonesia are also important procurement target countries (Li & Fong group, 2011; EU SME Center, 2012).

Giant retailers, such as Wal-mart and Carrefour, are also expanding their business in China. Many multinational retailers, international fashion brands, and overseas trading firms presently find it profitable to manufacture clothing in various developing countries and LDCs and export to China for sale. With global sourcing, they benefit from proximity to the market, economies of scale and low processing costs. However, relatively few local Chinese retailers, importers and brand owners choose to import or source clothing from other developing countries or LDCs, because of a perceived level of risk involved with this. The other factor is a lack of supply chain management skills in these countries. Home retailers are importing more and more luxury brands from developed countries to meet high-end demand in China (ITC, 2011).

3. Strategies to Entry into Chinese Market

In addition to the advantages of low cost and price, exporting countries should take into account the demand and preferences of consumers in China and the requirements of Chinese buyers. They should improve their competitiveness by utilizing advantages such as market proximity and trade preferences, in order to meet the purchasing criteria and priorities of the buyers, which mainly include: social accountability, environmental protection, processing and transport costs, delivery time, flexibility of order quantity, quality, production capacity, product development and design, after-sales service and product assortment (ITC, 2011; Li & Fong group, 2011).

The new operational models of international retailers and brand operators in the Chinese market, such as Zara and H&M, have created new standards for the multitude of suppliers. LDC exporters have to understand these trends within the market well in order to successfully gain market share and be competitive. Due to the homogeneity of LDC garment industry products, competition among them is intense. However, since international brands such as Zara, H&M, Adidas and Tommy Hilfiger are increasing their sourcing through GPNs for goods to be sold in China, opportunities exist for LDCs to enter this market by serving these buyers (Christopher Gan et al, 2007; CAO Dongmei, 2009; Jean Ruffer, 2011). Therefore, LDC suppliers should:

- Differentiate their products;
- Take advantage of the free trade, zero tariff scheme agreement and integrate the industrial chain vertically and horizontally to make the pipeline more effective and hence enjoy cost savings;
- In light of the changes in market and fashion trends, pay more attention to non-cost factors such as one-package buying, the application of Information and Communications Technology (ICT) in design and pattern making, speeding up the supply of samples, providing a variety of products and services, and enhance credit;
- Make good use of their proximity and accessibility to the market;
- Update their product/process/quality through advanced facilities, online systems, digital technology etc., and improve management levels. Governments of exporting countries should take measures to:
- Strengthen the infrastructure, enhance efficiency of transportation and communication, and speed up customs clearance;
- Conduct training to workers and managers;
- Cooperate inter-regionally and intra-regionally;
- Restructure textile complexes, integrate the value chain horizontally and vertically, and reinforce supporting industries;
- Maintain political and economic stability (Christopher Gan et al, 2007; CAO Dongmei, 2009; ITC, 2011).

4. Barriers to Entry into Chinese Market

Legal and regulatory barriers

This sector is open to private and international players and there are limited regulatory barriers. For online retail, however, there are significant barriers, including the need to acquire content provider and commercial website license. The latter is particularly difficult for foreign invested enterprises (FIEs) to obtain. To sell online, FIEs may have to consider going through third party platforms such as Taobao (B2C) or Alibaba (B2B) (Weiquan Yang, 2010).

Standards and certification

For both textile and apparel products GB (national level standards) and industry standards will be applied depending on the product. European importers may therefore have to self-declare conformity to relevant the Chinese standards depending on the product. Imported apparel may be tested based on its performance for safety, hygienic and environmental factors as outlined in GB 18401 and other relevant GB Standards. Textiles used for safety purposes may also need mandatory conformity testing according to the relevant Chinese regulations (Weiquan Yang, 2010; Foreign Trade Law of the People's Republic of China, 2012).

Customs

All textile and apparel products will be subject to AQSIQ inspection procedures but not all will be tested. However, if tested and found to be in non-compliance with the Chinese standards, the products in question will be destroyed or returned.

Intellectual property right (IPR) issue

Counterfeiting or imitation of brand name products is rampant in China while IPR legislation is still in the developing stage and IPR enforcement is weak. Proper trademark registration and short innovation cycles will help mitigate the risk (Weiquan Yang, 2010; Foreign Trade Law of the People's Republic of China, 2012).

Local competition

Rivalry among existing competitors is increasing due to a decelerated sector growth rate from a compound annual growth rate (CAGR) of over 20% from between 2004 and 2009 to around 10% in recent years. European companies will be competing with other foreign exporters such as the USA, Japan and Korea in the high-end market. In the meantime, local companies already enjoy a ready network of trading partners and are actively trying to upgrade to international standards through more investment in R&D or JV establishment (EU SME Center, 2012).

Fragmented distribution channel

Wholesale markets are mostly dominated by low and medium-end products. Because of a lack of national distributors, foreign companies have to deal with local distributors in each region, which is a heavy tap on a new company to entry. It is not easy to find a sales agent who is able to both execute a high-end product image and have strong connections with different sales channels (Jean Ruffer, 2011; EU SME Center, 2012).

5. Conclusion

The structure of textile and apparel industries in many developing countries and LDCs is similar to that of China. This leads to product homogeneousness and limits their exports to China's garment retail market.The fierce competition in the first-tier Chinese cities might still become tougherand therefore, many domestic and foreign companies are now catering to lower-tier cities where people become wealthier and were buying power is steadily increasing. Therefore this type of cities are future competitive battlegrounds as well as the source of a main growth engine, namely

Hunan, Sichuan, Shandong and Anhui provinces are earmarked for growth.
However, retailer giants such as Zara, H&M, and C&A are increasing their sourcing from developing countries and LDCs for the Chinese market. Furthermore, changes in the fashion market and in sourcing patterns are making it possible to enhance competitiveness by factors other than cost and price.

References

Sally Dibb, Lyndon Simkin (1991), Targeting, Segments and Positioning, International Journal of Retail & Distribution Management, Vol. 19 Issue 3

Larry D. Qiu, (2005), China's Textile and Clothing Industry, Hong Kong University of Science and Technology, http://s3.amazonaws.com/zanran_storage/www.bm.ust.hk/ContentPages/18112599.pdf

Li & Fong group, (2011), an in depth analysis of China´s apparel Market, Issue December 2011, http://www.textile-future.com/dynpg/upload/imgfile34.pdf

International Trade Centre (ITC), (2011), The Chinese Market for Clothing, Geneva: ITC, 2012. xi, 92 p. (Technical Paper) Doc. No. SC-11-212.E

EU SME Center,(2012), http://www.eusmecentre.org.cn/

China National Textile &Apparel Council (CTEI), http://english.ctei.gov.cn/

Textile and Apparel Market in China, (2011), EU SME Center www.eusmecentre.org.cn/system/.../TA%20Market%20Report_0.pdf

China National Garment Association (CNGA), 2010**,** China National Garment Industry Development Report, http://www.cnga.org.cn/engl/about/Overview.asp

Gary Gereffi, (1999), International trade and industrial upgrading in theApparel commodity chain, Journal of International Economics 48 (1999) 37–70

United Nations Conference on Trade and Development (UNCTAD), (2009), Potential Supply Chains in the Textiles and Clothing Sector in South Asia-An Exploratory Study

Christopher Gan, Mike Clemes, Tzu-Hui Kao, Vivian Xin, (2007), Innovation Diffusion with the Supply Chain: the Chinese Apparel Firms in Shenzen, Innovation Marketing, Valume 3, Issue 3, 2007

CAO Dongmei, (2009), GVCs and Sustaining Competitiveness of Clothing Industry in China -A Perspective of Functional Upgrading, The School of Business and Management, Shaoxing University, http://www.seiofbluemountain.com/upload/product/201008/2010shcyx02a5.pdf

Weiquan Yang, (2010), On Trade Barriers to China's Textiles Industry, International Journal of Business and Management, Vol. 5, No. 9; September 2010

Jean Ruffer (2011), China Textile in Global Value Chain, CEFC, Centre d'Etudes Françaissur la Chine Contemporaine, Hong Kong, halshs-00649972, version 1 - 16 Dec 2011

Shakahawat Hossain, (2010), China allows duty-free access of 4,721 Bangladeshi items, http://www.thefinancialexpress-bd.com/more.php?news_id=142236&date=2012-09-05

Foreign Trade Law of the People's Republic of China, (2012) http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383624.htm

China Textile Network Company (CNTEX), (January 13, 2012), Chinese Textile and Apparel Weekly, http://textination.de/en/Compass/China%20Textile%20Network%20Company