

Global market review of the denim and jeanswear industries – forecasts to 2014

2008 edition



Just-style

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Chapter 1 Executive summary

Introduction

This is the third edition of just-style's global report on denim and jeanswear. In it, although the structure resembles previous editions, the emphasis is on:

- key drivers of the market;
- supply chain strategic alliances; and
- branding and investments.

The denim and jeanswear industries and markets

Definitions and history

Denim is a *"rugged cotton twill textile"*, according to The Apparel Search Company. Denim is a construction of cotton fabric, defined as 3/1 warp-faced twill fabric, made from a yarn dyed warp and an undyed weft yarn. Traditionally the warp is indigo dyed.

Opinions are divided as to whether the name comes from 'serge de Nîmes' or from fustian from Genoa (Genoa jeans). Either way, the fabric was in construction in England in the 17th century and in the US at the end of the 18th. The breakthrough of the jeans garment, however, is universally attributed to Levi Strauss and his 'sturdy waist overalls' for miners – blue jeans.

Jeans as 'fashion'

It was not until the 1960s, and the breakdown of traditional codes of dress, that a jeans culture was born. This was driven by rock-and-roll and pop cultures. Since then, jeans have been a constant part of the wardrobe, worn by an ever-increasing age-range of consumers. This has also meant that the product means different things to different consumers. To some consumers and retailers it is a basic, to others a high-fashion statement.

Today, jeans marketers are incorporating concepts of authenticity, music, celebrity endorsement and product placement to drive sales.

Chapter 2 Introduction

Jeans evolution

The first just-style denim and jeanswear report (published in 2004) concentrated upon global brands and their fight with a multitude of other brands, and with some big-hitting private label retailers.

In the second product sector report on denim and jeans from just-style, the sector was reviewed worldwide, from the point of view of brand positioning. This provided insightful analysis of a product sector that is still trying to convince the consumer that it is cool.

The third edition concentrates more upon the battle to convince the developing market consumer:

- why they should wear jeans; and
- whose jeans they should wear.

Report coverage

In Chapter 3, the product sector is defined in the context of the garment, the fabric and the consumer attitude to wearing jeans.

Chapter 4 looks at the total jeans market, which is valued for the 2007 calendar year at US\$xxxxbn. It is segmented by region, by units, by consumption and by price.

In Chapter 5, brands and their price points are considered. These are composed of national and international retailers, global and regional jeans brands, and manufacturers in lower-cost countries (whose names are unknown to the consumer but important to the industry). This section is vital reading as the changes in global supply patterns have been, and will continue to be, an important contributor to the economics of the jeans industry.

Moving on from economics, Chapter 6 addresses the way that different brands position themselves and communicate with their target consumer. This is done in the form of brand 'sketches', which are followed in Chapter 7 by a review of today's main market supply chain driver, 'strategic alliances'. Chapter 8

Chapter 3 The denim and jeanswear industries and markets

Denim

According to The Apparel Search Company, denim is a “*rugged cotton twill textile*”. Their fuller definition contains the following two paragraphs:

“Denim, in American usage since the late 18th century, denotes a rugged cotton twill textile, in which the weft passes under two or more warp fibres producing the familiar diagonal ribbing identifiable on the reverse of the fabric, which distinguishes denim from cotton duck. Denim was traditionally coloured blue with indigo dye to make blue ‘jeans’, though ‘jean’ denoted a different, lighter cotton textile.

“A popular etymology of the word denim is a contraction of ‘serge de Nîmes’ in France. Serge weave, with a distinctly-twilled diagonal rib, is now more usually associated with sturdy woollen textiles.”

The Courtaulds Textile Dictionary is more succinct:

“Denim is a particular construction of cotton fabric, defined as 3/1 warp-faced twill fabric, made from a yarn dyed warp and an undyed weft yarn. Traditionally the warp was indigo dyed.”

Although the serge de Nîmes explanation is the one that is most well accepted, there is another school of thought about the historical origins of the fabric. Another fabric known as jean also existed at this same time. Research on this textile indicates that it was a fustian – a cotton, linen and/or wool blend – and that fustian from Genoa, Italy was called ‘jean’. This is evidence of a fabric being named for a place of origin. It was apparently quite popular and imported into England in large quantities during the 16th century. By the end of the 16th century, jean was being produced in Lancashire. By the 18th century, jean cloth was made completely of cotton and used to make men’s clothing, and was valued especially for its property of durability even after many washings.

Chapter 4 The market, 2004-2014

Comparisons with the second edition

As has already been mentioned, this is the third edition of just-style's report on the denim and jeanswear industries. The second edition used as its base, estimates from a variety of sources for the 2004 calendar year. At that time, it was estimated that the world jeans market was:

- worth US\$xxbn;
- composed of xxxxxbn pairs of jeans;
- bought by a world population of xxxxxbn people;
- one pair of jeans was bought per xxx men, women and children; and
- the average price of a pair of jeans was US\$xx.

With the benefit of more recent data, and various cross-checks from different sources, those world figures have been reconsidered. There are only minor changes to the global summary figures. It is now estimated that that the world jeans market in 2004 was:

- worth US\$xxxxbn, an upwards revision of just x%;
- composed of xxxxxbn pairs of jeans;
- bought by a world population of xxxxxbn people (the revised population figures come from the United Nations Population Fund [UNFPA]);
- one pair of jeans was bought per xxx men, women and children; and
- the average price of a pair of jeans remained at US\$xx.

These are the figures that are used throughout this edition as the basis upon which to forecast the scale and growth of the jeanswear industry up to 2014.

The historic jeans market, 2004

Major regional jeans markets, 2004

For the four major world regions, Table 4 shows the relationship between jeans retail US dollar values and population.

Chapter 5 Brands, own labels, retail distribution and prices

Brands and retail own labels

Aroq Limited, parent company of just-style, publishes reports and data on a number of different industry categories, including automobiles and food and drink, as well as apparel. The automobile industry is strongly branded. The brands are immediately recognisable to the consumer, mainly through strong brand marketing and advertising. The brand is also more important than the retailer. Retailers and distributors sell brands to consumers. The car that the consumer buys is either a Ford or a Toyota. It is not the name of the retailer or the distributor that happens to sell it.

The clothing industry is completely different. The clothing may be branded, but it is just as likely to bear the name or logo of the retailer that is selling it. This merchandise is referred to as retail own label. Since World War II, the consumer has come to associate the price, quality and the reliability of apparel merchandise with the retailers that sell the merchandise, more so than with the originator of the product. In the US, the consumer is confident in buying Wal-Mart, Gap or Guess. In the UK, they buy at Marks & Spencer, Next or George at Asda (which is now part of Wal-Mart). The same applies on the European continent. In France it could be Carrefour; in Germany C & A, and in Italy Benetton.

As mentioned above, the retailer brand is relatively recent. There were only a few before World War II. Important ones were:

- Sears Roebuck, and JC Penney in the US;
- Marks & Spencer and Woolworths in the UK; and
- C & A in Germany.

Throughout the second half of the 20th century and right up to today, mass-market distribution has grown at the expense of all other formats but particularly at the expense of the independent retailer. This has made life hard for manufacturer brands. Within the various different retail formats, some are certain to stock brands, some are likely to stock both brands and their own

Chapter 6 Jeans brands and denim company profiles

VF Corporation

The most important event of the time period since the last edition of just-style's denim and jeanswear report was triggered by an announcement from VF Corporation, made in the spring of 2007. In it, the company stated that it was VF's intention to sell its global intimates (lingerie) business. Intimates had been one of its core 'coalitions' of brands (as the company likes to call them, together with jeanswear, imagewear, outdoor and sportswear.

A subsequent statement (part of VF's annual report for calendar year 2006) from chairman and CEO Mackey J McDonald said this was to be *"part of our ongoing transformation toward becoming a higher-growth, higher-margin lifestyle brand company"*.

Intimates had delivered xx% of VF's US\$xbn turnover, but only x% of its operating profit in fiscal 2006. Within a few months, the sale had been completed (to Fruit of the Loom, a deal which will be considered in the next edition of just-style's lingerie report, due in early 2008), with part of the sale proceeds spent on acquiring Seven For All Mankind, the luxury denim jeans company, launched in 2000 and with sales of approximately US\$xxxm.

This acquisition extends the VF portfolio brand approach which was reported in the first just-style denim and jeans report. Then, Terry Lay, the head of International Jeanswear division, stressed that VF's *"portfolio proposition"* was designed to *"deliver different brands at different price points for various consumer market segments"*.

At the time, this was clearly meant to create a point of differentiation from Levi Strauss.

With this acquisition in mind, and based upon a number of market positioning statements in the VF 2006 *Annual Report*, just-style conducted a recent interview with Aidan O'Meara, recently appointed to the newly created post of president, VF Asia-Pacific.

Chapter 7 Supply chains and strategic alliances

Today's jeans and denim supply chains

It is an incontrovertible fact that in 2007, the transformation of clothing and textile supply chains, which started as early as the 1960s, is now virtually complete, as the interview with Aidan O'Meara of VF Corporation testifies. Apparel manufacturing has been increasingly going offshore to lower-cost countries since the 1960s. This is in spite of a variety of protectionist initiatives in USA and Europe. Denim jeans are no exception, apart from the fact that the trend applies to weaving fabric as well as to making up garments.

Once upon a time, the supply chain was vertically integrated. A company controlled (or even owned) everything from the cotton, through the yarn, the fabric, the manufacturing, the brand and sometimes even the retail distribution. For that model to succeed commercially there had to be stability and continuity of demand in order to allow stable state planning of supply. When it applied, it made the chain very profitable. But when it broke down, it made the chain very open to market turbulence and inherently fraught with risk.

Instead of the simple straight line supply chain postulated above, in today's denim and jeans world, there exists a complex network of interlocking supplier relationships.

These are shown in Figure 2 as a schematic representing the various ways in which the producer to consumer supply chain operates today.

Chapter 8 Macroeconomic external influences

The economic nature of the clothing and textile industries

For most individual entrepreneurs, the nature of macroeconomic events is irrelevant to their business. Only if your business is huge, like those of Levi and VF Corporation, are economics a daily subject of interest. The one economic fact that does matter daily is that of the exchange rates. Rates matter because the textile and clothing industries are global, and because most trade is conducted either in US dollars or in currencies (which are closely tied to the US dollar, like the Chinese renminbi). Exchange rates, at the time of writing, are extreme with the US dollar and yen weak, the euro strong and the pound exceptionally strong.

Economics does play a part in the clothing and textile industries, and it is very different for the two sectors. Put succinctly:

- Clothing is labour-intensive and capital-light. It therefore has low entry and exit barriers. Businesses can be started easily, closed down and then restarted again. They can also be physically relocated from a high-cost country to a lower-cost one.
- Textiles, however, are the opposite. A textile plant is both capital-intensive and heavy on energy. Spinning, weaving, dyeing and finishing all use expensive equipment and consume copious amounts of energy and water. Once a textile plant is established in a location, it takes a major decision (and a lot of time and effort) to change. Investment (and capacity) decisions are therefore important.

Textiles are also affected by the occasional changes of governments' policies in regard to foreign capital investment, ownership, tax and the repatriation of earnings. It is for all of these reasons that most economic events that affect the textile industry are to do with investment. Most of those that impact the clothing industry are to do with labour costs.

It should be noted that denim and jeans are more capital-intensive than most other fabric and garment categories: