DENIM INDUSTRY
AN INDUSTRY REPORT

ABSTRACT
The BD’s Denim Industry is in Expansion Stage and is Highly Export Oriented and follows Cost Differentiation Strategy.

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Bangladesh is becoming a major source of denim products as international retailers prefer the country than other sources for its low prices. A shift in work orders from China to Bangladesh is a major reason for the growth of denim.

Bangladesh is the largest country which exports denim in Europe and the third largest in the US after Mexico and China. Bangladesh holds 22.88% share in EU and 11.35% in USA denim markets and denim exports have seen 11.16% growth since FY2009-14. The growth in the EU is mainly because Bangladesh enjoys duty-free facility there, while it is not available for the country in the US market. Around 400 factories are exporting 180 million pieces of denim jeans from Bangladesh over 120 countries. The industry in Bangladesh presently has 26 denim fabric manufactures with total investment of over USD 900 million while 4 more are going into production by the end of 2015. More than 66 international brands have turned to Bangladesh in the last couple of years for importing denim products. Bangladesh’s share in the global is USD 60 billion where denim market is still insignificant at USD 3.5 billion and lags behind China, the US, Italy and some Latin America countries. Global market for denim is forecasted to reach USD 65 billion by 2021 and Bangladesh aims to fetch USD 7 billion from world denim market share.

The total denim production of the whole world is approximately 7 billion meters and within these total 70% fabric is produced in Asia. The country’s monthly production of denim stands at 30 million yards per month while the demand of nearly 60 million yards. Denim fabric is mainly produced from the open-end (Rotor) yarn. Local rotor yarn manufacturing industries can supply less than 50% of the domestic demand. On the other hand, the slub yarn (Ring or Rotor) used in both warp and weft in fancy denim products and the core spun yarn used as weft in stretch denim fabric are mainly imported from countries like India, Pakistan, China, Taiwan, and Thailand. Colorants and auxiliaries required for warp dyeing and garment washing are fully imported from abroad. When other Asian low-cost denim exporting countries like China, India and Pakistan are using their own chemicals which save their production cost. About 90% of the denim work in Bangladesh was driven by the global buyers, who made designs through research and development. But the manufactures now offer their designs to the buyers and innovation from the producers’ end helps global buyers to reduce costs.

The use of denim is on the rise worldwide and denim is the next big global business for changing fashion and styles. The industry insiders anticipate that, in the next five years, four of five denim products in Europe would be sourced from Bangladesh and the country will become the third largest denim exporter, after the US and Italy and also in the next 10 years, the industry growth in Bangladesh would be 300% while the world growth would be between 8% and 10%. Moreover, around 70% of jeans demand would be met by the Asian producers by 2030, in which Bangladesh has a big opportunity.
INDUSTRY LIFE CYCLE

EXPANSION STAGE

To analyze industry, a useful first step is to examine its stage in the life cycle, which in its simplest form consists of the pioneering, expansion, maturity and declining stages.

Denim is everybody’s garment. This universal fashion trend is a unique matter for progress. Bangladesh Denim Industry is now in expansion stage. The denim industry is highly export oriented and follows cost differentiation strategy. Although, the industry is becoming costlier but not as much as the other countries’ industry, the country would be more important as a source destination for jeans and denim. Moreover, Bangladesh denim producers are gradually turning into design innovators, bringing a new dimension to the denim industry to attract. Though the sector is marching to a new height, there are still some challenges. It is required right now for Bangladesh is to create sophisticated denim, build buyers’ confidence, and more investment in denim fabric manufacturing. If the industry does not able to bring product differentiation, to penetrate its products into new markets and to oblige compliance issues, there may have change to fall in relative maturity stage later. But that has far reaching effects because of industry’s potentialities.

Expansion this is probably of most interest to investors. Industries that have survived the pioneering stage often offer good opportunities, for the demand for their products and services is growing more rapidly than the economy as a whole. Growth is rapid but orderly, an appealing characteristic to investors.

INDUSTRY STRUCTURE AND PROFITABILITY

MODERATELY COMPETITIVE & DIFFICULT TO MAKE ABNORMAL PROFITS

The average profitability of an industry is influenced by the “five forces”. According to this framework, the intensity of competition determines the potential for creating abnormal profit by the firms in an industry. Whether or not, the potential profits, which are kept by the industry, are determined by the relative bargaining power of the firms in the industry and their customers and suppliers.

In Bangladesh Denim Industry, degree of actual and potential competition is moderate and bargaining power in input and output markets is high. Therefore earning abnormal profits and keeping potential profits are not easy in denim industry of Bangladesh.
Degree of Actual and Potential Competition

MODERATELY COMPETITIVE

Competitive Rivalry: *(High)*
Bangladesh has to compete with other established manufacturers in countries like China, India, Pakistan, Cambodia and Vietnam. India and Pakistan are the two leading denim exporters that have become very lucrative international buyers as the countries local currency devaluated against the dollar exchange rate besides the countries have own source of raw materials such as yarn, colorants and auxiliaries. The demand for denim products is not growing at the expected level, resulting slow market growth. Moreover, intense rivalry is propagated by little differentiated products, low switching costs and high barriers to exit as such heavy capital investment required.

Threat of New Entrants: *(Low)*
Large startup cost, initial cost disadvantage and long time required to pass test of quality discourage new entrants in the industry.

Threat of Substitute Products: *(Low)*
Jeans has a long history of fashionable wearing for its uniqueness. There are available substitutes to jeans products in the light of functionality but not fashionability.

Bargaining Power in Input and Output Markets

HIGH

Bargaining Power of Buyers: *(High)*
The key denim market for Bangladesh and other denim exporting countries are Europe and the US markets. Both the markets have the opportunity to buy from Asia, Africa or Latin America. Due to undifferentiated products, low switching costs, and buyers’ knowledge about cost of production, bargaining power of buyers is high.

Bargaining Power of Suppliers: *(High for yarn and chemical but low for labor)*
Local rotor yarn manufacturing industries can supply less than 50% of the domestic demand. Slub yarn, core spun yarn, colorants and auxiliaries are fully imported from abroad. Escalating growth in denim of these raw materials exporter countries like India and Pakistan always keep the demand for the raw materials up. Hence, bargaining power of raw materials suppliers is high but opposite is true for labor suppliers.
CONCLUSION

Denim is a 12-months product. The gradual decline in Chain’s exports to the US and the EU has opened up the opportunities for other competitors. Bangladesh mainly produces low-end denim products along with mid-segment on a small scale following growing demand from upscale customers. Bangladesh has established its capacity and now needs to focus on value-added products.

Since, the Bangladesh Denim Industry is an export-oriented sub-sector, its march is highly dependent on the economic stability of importer countries. A repeat of economic recession, high volatility of cotton price in the international market, infrastructural bottlenecks, government stiff textile export policy, and political unrest will surely put the industry at systematic risk. Hence, the stock price of Envoy Textiles Limited, Argon Denims Limited and Shasha Denims Limited, the listed companies in Dhaka Stock Exchange and Chittagong Stock Exchange, is quite vulnerable to macro-economic issues.

Disclaimer

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