

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

## **2008 edition**

By Malcolm Newbery

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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 17<sup>th</sup> century and in the US at the end of the 18<sup>th</sup>. 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.

### **Regional analysis and product coverage**

To analyse consumption, and production, the world has been split into a number of areas, which are based on their jeans and denim history, rather than purely on their geography. Each region can be viewed in terms of its 'propensity to buy jeans', which itself will be influenced by affluence, the attractiveness of a Western lifestyle, climate and culture.

This report is about denim and jeans, and not the denim industry in its totality. But jeans are far and away the most important end-use of denim. The jean is defined here as a man's, woman's or child's trouser, most probably, but not exclusively with five pockets (the five-pocket Western jean). So products excluded are skirts, shorts and jackets, hats, bags, tents and tarpaulins. just-style estimates that the jeans participation in the total denim industry is of the order of 75% by both volume and value.

### **The current jeans market, 2007**

just-style estimates that the denim and jeans market around the world between 2004 and 2007 has changed as follows:

- The market at US dollar retail values has increased from US\$50.5bn to US\$51.6bn. This is a rise of US\$1.1bn, which is an increase of 2.2% over the three-year period, which is in turn equivalent to a cumulative growth of 0.6% per year. This can hardly be said to be earth-shattering.
- The market in units has increased from 1.724bn to 1.784bn. This is a rise of 60m units of jeans, representing an increase of 3.5% over the three-year period. Volume growth exceeds value growth by a factor of over 1.5.
- Consumption per person has fallen very slightly from 0.28 jeans per person per year to 0.27 jeans per person per year. Static and aging populations in Western Europe and Japan are the prime cause.
- Unit retail prices have fallen by 1.3% from US\$29.29 to US\$28.92, driven downwards by low-cost country sourcing of both jeans and denim.

So in 2007, the world jeans market has changed a little, namely:

- The developed world now has 85% of the retail value market (was 86% in 2004) and 14% of the population.

- The rest of the world has 15% of the retail value market (was 14% in 2004) and 86% of the population.

Looking at the figures for both value and volume allows some estimates to be made of average jeans retail prices. The world average for 2004 was US\$29.28, and for 2007 is US\$28.92.

Within that, and by region:

- In North America, the average jean cost has continued to fall. It is now around US\$25.80 (was US\$25.96 in 2004 and was higher in 2000).
- In Western Europe, the average pair of jeans continues to retail at a price of US\$45. This should either be regarded as a tribute to the brands' ability to keep prices up, or a comment on the preparedness of European consumers to pay high prices for what is perceived at a 'fashion' product.
- In Japan and South Korea, the figure is slightly higher still at US\$50, with higher Japanese prices complemented by lower Korean prices.
- In the rest of the world, the average price has risen to US\$14.73 from US\$14.45. This is an important shift (2% up) and reflects the willingness of more affluent consumers in those countries to buy into jeans fashion.

#### **The future jeans market, 2014**

In the main body of the report, short-term forecasts are made to 2010. Here in the executive summary, the same categories that were estimated for 2007 are forecast for 2014.

just-style estimates that the denim and jeans market around the world between 2007 and 2014 will change as follows:

- The market at US dollar retail values will increase from US\$51.6bn to US\$56.2bn. This is a rise of US\$4.6bn, which is 8.9% over the seven-year period, equivalent to a cumulative growth of 1.25% per year. In the face of historic price deflation, this is pretty good.
- The market in units will increase from 1.784bn to 1.990bn. This is a rise of 206m units of jeans, 11.5% over the seven-year period. Volume growth exceeds value growth by 30%.
- Consumption per person will rise very slightly from 0.27 jeans per person per year to 0.28 jeans per person per year between 2007 and

2014. Static and aging populations in Western Europe and Japan are forecast to be counterbalanced by growth in consumption per person in developing countries.

- Unit retail prices will fall from US\$28.92 to US\$28.23, driven downwards both by low-cost country sourcing and the shift to marketing in developing countries.

So by 2014, the world jeans market has changed quite a lot, namely:

- The developed world will have 81% of the retail value market (was 86% in 2004) and 13% of the population.
- The rest of the world will have 19% of the retail value market (was 14% in 2004) and 87% of the population.

Looking at the figures for both value and volume allows some estimates to be made of average jeans retail prices. The world average for 2004 was US\$29.29 and for 2014 is forecast to be US\$28.23.

Within that, and by region:

- In North America, the average jean cost has stabilised. It will be around US\$26.20 (was US\$25.98 in 2004 and was higher in 2000).
- In Western Europe, the average pair of jeans will continue to retail at a price of US\$45.
- In Japan and South Korea, the figure is slightly higher still at just below US\$50, with higher Japanese prices complemented by lower Korean prices.
- In the rest of the world, the average price will continue to rise to US\$15.83 from US\$14.45 in 2004. This is an important shift (10% up on the decade) and reflects the willingness of more affluent consumers in those countries to buy into jeans fashion.

### **Brands, retail distribution and prices**

In most apparel merchandise groups, brands have been losing out to retail own-labels. In denim jeans, that seems not to be the case. Brand kudos matters. But is it top-end, upper aspirational, street or budget?

It is the contention of this report that:

- classic or top fashion brands can still be sold through an exclusive retail network of department stores and boutiques;

- upper brands are now being forced to invest in their own retail outlets;  
and
- middle and lower brands are losing out to own-label merchandise.

Chapters 5 and 6 of the report provide a significant amount of evidence for this contention.

However, this report does not lose sight of the fact that the large unit volumes are inevitably at the lower price points, and that these are now the preserve of discount and budget own-label merchandise. The 'pricing onion' methodology, which paints a picture of volumes sold at different prices and resembles the shape of a fat-bottomed onion, concludes that no fewer than 50% of jeans unit sales are below US\$20.

Chapter 6 also expands on the marketing concepts of authenticity, heritage, celebrity endorsement and product placement to provide specific examples of what successful brands are doing.

These cover the spectrum of marketing strategies from pursuing exclusivity even if it means turning sales away, to being prepared to be stocked by any and every retailer even at the risk of being regarded as cheap. As one business analyst, Meghan Macdonald, has put it: *"Once everyone and their mother has a pair of the said jeans, then fashionistas everywhere proclaim, 'I will never buy another pair of X jeans – everyone has them now!'."*

On a more serious note, it is undoubtedly true that the concept of strategic alliances between companies in the developed world and denim and jeans suppliers from developing countries are now the major form of investment in the sector. The transformation of clothing and textile supply chains, which started as early as the 1960s, is now virtually complete.

This transformation has resulted in complex rather than simple supply chains in which jeans producers and denim weavers can supply designers, brands, retail own labels and sellers of anonymous merchandise at the same time and from the same production facilities.

Chapter 7 also includes some hypothetical (but realistic) costing calculations which illustrate the value added at the different points of the supply chain. The chapter finishes with a few specific examples of alliances:

- between denim weavers in high- and low-cost countries;
- between jeans manufacturers and brands, with the intent to sell the product in both the developed world and emerging markets; and
- between brands and suppliers to take control of the retailing of the product, again for both the developed world and emerging markets.

As mentioned above, the deals that are being done in the denim and jeans industry are mostly about investment in brands on a global stage and between strategic alliance partners. The deals that involve weaving and retailing tend to be about the provision of capital. They are also impacted by various restrictions or the removal of restrictions to open trade and investment in the retailing country. Those deals that are about garment production are centred upon taking advantage of low labour costs.

Overall, the inevitable conclusion is that, although denim jeans will continue to be a staple product in the wardrobes of the developed world, the country of origin of both the denim and the garments is likely to be low cost.

# 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\$51.6bn. 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



considers the effect of macroeconomics on this most global of branded clothing sectors.

## 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 16<sup>th</sup> century. By the end of the 16<sup>th</sup> century, jean was being produced in Lancashire. By the 18<sup>th</sup> 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.

## Jeans

It is known that George Washington, when President of the US, toured a denim mill in 1789. But the symbiotic joining of denim and jeans to become one apparel idea stems from the beginnings of Levi Strauss and Co. As its website proclaims:

*“Levi Strauss and Jacob Davis listened. Jacob was the tailor who in the 1870s first fashioned heavy cotton cloth, thread and metal rivets into sturdy ‘waist overalls’ for miners seeking durable work pants. Levi in turn met Jacob’s needs for patenting and mass-production of the product, enthusiastically embracing the idea and bringing it to life. The rest is history: The two created what would become the most popular clothing in the world – blue jeans.”*

Taking out some of the many fanciful marketing statements made about jeans, the garment’s history can be charted. For the first 80 years of its life, denim stayed just that, a hard-wearing fabric used in work clothing. But in the 1950s and 1960s, the breakdown of traditional codes of dress, particularly in universities and later schools, led to the creation of a jeans culture. This was driven on by rock-and-roll and pop cultures with The Beach Boys, The Beatles, The Mama’s And The Papa’s and The Rolling Stones prominent in the wearing of denim jeans.

Since then, jeans have been a constant part of the wardrobe, worn by an ever-increasing age-range of consumers, as the original jeans generation, who are now aged 60-years-plus, refuse to grow old gracefully, and continue to wear their badge of denim youthfulness. Capitalising on this, ever since then jeans brands have sought to innovate the fabric, the fabric finish and the product to continuously refresh consumer interest.

The nature of the fashion industry is that it needs constant change to drive its consumer market. This has meant that jeans and denim have undergone many moves from fashion to commodity, back to fashion and back to commodity again. 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. Branding is an integral part of this.

Today, as the brands fight to convince the young that denim is still cool, even though their parents are wearing it, the marketing of jeans has incorporated concepts including:

- authenticity;
- music;
- celebrity endorsement; and
- product placement in films.

These ideas will be explored in more detail in Chapter 6.

### **Sources of statistical data**

'Hard' data on the jeans market are confined mostly to developed markets.

The data come from a variety of sources:

- consumer studies;
- retail consumption statistics;
- production statistics;
- government trade statistics;
- information from brands; and
- information from fabric suppliers.

In the retail clothing industry, consumption figures are often based on 'panel' studies of a group of willing consumers. There is a tendency for willing consumers to either genuinely be above-average spenders or to inflate either the volume or the value of what they buy. Consequently, industry watchers believe consumer data are overstated. Moreover, consumer data are only collected in the developed world, where there is a 'proper' retail market. Sales of jeans in places such as China, India and Africa can only be calculated from informed trade knowledge.

Conversely, production and trade figures are based upon government collected statistics. These are likely to be understated as companies either fail to deliver statistics, or deliberately conceal them, if they are part of either the 'black' or 'grey' economies.

In addition, government statistics are filed as a series of SIC (standard industrial classification) numbers. These are generic and not fashion-specific. The part of the trouser market that includes jeans is defined loosely as trousers made of 85% or more cotton. These could be jeans. They could be other casual trousers.

Finally there exists the well known phenomenon of reclassification of export figures to take advantage of quota availability or the lack of it at different times.

Consequently, this report addresses the information gap, by using data from a variety of sources worldwide, both factual and anecdotal.

### **Choice of regions for analysis**

To analyse consumption, and production, the world has been split into a number of areas, based on their jeans and denim history, rather than purely on geography. They are:

- North America;
- Western Europe;
- Eastern Europe and Turkey;
- the Middle East;
- the Indian sub-continent;
- Russia and the 'Stans' (former USSR);
- Japan and South Korea;
- China;
- Southeast Asia and the Pacific;
- Australia and New Zealand;
- Central and South America and the Caribbean; and
- Africa.

The choice of regions has not changed since the first edition of this report . Each region can be viewed in terms of its 'propensity to buy jeans', which itself will be influenced by affluence, the attractiveness of a Western lifestyle, climate and culture. Although the balance of jeans consumption is changing and swinging more towards the developing world, the various sub-regions have been put into the same four bigger groups that were used in previous editions, namely

- North America;
- Western Europe;
- Japan and South Korea; and
- the rest of the world.

All of the analyses in the report look at the industry and market from the viewpoint of:

- jeans consumption by value;
- jeans consumption by volume; and
- population.

### **Denim and jeans, not a perfect fit**

It is important for the purpose of this report to clarify what has been included and what excluded in the definition of jeanswear. This report is about denim and jeans, not the denim industry in its totality. But jeans are far and away the most important end-use of denim. The jean is defined here as a man's, woman's or child's trouser, most probably, but not exclusively with five pockets (the five pocket Western jean).

As mentioned earlier, the garment will be made from cotton woven as a 3/1 warp-faced twill fabric, with a yarn dyed warp and an undyed weft yarn, and most usually with the warp yarn indigo dyed.

The above definition tells the reader what is included. But what is excluded?

Excluded are:

- women's and girls' denim skirts;
- denim jackets;
- denim shorts;
- bags and hats made of denim;
- tents, tarpaulins etc; and
- other clothing made of denim, right down to denim bras and briefs.

just-style estimates that the jeans participation in the total denim industry is of the order of 75% by both volume and value.

### **Denim garment producers**

In most of the apparel manufacturing industry, companies specialise by garment type. A company will refer to itself as a trouser specialist, a shirt specialist or a lingerie specialist. But in the case of denim, the apparel manufacturers tend to line themselves up by their fabric specialisation. So the industry has denim specialists who are as happy to make bags and hats out of denim as they are to produce jeans or skirts. This is primarily so because of the range of specialist sewing equipment that is required to work with denim fabric. In addition, the fact that so much of the clothing that is made of denim is also constructed with rivets, studs and poppers, manufactured using a particular batch processing methodology for garment assembly, and finished (washed) at the garment stage lends itself to specific denim manufacturing skills.

### Denim weaving capacity

Most (but by no means all) denim is woven on looms which are 150cm in width (150cm is just under 60ins, or 5ft). There are, however, still many old looms at work in the developing countries of the world which produce at a narrower width, which is close to one UK or US yard (92cm or 36ins). Because of this, there are two different ways of measuring denim weaving capacity:

- in linear metres; and
- in square yards.

The garment industry works mostly in the first method, linear metres. So, a linear metre of fabric actually contains 1.5 square metres. In order to convert from garments to metres, firstly the average rating (the fabric utilisation per garment) needs to be established for each of men's, women's and children's jeans. It is around:

- 1.4 linear metres per man's jean;
- 1.3 linear metres per woman's jean; and
- 0.95 linear metres per children's jean.

These sex/age categories probably account for:

- men: 25-30% of the market;
- women: 50% of the market; and
- children: 20-25% of the market.

These figures were used in an earlier edition of this report to calculate and confirm the relationship between the production of denim and the consumption of jeans. At that time, an estimate was made by Cone Mills, a high-end denim producer, that they accounted for close to 5% of world denim production. Using that estimate as a basis, it was calculated that just over 2bn linear metres of denim were used to make 1.724bn jeans. In this edition, further information, mostly from the US, has been used to rework that calculation. It is given in Table 1.

**Table 1: Jeans unit consumption and denim metres usage, 2004**

Jeans units	Units (m)	% share
Men	465	27
Women	862	50
Children	397	23
<b>Total</b>	<b>1,724</b>	<b>100</b>

Fabric rating	Metres per jean	Metres by sex/age
Men	1.4	652
Women	1.3	1,121
Children	0.95	377
<b>Total</b>	<b>-</b>	<b>2,149</b>

Denim metres	Metres (m)	% share
Jeans	2,149	75
Other denim products	716	25
<b>Total</b>	<b>2,865</b>	<b>100</b>

Note: data may not sum due to rounding

Source: Cone Mills

The proportions of jeans that are men's, women's and children's remain unchanged. So too does the rating (the metres of denim that are needed to make a pair of jeans). But new evidence suggests that the proportion of denim that is used in the making of jeans, as against other products is nearer to 75% rather than the 80% previously believed. As the table shows, this has the effect of increasing the total denim usage in all products to 2.865bn metres of 150cm-wide fabric, which equates to almost exactly 5bn square yards of denim produced per year.



### Exchange rates

In previous denim and jeans reports, a table was given of the prevailing rates of exchange of the US dollar, pound sterling, euro and Japanese yen. These are brought up to date as Table 2.

**Table 2: Major currency exchange rates, as at 20 September 2007**

	US\$	EUR	GBP	JPY
US\$	X	0.72	0.49	120
EUR	1.38	X	0.68	165
GBP	2.04	1.48	X	244
JPY	0.008	0.006	0.004	X

Source: *Financial Times*

A separate list, shown in Table 3, is given of other important exchange rates at the time of drafting this report.

**Table 3: Other important currencies for denim and jeans, as at 20 September 2007**

	Code	US\$1	GBP1	EUR1
Brazilian real	BRL	1.88	3.84	2.6
Chinese renminbi	CNY	7.57	15.44	10.47
Hong Kong dollar	HKD	7.83	15.96	10.82
South Korean won	KRW	924	1884	1277
Taiwan dollar	TWD	33	67	45

Source: *Financial Times*

The major exchange rate factor influencing the denim and jeans industry is the continuing weakness of the US dollar against both the pound and the euro. Elsewhere in the world, trade in textiles and garments is mostly conducted in US dollars, so the only important change to other world currencies is the strengthening of the Brazilian real, making its exports more expensive.

## 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\$49bn;
- composed of 1.715bn pairs of jeans;
- bought by a world population of 6.372bn people;
- one pair of jeans was bought per 3.7 men, women and children; and
- the average price of a pair of jeans was US\$29.

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\$50.5bn, an upwards revision of just 2%;
- composed of 1.724bn pairs of jeans;
- bought by a world population of 6.267bn people (the revised population figures come from the United Nations Population Fund [UNFPA]);
- one pair of jeans was bought per 3.6 men, women and children; and
- the average price of a pair of jeans remained at US\$29.

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.

**Table 4: Retail market and population, main regions, 2004 (m people, US\$m and %)**

	North America	Western Europe	Japan and South Korea	Rest of the world
Population (m people)	325	378	173	5,391
Retail market (US\$m)	17,745	17,010	8,650	7,088
Population (% of world)	5	6	3	86
Retail market (% of world)	35	34	17	14

Note: data may not sum due to rounding

Source: Cone Mills

The disparities between retail spending and population in different parts of the world that were highlighted in the first two denim and jeans reports remain striking. The main points are that:

- North America has 35% of consumption, but only 5% of the world's population.
- Western Europe has 34% of consumption, from only 6% of the world's population.
- Japan and South Korea have 17% of consumption, from 3% of the world's population.
- The rest of the world has only 14% of consumption, from 86% of the world's population.

In 2004, the developed and developing world exhibited perfectly balanced but opposite characteristics:

- The developed world had 86% of the retail value market and 14% of the population.
- The rest of the world had 14% of the retail value market and 86% of the population.

#### **Jeans US dollar values in the rest of the world, 2004**

The developed world markets of North America, Western Europe and Japan may be regarded as being relatively similar in terms of their attitude to and propensity to buy jeans. By 2004, they were all fairly well saturated.

The rest of the world needs more explanation. Firstly, parts of it have very little real statistical data. Secondly, when it comes to purchases by value, the

differences within this region are marked. The main markets for jeans in the rest of the world break down by jeans purchases in value (in US\$) per year, and by population, as shown in Table 5.

**Table 5: Retail market and population, rest of the world, 2004 (m people, US\$m and %)**

	World total	Eastern Europe and Turkey	Middle East	Indian sub-continent	Russia and the 'Stans'
Population (m people)	6,267	212	190	1,380	355
Retail market (US\$m)	50,493	2,544	142.5	552	355
Population (% of world)	100	3	3	22	6
Retail market (% of world)	100	5	0	1	1

	China	South-east Asia and Pacific	Africa	Australia and NZ	Central and South America and the Caribbean
Population (m people)	1,300	550	860	24	520
Retail market (US\$m)	468	660	86	720	1,560
Population (% of world)	21	9	14	0	8
Retail market (% of world)	1	1	0	1	3

Note: data may not sum due to rounding

Source: just-style

The main points to be highlighted from these figures are that:

- Eastern Europe and Turkey have the most even balance between retail value and population. As a sub-region, it accounts for 5% of the world's value consumption, from 3% of the world's population.
- The Central and South America and the Caribbean region is second to Eastern Europe and Turkey with 3% of consumption. However this comes from 8% of the population.
- South-east Asia, the Indian sub-continent and China account for a staggering 52% of the world's population, but only for 3% of jeans retail consumption.

#### Jeans units by region, 2004

For the four major world regions, the same analysis can be done, comparing jeans units with the population. This is shown in Table 6.

**Table 6: Retail market and population, main regions, 2004 (m people, m units and %)**

	North America	Western Europe	Japan and South Korea	Rest of the world
Population (m people)	325	378	173	5391
Units (m)	683	378	173	491
Population (% of world)	5	6	3	86
Units (% of world)	40	22	10	28

Note: data may not sum due to rounding

Source: just-style

The disparities between different parts of the world are less striking than they were by value but are still significant. The main points are that:

- North America has 40% of unit consumption by, but only 5% of the world's population.
- Western Europe has 22% of unit consumption, from only 6% of the world's population.
- Japan and South Korea have 10% of unit consumption, from 3% of the world's population.
- The rest of the world has 28% of unit consumption (compare that to its 14% of value consumption), from 86% of the world's population.

Unit figures from North America and Western Europe have been obtained from a variety of sources, which correlate well with each other. The North American jeans market is pretty much one homogenous market. Western Europe, however, is composed of a number of markets, which have different attitudes towards jeanswear.

Broadly speaking, Northern Europeans accept the jeans culture and buy jeans. Southern Europeans buy fewer pairs. The 'big four' countries of France, Germany, Italy and the UK between them have 73% of Western Europe's population. They purchase 80% of the region's jeans per year. Using published research of national markets, and information obtained from Aidan O'Meara, previously president, Jeanswear Coalition Europe for VF Corporation (whose stable of jeans brands includes Lee and Wrangler), it was calculated that in both Germany and the UK, consumers buy more than one pair of jeans per year, while in France and Italy, it is less than one pair per year. Spain is similar to Italy. As O'Meara pointed out at the time, *"it is not just the climate, but*

*particularly the culture of dress codes, which has meant that so far we have been less successful in getting the Latin countries to embrace the jeans culture to the same degree as Northern Europe”.*

There is now growing confidence about the relative sizes in units of the countries of the developing world, of which many are just beginning to provide meaningful data about unit consumption and therefore prices. just-style's view is that the data given in Table 7, though still 'soft', represents a credible 'best guess' for the unit jeans consumption of the rest of the world (RoW).

**Table 7: Retail market and population, rest of the world, 2004 (m people, m units and %)**

	World total	Eastern Europe and Turkey	Middle East	Indian sub-continent	Russia and the 'Stans'
Population (m people)	6,267	212	190	1,380	355
Units (m)	1,724	127	10	55	36
Population (% of world)	100	3	3	22	6
Units (% of world)	100	7	1	3	2

	China	South-east Asia and Pacific	Africa	Australia and NZ	Central and South America and the Caribbean
Population (m people)	1,300	550	860	24	520
Units (m)	52	66	17	24	104
Population (% of world)	21	9	14	0	8
Units (% of world)	3	4	1	1	6

Note: data may not sum due to rounding

Source: just-style

The key points from Table 7 are:

- Both Eastern Europe and Turkey, and Central and South America and the Caribbean buy more than 100m units a year. This represents 13% of the market from 11% of the population.
- The Indian sub-continent and China have around 50m units each. This is 3% each of the world market, but coming from 43% of the world's population.

- Russia and the 'Stans' account for 36m units, 2% of the market from 6% of the population.
- Africa has only 17m units from its population of 860m.

#### **Jeans consumption per person, 2004**

The volume and population numbers for 2004 contained in Table 6 suggested that:

- In North America, each man, woman and child buys just over two pairs of jeans per year.
- In Western Europe, each man, woman and child buys one pair of jeans per year.
- In Japan and South Korea, the figure is similar – each man, woman and child buys one pair of jeans per year.
- In the rest of the world, the combined consumption is less than 0.1 pairs of jeans per year. There are however wide differences between sub-regions, which are addressed below.

According to Cotton Incorporated (the trade body for the US cotton industry) in 2004 there were eight pairs of jeans in the closet of the average American man, woman and child. That would amount to 2.4bn jeans, or four years' purchases, because Cotton Incorporated estimated that the average American buys two pairs per year, and theoretically only need half of what they buy.

In Western Europe, that number is more like four owned and one bought because of the wider range of 'dress-up' garments, said O'Meara of VF Corporation.

In Europe, there is also minimal opportunity to sell more jeans by opening up any new consumer segments. Baby-boomers now aged 60-years-plus are wearing jeans, so the chance of selling to the 'grey' market has already happened.

#### **Jeans prices by region, 2004**

Looking at the figures for both value and volume allows some estimates to be made of average jeans retail prices. The world average for 2004 was US\$29.29.

Within that, and by region:

- In North America, the average jean costs US\$26 at retail. That price almost certainly fell between 2000 and 2004.
- In Western Europe, the average pair of jeans costs nearer US\$45 at retail. This should be regarded as a tribute to the brands' ability to keep prices up, or a wry comment on the preparedness of European consumers to pay those prices – or perhaps a combination of the two.
- In Japan and South Korea, the figure is slightly higher still at US\$50, with higher Japanese prices complemented by lower Korean prices. There is field evidence that Japanese prices are at least US\$60 whilst South Korean are US\$35.
- In the rest of the world, the average price is nearer to US\$14.50. However, in parts of the world, the market is either barter or 'black'.

Although the subject of pricing will be covered in detail in Chapter 5, on brands and price point, and Chapter 7, on supply chains and strategic alliances, it is so important that a short explanation helps to put the rest of this market review into perspective.

Essentially the same product in the developed world (a pair of trousers designed with a back yoke instead of the traditional formal trouser construction, and made of cotton denim) is sold at three completely different price points:

- as a commodity discount jean at prices around or below US\$30;
- as a mainstream brand at prices around and above US\$50; and
- as a fashion brand or designer label at anything from US\$75 right up to US\$500, and probably averaging US\$150.

### **The current jeans market, 2007**

The headline changes in the market between 2004 and 2007 are:

- The market at US dollar retail values has increased from US\$50.5bn to US\$51.6bn. This is a rise of US\$1.1bn, which represents an increase of 2.2% over the three-year period, equivalent to a cumulative growth of 0.6% per year. This can hardly be said to be earth-shattering.
- The market in units has increased from 1.724bn to 1.784bn. This is a rise of 60m units of jeans, or 3.5% over the three-year period. Volume growth exceeds value growth by a factor of over 1.5.



- Consumption per person has fallen very slightly from 0.28 jeans per person per year to 0.27 jeans per person per year. Static and aging populations in Western Europe and Japan are the prime cause of this.
- Unit retail prices have fallen by 1.3% from US\$29.29 to US\$28.92, driven downwards by low-cost country sourcing of both jeans and denim.

Following on from the headlines, at the heart of this report are the 2007 estimates of what the jeans market is now worth in US dollars, and in jeans units around the world. The same format is applied as was used for the 2004 edited figures.

### Major regional jeans markets, 2007

For the four major world regions, Table 8 shows the relationship between jeans retail values and population.

**Table 8: Retail market and population, main regions, 2007 (m people, US\$m and %)**

	North America	Western Europe	Japan and South Korea	Rest of the world
Population (m people)	332	378	173	5,611
Retail market (US\$m)	17,988	17,010	8,737	7,868
Population (% of world)	5	6	3	86
Retail market (% of world)	35	33	17	15

Note: data may not sum due to rounding

Source: just-style

The disparities between retail spending and population in different parts of the world that were highlighted in the first two denim and jeans reports are still there but have been slowly reducing. In a global context, these changes appear small but in fact have major implications for the denim and jeans industries. The main points are that in 2007:

- North America still has 35% of consumption by, but only 5% of the world's population.
- Western Europe now has 33% of consumption (down by 1% from its 34% in 2004), and still from only 6% of the world's population.

- Japan and South Korea have remained at 17% of consumption, from 3% of the world's population.
- The rest of the world now has 15% of consumption (up 1% from 2004), from 86% of the world's population.

So in 2007, the world jeans market has changed a little, namely:

- The developed world has 85% of the retail value market (was 86% in 2004) and 14% of the population.
- The rest of the world has 15% of the retail value market (was 14% in 2004) and 86% of the population.

### Jeans US dollar values in the rest of the world, 2007

The main markets for jeans in the rest of the world break down by jeans purchases in value (in US\$) per year, and by population, as shown in Table 9.

Table 9: Retail market and population, rest of the world, 2007 (m people, US\$m and %)

	World total	Eastern Europe and Turkey	Middle East	Indian sub-continent	Russia and the 'Stans'
Population (m people)	6,494	214	205	1,440	357
Retail market (US\$m)	51,603	2,852	169	680	375
Population (% of world)	100	3	3	22	5
Retail market (% of world)	100	6	0	1	1

	China	South-east Asia and Pacific	Africa	Australia and NZ	Central and South America and the Caribbean
Population (m people)	1,325	570	930	25	545
Retail market (US\$m)	566	748	93	750	1,635
Population (% of world)	20	9	14	0	8
Retail market (% of world)	1	1	0	1	3

Note: data may not sum due to rounding

Source: just-style

The main points to be highlighted from these figures are found by comparing growth over the period 2004 to 2007:

- Eastern Europe and Turkey as a sub-region now accounts for 6% of the world's value consumption (was 5% in 2004), from 3% of the world's population. It has grown its value by 12%.
- Central and South America and the Caribbean has grown by a smaller 4%, but this accounts for an extra US\$75m of jeans.
- South-east Asia, the Indian sub-continent and China although still accounting for only for 3% of jeans retail consumption, have grown their US dollar value from US\$1.680bn to US\$1.994bn (a 19% increase).

### Jeans units by region, 2007

For the four major world regions, the same analysis can be done, comparing jeans units with the population. This is shown graphically in Table 10.

**Table 10: Retail market and population, main regions, 2007 (m people, m units and %)**

	North America	Western Europe	Japan and South Korea	Rest of the world
Population (m people)	332	378	173	5,611
Units (m)	697	378	175	534
Population (% of world)	5	6	3	86
Units (% of world)	39	21	10	30

Note: data may not sum due to rounding

Source: just-style

Units shares are changing by as much as US dollar values. The main points are that:

- North America now has 39% of unit consumption (was 40% in 2004), but is still growing in consumption. Its market is now 697m units (683m in 2004).
- Western Europe now has 21% of unit consumption (was 22% in 2004), and its aging population is showing a zero-growth jeans consumption pattern.
- The same is true for Japan and South Korea with an unchanged 10% of unit consumption, and no unit volume growth.
- The rest of the world in 2007 now has 30% of unit consumption (was 28% of unit consumption in 2004), which is a very significant increase.

Jeans units have increased from 491m to 534m, which is a 9% increase over the period, albeit from a small unit starting position.

Within the rest of the world, there are some 'big winners' which any jeans marketer should be watching carefully. The percentage shares are given in Table 11.

Table 11: Retail market and population, rest of the world, 2007 (m people, m units and %)

	World total	Eastern Europe and Turkey	Middle East	Indian sub-continent	Russia and the 'Stans'
Population (m people)	6,494	214	205	1,440	357
Units (m)	1,784	139	11	65	36
Population (% of world)	100	3	3	22	5
Units (% of world)	100	8	1	4	2

	China	South-east Asia and Pacific	Africa	Australia and NZ	Central and South America and the Caribbean
Population (m people)	1,325	570	930	25	545
Units (m)	60	71	19	25	109
Population (% of world)	20	9	14	0	8
Units (% of world)	3	4	1	1	6

Note: data may not sum due to rounding

Source: just-style

However, the key points to remember from Table 11 are about units' growth and percentage growth:

- Eastern Europe and Turkey have grown by 12m units (9.5%);
- the Indian sub-continent has grown by 10m units (18%);
- China has grown by 8m units (15%); and
- South-east Asia has grown by 5m units (7.5%).

These are very important changes, and represent more than half – 35m – of the 60m units' growth in the world

### **Jeans consumption per person, 2007**

The volume and population numbers for 2007 contained in Table 11 suggest that there is little change in the macroeconomic numbers around the world for jeans consumption.

The world average consumption per person has dropped marginally from 0.28 to 0.27. But, while there have been small falls in the developed world, there have been rises in Eastern Europe, the Middle East, India, China and South-east Asia.

### **Jeans prices by region, 2007**

Looking at the figures for both value and volume enables some estimates to be made of average jeans retail prices. The world average for 2004 was US\$29.29, and for 2007 is US\$28.92.

Within that, and by region:

- In North America, the average jean cost has continued to fall. It is now around US\$25.80 (was US\$26 in 2004 and was higher in 2000).
- In Western Europe, the average pair of jeans remains retailed at a price of US\$45. This should either be regarded as a tribute to the brands' ability to keep prices up, or a comment on the preparedness of European consumers to pay high prices for what is perceived at a 'fashion' product.
- In Japan and South Korea, the figure is slightly higher still at US\$50, with higher Japanese prices complemented by lower Korean prices.
- In the rest of the world, the average price has risen to US\$14.73 from US\$14.45. This is an important shift (2% up) and reflects the willingness of more affluent consumers in those countries to buy into jeans fashion.

### **The future jeans market, 2010**

just-style predicts a number of moves for the jeans market in the next three years:

- The market in US dollars will increase from US\$51.6bn to US\$52.65bn. This is a rise of US\$1.05bn, which is only 2% over the three-year period, equivalent to a cumulative growth of 0.6% per year.
- The market in units will increase from 1.784bn to 1.848bn. This is a rise of 64m units of jeans, or 3.6% over the three-year period. Volume growth exceeds value growth by a factor of nearly two.

- Consumption per person will rise slightly from 0.27 jeans per person per year to 0.28 jeans per person per year. This move will take it back to 2004 levels, and is entirely down to the growth in the new 'powerhouse' economies of India and China.
- Unit retail prices will however continue to fall to US\$28.48 by 2010. This is another 1.5% decrease on top of the 1.3% between 2004 and 2007. Low-cost country sourcing of both jeans and denim remain the reason.

The same analysis that was used for both 2004 and 2007 can be applied to 2010.

### Major regional jeans markets, 2010

For the four major world regions, Table 12 shows the relationship between jeans retail values and population.

Table 12: Retail market and population, main regions, 2010 (m people, US\$m and %)

	North America	Western Europe	Japan and South Korea	Rest of the world
Population (m people)	338	378	173	5,821
Retail market (US\$m)	18,455	16,840	8,562	8,789
Population (% of world)	5	6	3	87
Retail market (% of world)	35	32	16	17

Note: data may not sum due to rounding

Source: just-style

Items to note are:

- North America will still have 35% of consumption (unchanged from either 2007 or 2004), but still from only 5% of the world's population.
- Western Europe's consumption will fall to 32% (from 33% in 2007 and 34% in 2004), still coming from only 6% of the world's population.
- Japan and South Korea's share will fall by one percentage point to 16%, from 3% of the world's population.
- The rest of the world's consumption share will rise to 16% (was 15% of consumption in 2007 and 14% in 2004), from 86% of the world's population.

So by 2010, the shape of the world jeans market will have changed a little more, namely:

- The developed world share will have fallen to 83% of the retail value market (was 85% in 2007 and 86% in 2004).
- The rest of the world share will have risen to 17% of the retail value market (was 15% in 2007 and 14% in 2004).

### Jeans US dollar values in the rest of the world, 2010

The main markets for jeans in the rest of the world break down by jeans purchases in value in US dollars per year, and by population, as shown in Table 13.

Table 13: Retail market and population, rest of the world, 2010 (m people, US\$m and %)

	World total	Eastern Europe and Turkey	Middle East	Indian sub-continent	Russia and the 'Stans'
Population (m people)	6,710	216	220	1,495	360
Units (m)	52,646	3,039	206	929	427
Population (% of world)	100	3	3	22	5
Units (% of world)	100	6	0	2	1

	China	South-east Asia and Pacific	Africa	Australia and NZ	Central and South America and the Caribbean
Population (m people)	1,350	590	1,000	25	565
Units (m)	757	844	100	750	1,737
Population (% of world)	20	9	15	0	8
Units (% of world)	1	2	0	1	3

Note: data may not sum due to rounding

Source: just-style

The main points to be highlighted from these figures are found by comparing US dollar values over the period 2007-2010:

- Eastern Europe and Turkey as a sub-region will grow from US\$2.852bn to US\$3.039bn (showing a US\$187m and 6.5% increase).

- Central and South America and the Caribbean has grown by a smaller 6.2%, but this will account for an extra US\$102m of jeans.
- The South-east Asia jeans market will grow by US\$96m (13%).
- The Indian sub-continent jeans market will grow by an amazing US\$249m (37%).
- China, although still accounting for only for 1% of jeans retail consumption, will have grown its US dollar value from US\$566m to US\$757 (a 34% increase).
- 

### Jeans units by region, 2010

For the four major world regions, a forecast can be made of jeans units and compared with the predicted population. This is shown graphically in Table 14.

Table 14: Retail market and population, main regions, 2010 (m people, m units and %)

	North America	Western Europe	Japan and South Korea	Rest of the world
Population (m people)	338	378	173	5,821
Units (m)	710	374	175	590
Population (% of world)	5	6	3	87
Units (% of world)	38	20	9	32

Note: data may not sum due to rounding

Source: just-style

The units' shares will change in a manner that is not dissimilar to US dollar values. The main points to note are that:

- North America will have 38% of unit consumption (was 39% in 2007 and 40% in 2004), but it will still grow in consumption. Its 2007 market is 697m units, up from 683m in 2004, and just-style predicts that it will reach 710m units in 2010.
- However, Western Europe's consumption will continue to fall to 20% in 2010 (it was 21% in 2007 and 22% in 2004), and its aging population will actually consume fewer jeans.
- Japan and South Korea's unit share will fall to 9% (was 10% of unit consumption in 2007). Its absolute volume of jeans units will be effectively unchanged.



- By 2010, the rest of the world will contribute 32% of the jeans market (was 30% of unit consumption in 2007, and 28% of unit consumption in 2004). This is a significant increase. Jeans units will hit 590m in 2010, after having increased from 491m in 2004 to 534m in 2007. This represents an extra 99m units since 2004, which equates to a 20% increase over the period.

Within the rest of the world, the 'big winners' continue to be dominated by the Indian subcontinent and China. The unit and percentage growths are given in Table 15.

**Table 15: Retail market and population, rest of the world, 2010 (m people, m units and %)**

	World total	Eastern Europe and Turkey	Middle East	Indian sub-continent	Russia and the 'Stans'
Population (m people)	6,710	216	220	1,495	360
Units (m)	1,848	145	13	82	38
Population (% of world)	100	3	3	22	5
Units (% of world)	100	8	1	4	2

	China	South-east Asia and Pacific	Africa	Australia and NZ	Central and South America and the Caribbean
Population (m people)	1,350	590	1,000	25	565
Units (m)	74	77	20	25	116
Population (% of world)	20	9	15	0	8
Units (% of world)	4	4	1	1	6

Note: data may not sum due to rounding

Source: just-style

The key growth trends that can be derived from this table are that:

- The Indian sub-continent will grow between 2007 and 2010 by 17m units (26%).
- China will grow by 14m units (23%).

### **Jeans consumption per person, 2010**

The world average dropped marginally from 0.28 to 0.27 between 2004 and 2007. It will return to 0.28 by 2010, an increase driven by India and China.

### **Jeans prices by region, 2010**

By 2010, the world average jeans price will have fallen to US\$28.48. The 2004 world average was US\$29.29, and in 2007 it was US\$28.92.

Within that, and by region:

- In North America, the average jean cost will stabilise at US\$26. Previous price deflation may well be coming to an end.
- In Western Europe, the average pair of jeans will remain at around US\$45.
- In Japan and South Korea, prices will fall slightly from US\$50, with higher Japanese prices complemented by lower Korean prices and increased Korean volumes.
- In the rest of the world, prices will continue to rise to reach an average of US\$14.90. This compares with average prices of US\$14.73 in 2007 and US\$14.45 in 2004.

### **The future jeans market, 2014**

In this section, it is instructive to look at the major world changes that are anticipated to take place between 2004 and 2014. The clothing market is difficult to forecast over a long period of time. Fashion is a fickle business. However, the jeans industry is now such a staple (and stable) part of the clothing industry that just-style can forecast long term with a reasonable degree of confidence.

Jeans sales were 1.724bn units per year in 2004. Of that:

- 40% of sales came from North America;
- 22% from Western Europe; and
- 10% from Japan and South Korea.

The main parts of the developed world had 72% of the world market by volume, but from only 14% of the population.

By 2014, based on population growth, on spending power and on the lure of the Western jean for the world consumer, just-style's forecast is that:

- the world jeans market will be 1.990bn pairs (a growth of 15.4%);
- the jeans market will be worth US\$56.2bn at retail (up from US\$50.5bn in 2004) and will have grown by 11.2% in the decade since 2004

just-style believes that over the next seven years:

- The jeans market will increase from US\$51.6bn to US\$56.2bn. This is a rise of US\$5.6bn, which is 11% over the period.
- The market in units will increase from 1.784bn to 1.990bn. This is a rise of 206m units of jeans, or an 11.5% increase, over the period. Volume and value growth will be remarkably similar.
- Consumption per person will stabilise at 0.28 jeans per person per year.
- Unit retail prices will however continue to fall but more slowly after 2010, and will stand at US\$28.23 by 2014.

### Major regional jeans markets, 2014

For the four major world regions, Table 16 shows the relationship between jeans' retail values and population.

**Table 16: Retail market and population, main regions, 2014 (m people, US\$m and %)**

	North America	Western Europe	Japan and South Korea	Rest of the world
Population (m people)	356	378	178	6,262
Retail market (US\$m)	19,587	16,744	8,899	10,953
Population (% of world)	5	5	2	87
Retail market (% of world)	35	30	16	19

Note: data may not sum due to rounding

Source: just-style

Trends to note are:

- North America will still have 35% of consumption (unchanged since 2004), and still from only 5% of the world's population.
- Western Europe's consumption will continue to fall and will be only 30% by 2014. This contrasts with 32% in 2010, 33% in 2007 and 34% in 2004. Western Europe's population will constitute 5% of the world (was 6% of the world's population previously).

- Japan and South Korea's share will stabilise at 16% from 3% of the world's population.
- The rest of the world's consumption share will rise to 19% (was 16% in 2010, 15% in 2007 and 14% in 2004), from an increased share of the world's population of 87%.

#### Jeans US dollar values in the rest of the world, 2014

The main markets for jeans in the rest of the world break down by jeans purchases in value (in US\$) per year, and by population, as shown in Table 17.

Table 17: Retail market and population, rest of the world, 2014 (m people, US\$m and %)

	World total	Eastern Europe and Turkey	Middle East	Indian sub-continent	Russia and the 'Stans'
Population (m people)	7,174	219	245	1,640	367
Units (m)	56,183	3,696	283	1,333	528
Population (% of world)	100	3	3	23	5
Units (% of world)	100	7	1	2	1

	China	South-east Asia and Pacific	Africa	Australia and NZ	Central and South America and the Caribbean
Population (m people)	1,419	638	1,106	26	602
Units (m)	1,061	1,156	111	780	2,006
Population (% of world)	20	9	15	0	8
Units (% of world)	2	2	0	1	4

Note: data may not sum due to rounding

Source: just-style

The key winning jeans market areas will continue to be:

- Eastern Europe and Turkey where the market will have grown to US\$3,696m (was US\$2,852 in 2007). This represents an increased spending on jeans of US\$844m, which is a 30% increase on 2007 levels.

- Central and South America and the Caribbean will grow by a smaller 23% over the same period, but will account for an extra US\$371m of jeans.
- The South East Asia jeans market will grow by US\$633m (8.5%).
- The Indian sub-continent's jeans consumption will grow by a staggering US\$653m, which is a virtual doubling of the market.
- China will have grown its US dollar value from US\$566m to US\$1.061bn another near doubling of the value of the market.

### Jeans units by region, 2014

For the four major world regions, a long-term forecast can be made of jeans units, which can be compared with the predicted population. This is shown graphically in Table 18.

**Table 18: Retail market and population, main regions, 2014 (m people, m units and %)**

	North America	Western Europe	Japan and South Korea	Rest of the world
Population (m people)	356	378	178	6,262
Units (m)	748	370	180	693
Population (% of world)	5	5	2	87
Units (% of world)	38	19	9	35

Note: data may not sum due to rounding

Source: just-style

Units shares will change in the following manner:

- North America will have 38% of unit consumption (was 39% in 2007 and 40% in 2004), but it will still grow in consumption. Its market will be 748m units (697m in 2007). So, even by 2014 it will remain the largest unit target jeans market in the world.
- Western Europe's consumption will continue to decline. It will be only 19% by 2014 (it was 20% in 2010, 21% in 2007 and 22% in 2004). Jeans consumption will fall marginally to 370m units.
- Japan and South Korea's unit share will stabilise at 9% (was 10% of unit consumption in 2007), and will grow very slightly.
- Growth in the rest of the world will continue to outstrip developed regions. By 2014, the rest of the world will contribute 35% of the jeans

market (was 30% of unit consumption in 2007 and was 32% of unit consumption in 2010). This is a considerable increase. Jeans units will hit 693m in 2014, having been only 534m in 2007. This represents an extra 159m units since 2007 and is a 30% increase over that period.

Within the rest of the world, the 'big winners' continue to be the Indian sub-continent and China. The unit and percentage growths are given in Table 19.

**Table 19: Retail market and population, rest of the world, 2014 (m people, m units and %)**

	World total	Eastern Europe and Turkey	Middle East	Indian sub-continent	Russia and the 'Stans'
Population (m people)	7,174	219	245	1,640	367
Units (m)	1,990	164	17	107	42
Population (% of world)	100	3	3	23	5
Units (% of world)	100	8	1	5	2

	China	South-east Asia and Pacific	Africa	Australia and NZ	Central and South America and the Caribbean
Population (m people)	1,419	638	1,106	26	602
Units (m)	92	93	22	26	129
Population (% of world)	20	9	15	0	8
Units (% of world)	5	5	1	1	6

Note: data may not sum due to rounding

Source: just-style

The key growth figures from this chart are that:

- The Indian sub-continent will grow between 2007 and 2014 by 42m units (65%).
- China will grow by 32m units (53%).

#### Jeans consumption per person, 2014

The world average consumption per person will remain stable at 0.28 by 2014, with increases in India and China counterbalanced by falls in Western Europe.

### **Jeans prices by region, 2014**

By 2014 the world average jeans price will have declined to US\$28.23. The world average for 2004 was US\$29.29 and for 2007 was US\$28.92.

Within that, and by region:

- In North America, the average jean cost will creep up from US\$26 to US\$26.20, as price deflation comes to an end.
- In Western Europe, the average pair of jeans will remain at around US\$45.
- In Japan and South Korea, prices will fall slightly below US\$50, with higher Japanese prices counterbalanced by lower Korean prices.
- In the rest of the world, average prices will continue to rise, and will reach an average of US\$15.82. This compares with average prices of US\$14.73 in 2007 and US\$14.45 in 2004, and reflects growing affluence and a willingness to spend on 'Western' culture.

### **The decade, 2004-2014**

By 2014, jeans will genuinely be a global fashion statement, and the challenge for both brands and retail private labels will be to hold down a truly international market position. To impress upon US and European brands the importance of doing this, requires no more than to view the changing US dollar values, volumes and shares in the world's main denim jeans regional markets. These are shown in Table 20.

Table 20: The denim jeans market by value and volume, 2004-2014

<b>Market by value (US\$m)</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>The world market</b>	50,493	50,870	51,260	51,603
<b>North America</b>	17,745	17,820	17,900	17,988
<b>Western Europe</b>	17,010	17,020	17,005	17,010
<b>Japan and South Korea</b>	8,650	8,680	8,705	8,737
<b>Rest of the world</b>	7,088	7,350	7,650	7,868
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>The world market</b>	51,910	52,240	52,646	53,310
<b>North America</b>	18,150	18,300	18,455	18,680
<b>Western Europe</b>	16,940	16,880	16,840	16,770
<b>Japan and South Korea</b>	8,670	8,610	8,562	8,570
<b>Rest of the world</b>	8,150	8,450	8,790	9,290
	<b>2012</b>	<b>2013</b>	<b>2014</b>	
<b>The world market</b>	54,227	55,160	56,183	
<b>North America</b>	18,909	19,260	19,587	
<b>Western Europe</b>	16,707	16,725	16,744	
<b>Japan and South Korea</b>	8,658	8,775	8,899	
<b>Rest of the world</b>	9,953	10,400	10,953	



**Table 20 (continued): The denim jeans market by value and volume, major regions, 2004-2014**

**Percentage share by US\$ (%)**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>North America</b>	35	35	35	35
<b>Western Europe</b>	34	33	33	33
<b>Japan and South Korea</b>	17	17	17	17
<b>Rest of the world</b>	14	14	15	15
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>North America</b>	35	35	35	35
<b>Western Europe</b>	33	32	32	31
<b>Japan and South Korea</b>	17	16	16	16
<b>Rest of the world</b>	16	16	17	17
	<b>2012</b>	<b>2013</b>	<b>2014</b>	
<b>North America</b>	35	35	35	
<b>Western Europe</b>	31	30	30	
<b>Japan and South Korea</b>	16	16	16	
<b>Rest of the world</b>	18	19	19	

**Table 20 (continued): The denim jeans market by value and volume, major regions, 2004-2014**

**The world market in units (m)**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>The world market</b>	1,724	1,745	1,765	1,784
<b>North America</b>	683	688	693	697
<b>Western Europe</b>	378	379	378	378
<b>Japan and South Korea</b>	173	173	174	175
<b>Rest of the world</b>	491	505	520	534

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>The world market</b>	1,809	1,828	1,848	1,883
<b>North America</b>	702	706	710	720
<b>Western Europe</b>	376	375	374	372
<b>Japan and South Korea</b>	176	175	175	176
<b>Rest of the world</b>	555	572	590	615

	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>The world market</b>	1,907	1,950	1,990
<b>North America</b>	725	737	748
<b>Western Europe</b>	370	369	370
<b>Japan and South Korea</b>	175	177	180
<b>Rest of the world</b>	637	667	693

**Table 20 (continued): The denim jeans market by value and volume, major regions, 2004-2014**

Share of jeans by units (%)				
	2004	2005	2006	2007
North America	40	39	39	39
Western Europe	22	22	21	21
Japan and South Korea	10	10	10	10
Rest of the world	28	29	29	30
	2008	2009	2010	2011
North America	39	39	38	38
Western Europe	21	21	20	20
Japan and South Korea	10	10	9	9
Rest of the world	31	31	32	33
	2012	2013	2014	
North America	38	38	38	
Western Europe	19	19	19	
Japan and South Korea	9	9	9	
Rest of the world	33	34	35	

Note: data may not sum due to rounding

Source: just-style

The arithmetical growth percentages are given in Table 21.

Table 21: The denim jeans market's growth by value and volume, 2004-2014 (%)

Major regions		
	US\$m growth (%)	Unit growth (%)
World	12	15
North America	10	10
Western Europe	(2)	(2)
Japan and South Korea	3	4
Rest of the world	55	41

Rest of the world sub-regions)		
	US\$m growth (%)	Unit growth (%)
Indian sub-continent	141	93
China	127	77
Middle East	99	81
South-east Asia and Pacific	75	40
Russia and the 'Stans'	49	19
Eastern Europe and Turkey	45	29
Africa	29	29
Central and South America and Caribbean	29	24
Australia and New Zealand	8	8

Note: data may not sum due to rounding

Source: just-style

However the big growth numbers in both US dollars and units are to be seen in Table 22.

**Table 22: The denim jeans market's growth by value and volume, 2004-2014 (US\$m and m units)**

<b>Major regions</b>		
<b>Growth 2014 over 2004</b>	<b>US\$m</b>	<b>m units</b>
<b>World</b>	5,690	266
<b>North America</b>	1,842	65
<b>Western Europe</b>	(1,001)	(8)
<b>Japan and South Korea</b>	249	7
<b>Rest of the World</b>	3,865	202

<b>Rest of the world sub-regions (ranked in descending order of unit volume)</b>		
<b>Growth 2014 over 2004</b>	<b>US\$m</b>	<b>m units</b>
<b>Indian sub-continent</b>	781	52
<b>China</b>	593	40
<b>Eastern Europe and Turkey</b>	1152	37
<b>South-east Asia and Pacific</b>	496	27
<b>Central and South America and Caribbean</b>	446	25
<b>Middle East</b>	140	7
<b>Russia and the 'Stans'</b>	173	6
<b>Africa</b>	25	5
<b>Australia and New Zealand</b>	60	2

Note: data may not sum due to rounding

Source: just-style

Between them, the Indian sub-continent and China contribute 35% of the world's unit growth over the decade.

We know, intuitively, and from industry experience, that:

- for the developed world, value growth will be less than volume because of supply – of denim fabric as well as of jeans – moving to low-cost countries;

- for the developing world, value growth could be at least as much as volume, as consumers spending power grows, and they trade up to 'aspirational' brands;
- for the underdeveloped world (as for Eastern Europe ten years ago,) it is a balance between consumers acquiring the money to buy, and how much "*falls off the back of the lorry*".

Comparisons between 2004 and 2014 are illuminating:

- North American consumption has fallen by 1 percentage point, from 36% to 35% of the world total. Its population remains at 5% of the world's population.
- Western European consumption is down by a massive 3 percentage points, from 33% to 30%. Its population has also fallen from 6% to 5% of the world's population.
- Japan and South Korea have also seen a decline in their share of consumption, from 18% to 16%, while their combined populations remain at 3% of the world's population.
- The rest of the world has grown its value consumption from 14% to an astonishing 19% while retaining 87% of the world's population.

These changes, in macroeconomic terms are dramatic, and illustrate the speed of change in the regional demand for denim jeans. If they have not worked this out already, and come up with plans to react to the changes, jeans marketing executives should be very concerned.

# 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 20<sup>th</sup> 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

label, and some will follow an own label only approach. This is shown in a grid format as Table 23.

**Table 23: Branded and own-label retail formats**

	<b>Stocking brands</b>	<b>Stocking own label</b>
<b>Department stores</b>	Definitely	Probably
<b>Mixed clothing and food stores</b>	Unlikely	Definitely
<b>Multiple chains</b>	Unlikely	Definitely
<b>Specialist chains</b>	Definitely	Probably
<b>Independent boutiques</b>	Definitely	No
<b>Mail order catalogues</b>	Probably	Definitely
<b>The internet</b>	Probably	Definitely
<b>Discounters</b>	Possibly	Definitely
<b>Supermarkets</b>	Possibly	Definitely

**Source: just-style**

The more concentrated the retail high street is, the more likely it is that own label will dominate. In terms of retail concentration, the UK is one of the most concentrated countries in the world. A recent report from Verdict on the UK retail sector established that for womenswear, 50% of all purchases by volume are made in the stores of just three retail groups, Marks & Spencer, Arcadia and Next, all of whom are strictly own label.

In the US, the situation is somewhat more balanced with brands remaining relatively stronger. Within Europe, the countries of Southern Europe have been slower to experience the onward march of the multiple chains, and hence have a more brand-driven retail industry. But even in Italy and Spain, the rise of multiple retailers such as Benetton and Zara has been impressive.



### Jeans retail formats

This analysis of retail formats in general can, of course, also be applied specifically to jeans. Each format behaves somewhat differently when it comes to the sale of denim jeans:

- For department stores, their sales are mostly brands and designer brands, and at the upper price points. Selfridges in London stocks at least 12 internationally recognised brands.
- For mixed clothing and food stores, their offer is predominately own label, but they may have some branded merchandise. Prices are middle to lower middle.
- For multiple chains, nearly all are own label, and basic. Their jeans offering will be based around the staples of the five pocket Western.
- For specialist jeans chains, the consumer will find a wide selection of brands. The specialist jeans chains will offer the whole spectrum to the consumer. Anything from classic middle-aged basics to young grunge attitudinal merchandise can be found.
- For independent boutiques, jeans are important, but are unlikely to account for more than 10-20% of total turnover. Therefore for a small independent boutique with a sales turnover of US\$10,000 per week, the participation of jeans in the product mix will be US\$2,000 per week at best. This means US\$100,000 in a year. That value means that the jeans buy will not exceed US\$20,000 per season, which itself translates at a wholesale price of US\$40 per branded jean to only 500 pairs. A buy of that scale will limit the retailer to probably no more than three brands if any balance is to be maintained between washes, colours and sizes.
- For specialist independent jeans boutiques, the situation is different. For a similar sized shop, there is a sales turnover of US\$10,000 per week, or US\$500,000 per year. But as all of this is spent on jeans, the buy could be as much as US\$100,000 per season. Six or perhaps even eight brands may be bought and stocked.
- For mail order catalogues, the offer is likely to be composed of a wide assortment of both own labels and brands.
- For the internet, the situation is similar to traditional mail order.
- For discounters, jeans are an important product category. Discounters may offer brands cheaply, offer their own label, sell 'no-name' anonymous merchandise, or indeed, do all three. To them, it is all about price (or as they prefer to call it, 'value').

- For supermarkets, the jeans sector is big, especially in children's jeans. Supermarkets operate mostly through own-label merchandise.

The largest jeans retailers are found in those countries where there is concentrated retail power. These start with the US and UK, where developed distribution and economies of scale have led to retail jeans brand leaders such as:

- Wal-Mart;
- Gap; and
- Marks & Spencer.

It is worth noting that none of these three jeans retail market share leaders started out as jeans specialists.

### **Jeans brands and jeans own labels**

Earlier in this report, just-style commented upon the point in time when jeans ceased to be work clothing and became an iconic fashion statement. That was at the end of the 1950s and through the pop music decade of the 1960s. Unfortunately for jeans, its burgeoning heyday coincided with the growth of retailers' own brands. Consequently, even in the 1960s and 1970s the Western denim brands were competing with retailers' own labels. Brands have had to fight to convince the retailer and the consumer that their name matters. To begin with, the US manufacturer brands had the kudos and the marketing muscle. The original big three brand names were American, by geography, ownership and attitude. They were:

- Levi Strauss;
- Lee; and
- Wrangler.

The last two, (Lee and Wrangler) are owned by the US clothing conglomerate VF Corporation (Vanity Fair). These three brands are the only genuine global jeans brands. For most countries and regions in the world, their brand share cannot be quantified, except to say that it is substantial. However, from their financial accounts, we do know their geographic sales in major markets and can surmise that, in value terms:

- Levi has around 16% of the total US market; and
- VF in total (Lee and Wrangler, plus smaller brands, some of which have been acquired recently) has 19% of the total US market.

In the UK the position (this estimate is based upon the last Mintel UK jeans report) is that:

- Levi has 20% of the total market but a massive 46% of the branded market;
- Wrangler has 6% of the total market and around 19% of the branded market; and
- Lee has only 5% of the total market, which is about 12% of the branded market.

just-style believes that these global companies and brands have been losing market share in developed markets to US and European 'aspirational' or attitude brands, but that this is only a small diminution of their total sales. Aspirational brands have attacked this domination recently, but very few of them have broken out of their fashion niches to become genuinely mainstream. In addition to them, internationally-recognised designers have put their names (literally) on jeans. It is sad, but true, to say that this activity has usually happened without adding any design content other than the designer's brown leather logo patch. Only in the US have these names, such as Calvin Klein and Tommy Hilfiger, developed any large-scale mass-merchandise sales. Outside of the US, these businesses are all high-price, low-volume operations, whose high visibility in the fashion press dwarfs their actual sales. They may be regarded as exemplifying either 'street cred' or 'fashionista' status.

### **Brands and retailer own-label positions in the price and fashion matrix**

The concept of the apparel industry price/fashion matrix has been used regularly before in just-style reports.

The matrix can be explained as a clothing product and consumer strategy, which has been seen many times in the fashion industry. It is often shown as a diagram, which breaks the price/fashion spectrum into four blocks. These are:

1. basic/traditional, low price;
2. basic/traditional, high price;
3. fashion, low price; and
4. fashion, high price.

When the generic price/fashion matrix is applied to the jeans market, and overlaid with the extra variable of brand and own label, the drivers of the jeans

market between 2004 and 2007 can be seen clearly. They are as highlighted in Figure 1.

**Figure 1: Jeans price/fashion matrix**

Price level US\$		Basic, traditional, classic	Basic, traditional, classic	Fashionable	Fashionable
High price	Absolute top		Designer Classic brands		Designer Fashion brands
	High	Top own label retail names	Aspirational Authentic brands	Top own label retail names	Celebrity Fashion brands
	Well above middle	Better chains	Better brands	Better chains	Better brands
Low price	Above middle	Middle of the road chains	Mainstream brands	Middle of the road chains	Mainstream brands
	Below middle	Fast Fashion chains	Budget Classic brands	Fast Fashion chains	Budget Fashion brands
	Budget value	Discounters and Supermarkets			
	Not part of 'organised retail'	In this bottom level group, are products, mostly anonymous 'no name' merchandise sold in markets			
		Retail own label	Brand	Retail own label	Brand

Source: just-style

Figure 1 shows that:

- There are three empty segments (not populated means that there is no product offer there) shown in black on the bottom (Budget value) row. With supermarkets providing jeans at less than US\$10 there is no way that brands and fashion own labels can compete on price.
- There are two empty segments (not populated means that there is no product offer there) on the top (Absolute top) row. Retail own labels do not carry the kudos to be at these price points.
- All the other segments are populated but not necessarily at exactly the same retail prices.

Individual jeans brands and own label retailers should use this matrix to confirm that they are in the 'right' segment.

### The jeans pricing onion

Another analysis concept that has been used before in just-style clothing reports is that of the pricing onion. The concept itself is straightforward. As there is an average world jeans price of just below US\$29 in 2007, then half of the market must lie above this average and half below. But this has serious implications for the mix of volumes and prices in the market as a whole.

These implications are illustrated in Table 24.

**Table 24: Denim and jeans – the pricing onion: World jeans market, 2007**

Price category	Price range US\$	Price point	Retail market value (US\$m)	Units (m)	Retail market share (US\$ %)	Units %
Absolute top	>200	250	1,115	4	2	0.25
High	100-200	140	8,991	64	17	3.60
Well above middle	60-100	70	13,237	189	26	10.60
Above middle	40-60	45	9,634	214	19	12.00
Below middle	20-40	24	10,276	428	20	24.00
Budget value	10-20	14	6,114	437	12	24.48
Not part of 'organised retail'	<10	5	2,236	447	4	25.07
<b>Total</b>			<b>51,603</b>	<b>1,784</b>	<b>100</b>	<b>100</b>

Note: data may not sum due to rounding

Source: just-style

The manner in which the table is calculated itself explains a lot about jeans pricing. In the table:

- each of the seven price levels in Table 24 is repeated and given a price range;
- a price point within each range is selected;
- an estimated percentage of the units falling into each range is calculated;
- the calculated estimated percentage is checked to see that it adds to the 2007 volume of 1.784bn jeans units, and creates the units in each price level;

- the units are multiplied by the price point for each level to derive the US dollar value attached to each level.

What becomes apparent is the degree of skew between the units' percentage column and the US dollar percentage column. So:

- the absolute top level (the celebrity brands that get a lot of fashion press) selling at above US\$200 have only 0.25% of the jeans units market but 2% of its value;
- high-priced jeans retailing at US\$100-200 have just under 4% of the units but 17% of the market's value;
- well above middle jeans priced at US\$60-100 have just over 10% of the units and 26% of the market US dollar value;
- the above middle level (the preserve of middle-of-the-road retail chains and mainstream brands) have 12% of the units and 19% of the value;
- the fifth group (below middle) is actually the group in which the global average of US\$29 falls. It accounts for 24% of volume and 20% of value; and
- the two bottom groups between them have half the world's units but only 16% of the world jeans value.

The onion has a large bulbous bottom and a tiny tapering top.

### **Specific jeans prices**

It is now possible to relate specific brands and own label jeans to their position in both the price fashion matrix and the pricing onion (Table 24).

At the time of writing this report, the jeans market is heavily impacted by extreme US dollar exchange rates. It used to be the case that the barometer product, the Levi 501 was priced at US\$40 in the US and GBP40 in UK. At that time when the exchange rate was GBP1=US\$1.5, that made the UK one-and-a-half times as expensive as the US. When the second edition was published in 2005, the exchange rate was GBP1=US\$1.8, and Levi 501s remained at GBP40 in UK. Today, GBP1 will buy you just over US\$2, and Levi 501s are being sold above GBP40 in the UK, creating a huge imbalance between US and UK costs to the consumer.

So the comparison of price points for different brands and own labels is offered here with a degree of caution.

Starting with the absolute top level at prices above US\$200, examples include:

- 7 For All Mankind; at an aspirational retail price of US\$450;
- Von Dutch; the former US fashion *paparazzi* favourite at a price of over US\$600;
- David Bitton (Buffalo), the celebrity butt lift jean at US\$350;
- Edwin, Japanese authenticity at US\$450; and
- Nudie, the Scandinavian traditional authentic jean; at prices in the US\$150-300 range.

Mainstream companies like VF Corporation also feature in this category level in Europe with products such as

- Authentic Bluebell at US\$250-350; and
- Lee Originals at US\$350 and more

In the high category level (prices in the range of US\$100-200) are featured:

- most of the designer jeans including Armani, DKNY, and Dolce e Gabbana;
- the high end of the mainstream brands such as Lee 101;
- spin-off brands from the mainstream companies such as Earl Jean; and
- Many European brands including Mustang, Diesel and G-Star.

The high end also contains top end own-label retailer names such as Jigsaw and Ted Baker.

Western Europe in particular is well represented with product priced between US\$60 and US\$100, including:

- Polo Ralph Lauren;
- Firetrap;
- Guess;
- Miss Sixty;
- Pepe;
- LTB; and
- the core ranges of Levi and Lee.

The core ranges sell at US\$40-60 in the US and include:

- Levis;
- Wrangler; and
- Gap.

As mentioned earlier, they are priced higher in Europe in general and the UK in particular.

In a market that spans the world, and contains dozens of brands, hundreds of mass-market retailers, thousands of manufacturers and tens of thousands of no-name market sellers, any analysis of price will be based upon limited information. So, we have chosen to only give indications of selected retail price points for the developed world. Starting with the US, and from the bottom upwards:

- Faded Glory: US\$10-20;
- Levi Signature: US\$20-30;
- Wrangler: US\$30-40;
- Lee (Core): US\$50-70;
- Levi 501: US\$50-70;
- Gap: US\$50-70;
- Polo Ralph Lauren: US\$60-90;
- Earl Jean: US\$90-120;
- DKNY: US\$100-150;
- 7 For All Mankind: US\$280-500.

A similar exercise has been carried out for Europe based on the UK market, but using US dollars. In Western Europe, brands are priced higher than in the US. When the exchange rate was US\$1.5=GBP1, a regularly-used rule of thumb was parity.

- Levi 501 in the US: US\$40;
- Levi 501 in the UK: US\$60 (GBP40).

At an exchange rate of US\$1.8 to the pound, jeans bought in the US are 'a snip'.

Again starting from the bottom prices:

- Falmer at Matalan: US\$25-35;
- Easy: US\$25-40;
- H & M: US\$25-40;
- BhS: US\$25-40;
- Wrangler Basics: US\$45-60;
- Gap: US\$30-70;
- Marks & Spencer: US\$40-60;
- Ben Sherman: US\$50-80;



- Spy: US\$75-90;
- Lee (core): US\$75-110;
- Levi 501: US\$75-110;
- LTB: US\$90-120;
- Mustang: US\$80-120;
- Diesel: US\$100-140;
- Lee 101: US\$150-200;
- Nudie: US\$160-320;
- Edwin E-Tab: US\$200-320;
- David Bitton: US\$200-350;
- Bluebell: US\$250-350;
- 7 For All Mankind: US\$280-550;
- Lee Originals: US\$350-450; and
- Edo from Edwin: US\$500-550.

Descending the price category levels to US\$20-40 brings into play nearly all of the European own-label fast fashion retailers at their 'opening' (lowest) price points including Benetton, Zara, H&M, B&S, Arcadia brands (especially Topshop) and also bottom-end brands, some of which have names which mean nothing to most consumers. In the US, brands such as Levi Signature, Wrangler basics and Faded Glory also feature alongside and in the same stores as Wal-Mart and target own-label merchandise.

As in most apparel categories, there is also no-name anonymous merchandise, at prices below US\$20. Just because it has no-name, its volumes and market share is frequently understated by market research companies. In the UK, for example, it is believed to constitute 10% by volume and 3% by value of the market. But it is under threat from 'recognised' labels being sold by discount retailers such as Matalan and George at Asda.

In the developing world, however, no-name market share must be significantly bigger. Markets are full of factory overmakes or seconds. In addition, in places such as Hong Kong and Bangkok there is a flourishing trade in copying designer and brand merchandise, right down to fake logos, tabs and studs.

All in all, this is an extremely cluttered and confusing market-place when analysed by price alone. So, in the next chapter, the market is reconsidered by reviewing marketing statements and positions rather than by price alone.

### World, regional and directional brands

just-style believes that, in spite of all the product and attitude hype of the others, there are only two genuinely global brands:

- Levi Strauss; and
- VF Corporation (Lee and Wrangler).

But it was suggested earlier that their dominance has been eroded somewhat by a joint attack:

- from above by 'directional' European brands; and
- from below by own-label retailers.

In Europe particularly, there are a number of regional or pan European brands.

These include:

- Pepe and Ben Sherman in the UK;
- Lee Cooper in France;
- Mustang in Germany;
- LTB in Holland; and
- Diesel, Replay and G-Star in Italy.

Although their sales are very small, there are also designer labels which could claim to be global brands because their names are recognised in many countries around the world. These include:

- in the US, Calvin Klein, Tommy Hilfiger, Polo Ralph Lauren and DKNY;
- in Italy, Armani, Versace, and Dolce e Gabbana; and
- in Germany, Hugo Boss, and Joop;

There are dozens of 'directional' brands, even though the average consumer may never have heard of them, and would be unsure what a directional brand is. It may be the case that, just as a designer is anyone who declares him or herself to be a designer, so a directional brand is one that says it is so often enough. In the second edition, just-style quoted Andreas Kurz of 7 For All Mankind from an interview he gave with the trade magazine *Drapers Record*. In it he said that: *"jeans are associated with values such as individuality, freedom and rebellion"*. He then went on to say that his challenge was to *"communicate those values across the various demographics that can afford to pay premium"*. That implies that in the rather convoluted world of jeans marketing, being free to rebel means being able to pay a large amount of money for your jeans. Some people might feel that US\$450 for a pair of 7 For

All Mankind jeans is a high price to pay for being a rebel. This clearly is not the viewpoint of VF Corporation, which has just bought the company.

## 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 12% of VF's US\$6bn turnover, but only 6% 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\$300m.

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.

**just-style: I believe that business in Asia, both sourcing and selling, is now central to the success of any global jeans brand.**

**Aidan O'Meara:** I am sure you are right. Otherwise, I would not have been so keen to take up this role, and relocate myself and my family to Hong Kong.

**j-s:** In your *Annual Report* you stress the benefits to your retail customers of the Vendor Managed Inventory (VMI) programme. The VMI programme has been around for some time, and seems to me to be of most value in supporting retailers in developed markets. Has it been used at all in Asia-Pacific, or is your approach there concentrated upon controlling retail yourselves?

**AO'M:** Our owned businesses in Asia Pacific are a mixture of directly-owned and operated stores and shop in shops, a dealer network which operates on a quasi-franchise basis and a wholesale business focused on various multibrand formats. In many cases we control the assortment at retail but outside of our owned and operated stores, we are not currently employing the sophisticated VMI and Retail Floor Space Management (RFSM) systems used in the US and Europe. There are two main reasons why this has not happened yet: there are currently very few large and powerful retailers in our main direct markets of India and China with whom to partner, and the smaller operators tend not to have the system capabilities or know how to work with us on this currently. We will be piloting programs in both India and China next year and expect both VMI and RFSM to be an important competitive advantage for us in the future.

**j-s:** In your *Annual Report* you feature Lee Gold Label, with the words "*a premium initiative which takes its inspiration from the brand's rich heritage*". I believe these are seriously expensive jeans. What would make a female purchaser buy them rather than a 'glamorous' brand like Seven For All Mankind, which you have very recently (July 2007) acquired (for US\$775m in cash)?

**AO'M:** Lee Gold Label is a heritage-inspired collection which appeals to the true jeans connoisseur (male and female) who appreciates all of the details, craftsmanship and the finest denim combined with a contemporary fashionable fit. The product's authenticity and style are what distinguishes Lee Gold Label in the marketplace from other more design-led alternatives. Our chairman has

stated that he will position Seven For All Mankind as the “*nucleus for our new Contemporary Brands coalition*”.

**j-s:** Once again, quoting from your annual report, your Asia sourcing has increased from US\$150m in 2001, to US\$1.6bn in 2006, which is now more than 60% of your total production.

**AO'M:** This is not a new development. We have been sourcing in Asia for over 30 years. However, with nearly 1,000 suppliers (we like to call them associates), you are correct in saying that the move to Asia is complete and irreversible. We closed our laundry and finishing facility in Winston-Salem, North Carolina, last year.

You will remember what our spokesman Paul Mason told just-style at that time “*that some of the work would be moved to Costa Rica, and that the vast majority of VF's plants were already located outside of the US – the only remaining facility being a denim cutting plant in Alabama*”.

In addition, I would like to mention what Sam Tucker, our VP-human resources for VF Jeanswear said at the time: “*In order to improve our operational efficiency, it has become necessary to shift the laundry and finishing work being performed in Winston-Salem to locations outside the US that are closer to the plants that are producing the product.*”

(At the time, just-style commented: “*VF has perhaps held out longer than most US apparel makers before moving its production to lower-cost offshore locations – but the closure of the Winston-Salem plant means the company has now shut its last major US production facility. The laundry operations will be moved to Costa Rica, where they will be closer to the company's jeanswear sewing factories in Costa Rica, Honduras and Mexico.*

“*Including this latest layoff announcement, VF will have eliminated nearly 3,000 jobs in North Carolina and closed eight plants since a restructuring began in late 2001.*”)

**j-s:** But it's not just sourcing, is it? You are creating marketing alliances in Asia as well, amongst them the joint venture with Arvind Mills in India.

**AO'M:** The JV deal we concluded last year is a major step forward for VF in India as it is the platform which we will use to market all of our brands in this fast-growing market. There are no longer any constraints with respect to business ownership but the retailing of brands must still be undertaken by an Indian-owned company. Aside from the regular wholesaling of our brands, we have a broad franchise network which has enabled us to open over 100 stores already throughout India for our Lee, Wrangler, Nautica and Kipling brands with many more still pending. The organic growth of our existing brands in the market combined with new brand launches will, we expect, drive strong double-digit growth in the next five years.

**j-s:** Finally, one of your predecessors in Asia was on record as saying that VF had to 'educate' the Chinese to appreciate western jeans. Any extra information on the roll-out of the eight stores in China 2007 would be great.

**AO'M:** We are concentrating our Lee store openings on the key Tier 1 Chinese cities, namely Shanghai, Beijing and Shenzhen. The results to date have been very encouraging and we believe that branded stores will be a critical component of both our growth plan and our brand management strategy in China. Our dealer network outside the big cities has also begun to open Lee stores based on our model in provincial cities such as Harbin and Chengdu. The first major North Face store in China will also be opened in the prestigious SanliTun centre in Beijing in time for the Olympics next year.

### **Other brand approaches**

The following are the author's opinions of the drivers of the market, obtained from telephone interviews and published material.

#### **Drivers of the market**

Jeans brands, especially at the upper price points are continuing to market using a series of attitudinal approaches. These include:

- authenticity;
- heritage;
- celebrity endorsement; and
- product placement.

Obviously, at the lower end, they are driven primarily by cost, and this is considered in Chapters 7 and 8.

The statements by and about the various brands below, should also be analysed in the context of the quirky view on marketing made in an American analyst's presentation.

The analyst, Meghan McDonald, was making a business presentation about (amongst others) Abercrombie and Fitch. She said: *"I found a very interesting statement outlining the steps a denim line will go through when it reaches the market:*

1. *a company brings new premium brand to the market;*
2. *celebrities and high impact people buy the jeans;*
3. *the mass market takes notice and those that can figure out a way to afford the price buy the jeans;*
4. *the company brings the price points down slightly and the consumers flock to buy;*
5. *everyone and their mother has a pair of said jeans and fashionistas everywhere proclaim 'I will never buy another pair of X jeans – everyone has them now!'.*

*"The analyst [being discussed by McDonald] said she believed that this explanation does a great job of summing up the denim market!"*

### **Levi Strauss**

VF's apparently-positive approach to the globalisation of the jeans market delivers a challenge to other brands. Most notably, it puts a marker down for Levi, which still appears to be unsure of its marketing strategy worldwide, although it says it is winning the campaign to improve the bottom-line profit. As of September last year it announced that it would stop selling its 'budget' Signature brand in Europe from spring 2007 because of *"restricted growth in the value channel"*. Since the launch in 2004 (said a company statement), *"numerous retailers have introduced private label brands or carry brands that are exclusive to their stores, a development that has limited the expansion and profit opportunities for the Levi Strauss Signature brand in Europe"*. However Levi will continue to sell Signature in North America and Asia.

At just-style, we believe that this signals a major change in strategy for Levi away from the McDonalds *"one approach all over the world"* mentality.



Most other brands have steered clear of the 'one-size-fits-all' marketing approach.

### **Seven For All Mankind**

This company is unashamedly about desirability for female consumers. In a quote made before it sold out to VF, Andreas Kurz, the chief executive, declared that it could run a brand based upon 75% sales to women, because: *"we are all about femininity, elegance, sophistication. I like to say we are in the body-sculpture business"*.

### **True Religion**

Another US brand which sells in upmarket US, Japanese and UK department stores is True Religion. Its department store list is to die for (as is its celebrity following). It sells in:

- the US: Saks, Neiman Marcus, Henri Bendel, Nordstrom;
- the UK: Harrods, Selfridges, Harvey Nichols;
- Japan: Isetan, Barneys Japan; and
- France: Galeries Lafayette.

It is truly religious about the sanctity of its brand, having recently closed down a US North East coast retailer for selling counterfeit True Religion brand jeans. *"We are taking an aggressive stance to protect our trademark and other intellectual properties,"* said Jeff Lubell, True Religion's CEO.

Not content with that, in April 2007 it filed a trademark suit against the mighty Wal-Mart for jeans *"priced in such a way that the implication to the buying public is that these items are indeed genuine"*. True Religion also said that the infringing apparel is of *"inferior quality"*, and is seeking unspecified damages.

Brands such as Seven For All Mankind and True Religion represent the top priced end of aspirational celebrity driven 'look like me' denim jeans. But, at price points below them, there are a variety of (often European) jean companies making a personal statement for their wearers.

### **Edwin**

Edwin (of Japan) has a simple philosophy – a passion for denim. At Edwin, Blue is what they love, and all details count. The company only uses Japanese denim fabrics that are exclusive to the brand. And the entire

approach is wrapped around more processing, more washing and more finishing.

That attitude is combined with an insistence on authentic Edwin jeans trademark details, such as the rainbow denim selvage, hidden rivets, multitone stitching, curved pockets and lined back pockets.

### **Nudie**

Nudie is proud to be “a true jeans brand not pushing short term trends”. The company philosophy is captured in its history book, *The Naked Truth About Denim*, and in statements such as:

- **Nudie philosophy:** *“Besides leather, only denim has the ability to age beautifully. Formed by its user into a second skin, the longer it lives the more character it gets. The indigo is a living colour that fades and gives the denim its character. The more you wear your jeans the more beautiful they get. Jeans are more than just a piece of clothing.”*
- **Nudie passion:** *“We love jeans, a passion we share with everyone who mourns a pair of worn out jeans as a close friend. Jeans share the same soul and attitude as music. The inspiration springs from the same dream.”*

Nudie however is realistic enough to recognise that a premium brand needs at least some of its own retail. In May this year, it opened its first ever store in its domestic Swedish market, in Stockholm. This will be followed by outlets in Japan and Germany, followed by up to ten more shops within five years. A modest target, but an important one for a traditional wholesaler.

### **James Jeans**

An interloper into the closed community of denim.

James Sway the founder of James Jeans said he did not understand how protective Levi could get about a small red tab on the jeans. He learned after Levi sued him. But his and his partner designer, Seun Lim, are obsessed about fit. As Lim says: *“The key thing is for them to be tailored in a way that gives them an uplifting, slimming and leg lengthening look. I always want to accentuate a woman’s rear and show it off to its best advantage.”*

**Diesel**

Diesel has always sought wide distribution. It has more than 5,000 'doors' (retail points of sale). When you are as wide as that, you have to court the entry price points as well as the premium Diesel StyleLab. Diesel definitely eschews the one-size-fits-all approach in which each of its 300-plus own-stores has a different shop-fit.

**Mavi**

Mavi (not very well known, but already a major denim player from Turkey) has recently (early in 2007) signed up Oliviero Toscani for its global marketing campaign. Toscani is famous (or infamous) for his Benetton adverts. This sends a strong signal about the growing strength of brands from the developing countries, and takes the jeans profiles back to some of the subjects considered in the interview with VF Corporation.

# Chapter 7 Supply chains and strategic alliances

## Today's jeans and denim supply chains

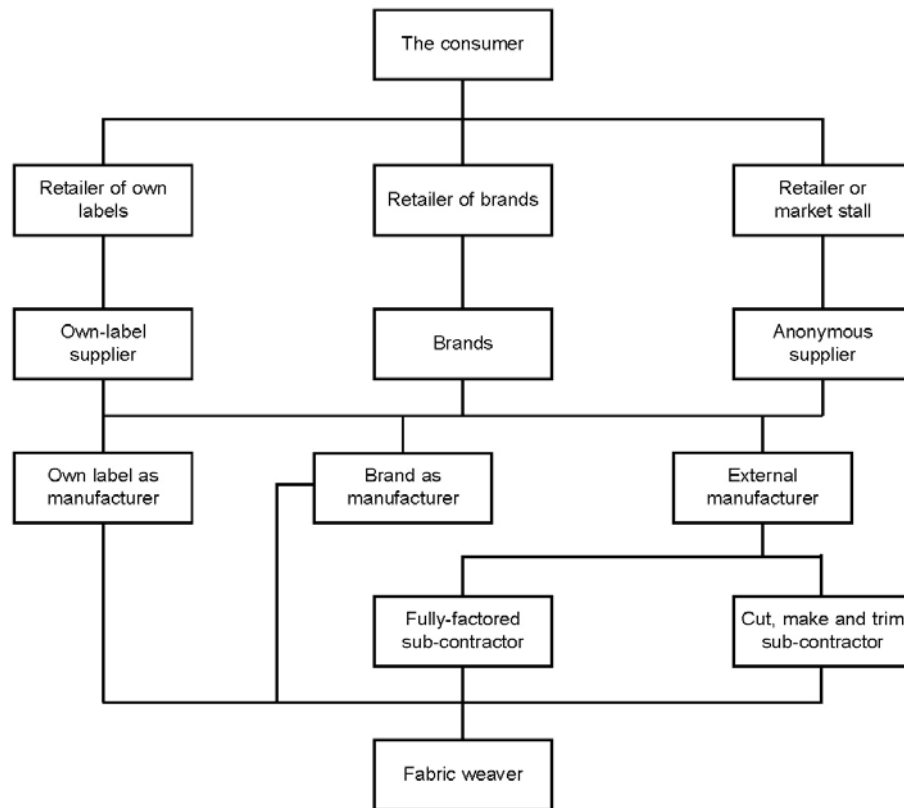
It is an incontrovertible fact that in 2007, the transformation of clothing and textile supply chains, which started as early as the 1960s, is now virtually complete, as the interview with Aidan O'Meara of VF Corporation testifies. Apparel manufacturing has been increasingly going offshore to lower-cost 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.

Figure 2: The supply chain – producer to consumer



Source: just-style

Looking at it from the top down:

- There are three ways in which the jean reaches the consumer: through an own label retailer, a retailer of brands or a seller of anonymous no-name merchandise.
- The retailer's relationship with the supplier is usually one-to-one, to wit, most own label suppliers only do that, most brands only supply brand retailers (although some do work under retailers' own labels as well) and anonymous merchandise is provided through anonymous suppliers.
- However, when it gets to the jeans manufacturer, the picture can become much more complex. In own label, the supplier often is the manufacturer. The brand may do its own manufacture, but as the example of Levi (a brand with no remaining factories) shows, you do not have to manufacture your own brand. Some external manufacturers (purely specialists in sewing jeans) serve all three routes. The writer has visited a Middle Eastern jeans factory, owned by

a strong brand which was simultaneously making for an Italian designer label, a US mainstream own-label retailer and a UK supermarket, in addition to its own brand.

- And it can get even more complex. The external manufacturer may itself use either fully factored (they do the entire job) or CMT (cut make and trim) sub-contractors.
- Finally, in today's global economy, the fabric weaver is usually a separate entity. The skills and capital investments in denim weaving are completely different to either manufacturing or organising the supply of garments. The weaver, however, is likely to supply any or all of the manufacturer types. It may also be supplying the brand or own label that specifies the use of their denim (and pays it), and merely delivering to the manufacturer.

As the examples of strategic alliances given below show, both the denim weaving and the garment manufacturing are likely to be undertaken in low-cost countries. There is very little of either left in the developed world. This has had an effect on the added value chain.

#### **Jeans and denim added value**

In these complicated networks, it is nevertheless possible to estimate with a reasonable degree of accuracy the value added at each stage of the process from fabric raw materials to the price paid for a pair of jeans by the consumer. It varies between the developed and the developing world, and by sub-regions within each. However, it follows straightforward textile macroeconomic principles, which are shown in Table 25.

Table 25: Retail, wholesale and fabric added value chain, 2007

	World	North America	Western Europe	Japan and South Korea	Rest of the world
Units per year (m)	1,784	697	378	175	534
Retail price per unit (US\$)	28.9	25.8	45.0	50.0	14.7
Retail market value US\$m)	51,603	17,988	17,010	8,737	7,868
Retail mark-up inc sales tax	-	2.7	3.0	3.1	2.0
Wholesale market value (US\$m)	19,185	6,662	5,670	2,818	4,035
Fabric (%)	32	30	28	27	45
Fabric wholesale market value	6,163	1,999	1,588	761	1,816
Average price per metre (US\$)	2.8	3.2	3.6	3.7	1.95
Fabric metres (m)	2,202	625	441	206	931

Source: just-style

Table 25 restates the units consumed for 2007, which were given in Table 10. Multiplying these by the regions price estimates derives the US dollar values given in Table 8. The table then works backwards down the value added chain:

- Retail values divided by the retail mark-up gives wholesale values (the price at which a brand or own label supplier sells to the retailer).
- Wholesale values are composed of fabric, sewing labour, manufacturing overheads and profit. The fabric content can be anything in the range of 28-45% depending upon the area of the world in which the production is being carried out, and whether the merchandise is budget or expensive.
- The wholesale market value multiplied by the fabric percentage gives the fabric wholesale market value.
- Denim fabric is traded internationally at prices which range from US\$1.40 up to US\$10 per linear metre, dependent upon yarn quality, weaving method and fabric finishing.
- Dividing the fabric wholesale market value by the price per metre gives the global fabric metres consumed.

Table 26 then restates the data shown in Table 25 to show the added value and the share of the final price paid by the consumer for an average pair of jeans in each main region of the world.

**Table 26: Retail, wholesale and fabric added value chain, 2007**

	World	North America	Western Europe	Japan and South Korea	Rest of the world
Units per year (m)	1,784	697	378	175	534
Retail price per unit (US\$)	29	26	45	50	15
Retail market value (US\$m)	51,603	17,988	17,010	8,737	7,868
Retail mark-up inc sales tax	-	3	3	3	2
Wholesale market value (US\$m)	19,185	6,662	5,670	2,818	4,035
Fabric %	-	30	28	27	45
Fabric wholesale market value (US\$m)	6,163	1,999	1,588	761	1,816
Average price per metre	-	3	4	4	2
Fabric metres (m)	2,202	625	441	206	931
Price to consumer (US\$ rounded)	29	26	45	50	15
Wholesale selling price (US\$ rounded)	11	10	15	16	8
Fabric selling price (US\$ rounded)	3	3	4	4	3
Wholesale share of final price (%)	37	37	33	32	51
Fabric share of final price (%)	12	11	9	9	23

Source: just-style

Taking the two most extreme regions (Japan and South Korea, and the rest of the world) to compare and contrast, the picture presented is that:

- the Japanese consumer pays US\$50; the rest of the world consumer US\$15;
- the Japanese retailer adds US\$34 (68%) to the wholesale price he pays; the rest of the world retailer adds US\$7 (49%); and
- they pay similar prices for fabric because fabric is traded globally

Worldwide, the averages are that:



- the consumer pays US\$29;
- the retailer adds US\$18 of added value (63%);
- the wholesaler gets US\$11 (37% of the final price paid by the consumer).

From the data, it is obvious to see why there has been such a move in global sourcing. If a Japanese consumer is prepared to pay US\$50, and a Japanese wholesaler will sell for US\$16, then a Japanese own-label retailer can buy direct from a rest of the world supplier for anything between US\$16 right down to US\$8.

### **Reasons to source cheaply**

Table 27 takes these macroeconomic supply chain costs and uses them to create six hypothetical (but representative) jeans products. They are shown as if they were a composite jeans costing sheet combining what would be seen by the manufacturer, the wholesale garment seller and the retail buyer.

Table 27: Jeans cost structures

	Developed world					
	Column A		Column B		Column C	
	Branded jean (US\$)	Branded jean (factors)	Designer jean (US\$)	Designer jean (factors)	Discount jean (US\$)	Discount jean (factors)
Retail price	75.00	-	200.00	-	30.00	-
Mark-up inc sales tax	-	2.5	-	4	-	2
Buying/Wholesale price	30.00	-	50.00	-	15.00	-
<b>Wholesale profit</b>						
Brand	3.00	10	-	-	-	-
Designer	-	-	0.00	0	-	-
Own label to discount	-	-	-	-	1.50	10
<b>Manufacturing elements</b>						
Materials	8.10	30	12.50	25	6.75	50
Labour	5.40	20	12.50	25	2.70	20
Overheads (combined)	10.80	40	22.50	45	2.70	20
Manufacturers' profit	2.70	10	2.50	5	1.35	10
<b>Total</b>	<b>27.00</b>		<b>50.00</b>		<b>13.50</b>	

Table 27 (continued): Jeans cost structures

	Developing world					
	Column D		Column E		Column F	
	Branded jean (US\$)	Branded jean (factors)	Designer jean (US\$)	Designer jean (factors)	Discount jean (US\$)	Discount jean (factors)
Retail price	25.00	-	100.00	-	10.00	-
Mark-up inc sales tax	-	2	-	3	-	1.5
Buying/Wholesale price	12.50	-	33.33	-	6.67	-
<b>Wholesale profit</b>						
Brand	1.25	10	-	-	-	-
Designer	-	-	3.33	10	-	-
Own label to discount	-	-	-	-	0.67	10
<b>Manufacturing elements</b>						
Materials	7.31	65	12.60	42	3.60	60
Labour	1.13	10	3.00	10	0.60	10
Overheads (combined)	1.69	15	9.90	33	1.20	20
Manufacturers' profit	1.13	10	4.50	15	0.60	10
<b>Total</b>	<b>11.25</b>	<b>-</b>	<b>30.00</b>	<b>-</b>	<b>6.00</b>	<b>-</b>

Source: just-style

What follows are three hypothetical but realistic case studies, which illustrate the economic and necessary reasons for moving to low cost country sourcing.

### Case 1

The first case is that of a brand, which currently sources its merchandise locally and controls the factory overhead costs (Column A), fears that its current profit of 10% in the developed world will be eroded, and wants to sell its brand in developing countries (Column D):

- The retail price is US\$75, the wholesale price US\$30 and the brand makes a profit of US\$3 on each jeans unit.
- It feels it must use a similar denim to what costs US\$8.10 locally, and finds a developing country mill who can sell at US\$7.31. Labour and

manufacturing overheads are obviously much cheaper, and the total manufacturing cost is only US\$11.25.

- The brand will incur extra costs in distribution and management of the low-cost source but could potentially make up to US\$10 per jean sold in high-cost countries.
- Moreover it can still make a 10% profit (albeit only US\$1.25 per jean) selling at US\$12.50 in new developing markets.

### Case 2

The second case is that of a designer label, whose product is made for it under licence by a reputable but expensive local jeans maker:

- They share overheads, which are heavy because of the low number of units sold. Although they can sell to retail at US\$50 (the retailer will sell to the consumer at US\$200) the designer makes no profit.
- The designer moves sourcing to the developing world. Fabric is crucial (the whole point of the designer label is based around specific denim made by an authentic Japanese mill). So the fabric actually rises slightly in cost (US\$12.50-12.60).
- However, the labour and overheads are much lower, so much so that the designer can allow the new licensee to make an excellent profit.
- The licensee can also sell into developing country retailers who will charge the consumer US\$100 (as against the US\$200 in Column B) and provide the designer with commission in addition to the manufacturer's profit.

### Case 3

The third case (Columns C and F) is that of a discounter buying own label in big quantities through a jeans wholesaler. Its current retail price is US\$30 and it is very worried about two supermarkets, both of whom have introduced a US\$15 jean. It decides to source directly from a low-cost manufacturer that currently supplies local markets:

- The manufacturer is delighted to get the volume orders and is prepared to match its 'market' jean price.
- The discounter is prepared to use much cheaper fabric to hit the new price points.
- There are extra costs for the discounter in managing the manufacturer and in shipping but the final cost to the discounter is around US\$7.50.
- It can now sell at US\$15 and still have a mark-up factor of two.

It is scenario examples like these that are responsible for the strategic alliances that have changed and are changing the nature of the supply chain.

### **Strategic alliances**

In the two years that have passed since the publication of the second edition of this report, there have been literally dozens of articles in the trade press about strategic alliances between developed and developing countries in:

- weaving denim cloth;
- manufacturing jeans; and
- retailing jeans.

What follows are a few examples of strategic alliance news, taken from just-style since the second edition of this report was published.

### **Cone (the International Textile Group, ITG)**

International Textile Group's Cone Denim business is set to create 750 new jobs by setting up a 28m-yard-capacity denim plant.

ITG, which is owned by billionaire Wilbur Ross, will inject US\$100m into the factory, which will be Nicaragua's biggest-ever building.

The group signed an Investment Agreement with the government of Nicaragua for the plant, which will be located in the Jorge Bolanos Abaunza Textile Park in Managua.

Ross said: *"By building a world-class Cone Denim plant in the region, we are fulfilling a commitment to all the countries and all our customers throughout Central America to ensure that this region remains an attractive and successful sourcing option for our denim jeans customers for years to come."*

Ross set up ITG in March 2004 to combine the assets of Burlington Industries and Cone Mills. Nicaragua recently implemented CAFTA after its parliament passed a package of law reforms to comply with US demands.

Through another joint venture in China, Cone Denim Jiaxing Limited (part ITG and part owned by Novel Holding Ltd of Hong Kong), investment is being made in a state of the art weaving plant housing 140 Sulzer projectile looms. These are amongst the most prestigious and most expensive weaving looms

in existence, and will have a production capacity of 27m metres of premium quality denim per year.

### **Tavex**

Spanish jean denim maker Tavex Algodonera is considering buying two Mexican textile factories owned by Mexican company Acotex for about EUR62.5m (US\$83.35m), the company has said in a regulatory statement.

Tavex is known to be eager for expansion into the US jeans market. The agreement would enable it to build a competitive manufacturing platform close to the US and allow it to sell a range of “*innovative*” products such as “*premium and authentic*” denim fabrics.

Tavex has signed a pre-agreement to consider the purchase of the factories, located in Puebla – where it already has a factory – and Tlaxcala, Mexico.

The company, which is turning the corner after a major restructuring, hopes to have 4.6% of the global jean fabrics market for 2007 and 10.1% of it by 2011 when it expects the market to be worth EUR8bn.

In September 2007, Tavex announced it would invest EUR300m by 2012 to grow internationally, particularly in the US.

### **Turkey**

There have in the past year been a number of statements about investment by Turkish companies. These include:

- Clothing maker Eroglu plans a new factory to make 35,000 jeans a month. It already makes 70,000 units a month and exports to 32 countries including the US, France, Germany and the UK.
- Orta Anadolu hopes to increase denim and jeans sales to US\$23m in 2005, with half as exports. It already supplies Levi, Lee, Diesel, Rifle, and Mavi.
- Birlik Mensucat invests TRL19m in a denim production plant.
- Eroglu buys the Big Star jeans brand from its Swiss owners
- Sabanci (the parent company of Bossa), which weaves 50m metres of denim and sportswear annually, is considering an investment in North Africa. As the general manager, Murat Karadut, explained: “*According to our studies, the most attractive regions for investment are Egypt and Tunisia, and our initial plan is to invest US\$70-80m there.*”

## Denim in India

### **Raymond (India) and UCO (Belgium)**

Raymond and UCO have admitted that their joint venture strategy is defensive. By creating a global player with 80m meters capacity, a spokesman said it was trying more to protect profits in an increasingly difficult world denim market. However, the merger implies that Raymond would gain access to Western markets from its denim production unit in India (Yavatmal, 1,400 employees), while UCO would gain better access to the booming Asian market, from its production units in Belgium, Romania and the US.

An UCO spokesperson, Bart Van de Woestyne, said that *“although, of course, there is a cost reduction involved, we see this as improving our joint product design capabilities and speed to market”*.

The UCO deal is just one example of Raymond’s collaborative strategy which has also involved vertical integration. It now has 350 Raymond stores in India selling company branded clothing.

The chairman and managing director of Raymond Ltd, Gautham Singhania, strongly believes in the synergy potential of well-designed joint ventures. *“The Raymond Group today wants to move ahead from being India’s most admired textile and apparel company to becoming a global player, integrated across various garment categories like worsted suiting, denim, shirting and so on,”* he said in an interview with ATA (*China Textile & Apparel*).

Philippe Vlerick, Chairman of UCO and of the joint venture Raymond/UCO, shares Gautam Singhania’s view on synergies. *“Raymond UCO is the only denim player who has activities in three continents: Asia, Europe and North-America,”* he says. *“I think that together we have become too important to be ignored by the market.”*

### **Diesel and Arvind**

In October 2007, the Indian Foreign Investment Promotion Board has given approval for a joint venture between Diesel (the Italian jeans brand) and Arvind (the Indian denim and jeans manufacturer). The objective is to open 15 Diesel stores in India, selling the brand at the same price as internationally to affluent and aspiring Indians. At just-style, we see this as yet another example of supply chain strategies. The press release said the jeans would be *“made*

*either in Italy or other places where Diesel manufactures*". Given that Arvind is already making Lee and Wrangler in India, who would like to bet on where that manufacturing location turns out to be?

Other investment activities taking place in India, as reported by just-style in 2007, include:

- Universal Jeans of Bangladesh investing US\$7m in a plant intended to produce 6m units annually.
- Sales of Lee jeans (licensed to Arvind Mills) in India about to break US\$20m.
- The Raymond Group's intention to build three new factories in Bangalore, double its jeans making capacity and further integrate forward into retail. Denim capacity at Yavatmai will be increased by 10m metres per year to 40m metres. A spokesman said: *"We will use the cluster of powerlooms and process houses to invest in capacity, product design, washing and finishing for high volume medium value European and American customers."*
- American brands Gant and Cherokee discussing partnerships in India.
- Century Textiles investing INR1.4bn at Indore to increase the capacity of its denim plant to 10m metres per year.

All of these strategic alliances make the statements from denim weavers like Legler of Italy sound a little forlorn. Legler still talks of:

- spinning in Macomer and Siniscola (Sardinia);
- weaving in Macomer Ottana (Sardinia); and
- dyeing and finishing in Ponte. S Pietro (Bergamo).

It all sounds a little bit 'traditional Europe' as compared to the exotic China, Nicaragua, India and Turkey.



# 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:

- Denim goes through more dyeing, chemical treatment and washing processes than many fabrics.
- Jeans use heavier and more specialised sewing equipment, the garments contain more metal buttons, zips and studs than most, and the end product may be washed, bleached or given other chemical treatments in its finished garment state.

This chapter reviews economic events that have taken place since the second edition which have affected and are affecting the industry now. It also dusts off the crystal ball to speculate on what may be in store for this global industry in general and denim and jeans in particular.

### Recent economic events and influences

#### **The WTO (World Trade Organization) MFA (Multi Fibre Agreement) fiasco of 2005**

At the time of the second edition of this report in autumn 2005, world clothing trade was reeling from the effect of the final liberalisation of the MFA (multi fibre agreement), which was basically a protectionist device to safeguard the US and Western Europe's textile and clothing manufacturing industries. What happened was that there was a huge surge in purchases from a deregulated and cheap China, so huge that the US government and the EU Commission promptly slapped quota limits back on China. However, this was only a temporary dam-building exercise to stop the flood of low-cost clothing, which, of course, the retailers wanted.

If a dam gets blocked somewhere, it will get breached somewhere else, as the following report from the Trade journal *Textiles, South East Asia*, about EU imports posted in August 2006 about the first quarter of the year illustrates. It said that: *"Imports of cotton denim trousers into the European Union surged from a number of suppliers including Hong Kong during the first quarter. At the same time, quotas on China have sent its shipments plunging 75%. As a result, Bangladesh has consolidated its position as leading supplier. A Bangladeshi producer typically sells a pair of jeans for US\$5. Notably, volumes from Hong Kong, which mainly re-exports jeans from China, surged 286% from one year earlier."*

What this actually shows was that the jeans were still being made in China. They were merely being declared as coming from Hong Kong to avoid the quota restriction.

### **The resurgence of a high-cost economy based upon a demand for 'authentic' denim**

The following article appeared on just-style late in 2006.

Retail sales across Japan are on the up as the economy shakes itself down and prepares for another consumer boom like the one it saw in the 1980s. In particular, rising demand for expensive commodities like designer jeans suggests good times are ahead for Japanese retail and apparel businesses.

Japanese artist Hiroko Akao says she wouldn't wear any other type of leg wear and insists on never washing her US\$200 jeans. "*Why should I? They are an artwork,*" she protests. Akao, like many of her 20- and 30-something contemporaries, commonly have at least one pair of premium denim jeans each and, now that the Japanese recession is over, Japan watchers are saying their popularity will grow even further.

The Mitsukoshi department store on Ginza's famous glitzy boulevard is one of many favourite haunts of the Japanese premium jeans customer where sales of these products, priced at US\$300 and up, surged by 17% in the last nine months. [of 2006]. Consumer confidence is certainly up for the first time in nearly a decade and consumer spending increased by about 1% in the final half of last year.

And as before in Japan, most notably in the 1980s bubble years when the sky was the limit for spending, a healthy economy means young and old consumers who are very happy to go shopping for big tag items. Jeans certainly never went out of fashion, but sales have risen on the back of a new generation's 'hard times' attitude to fashion. The Armani and Chanel suits of the 1980s have been replaced by a grungier, more streetwise look.

For years denim makers felt that the legions of well-dressed Japanese youngsters meant lean pickings compared to other industrialised nations who enthusiastically imported American culture and, of course, clothing.

If jeans symbolised rebellion, then they had no use in a country where conformity and harmony had been valued above all else. The business suit, both for office and leisure time, was a strong symbol of this in Japan.

But now Japan's 'lost generation' has finally turned to the US and Europe as role models after feeling that the Japanese system had failed them. The recession was mild but people lost their jobs (previously unheard of in Japan), and jeans are even in demand from the conformist middle-aged generation.

As Japan has a huge middle class, often the only way consumers can flag their difference from the crowd is by wearing truly very expensive jeans.

From 2005 to 2006 no less than 24 new premium jeans brands entered Japan, making for a very crowded market place indeed.

The following short article appeared in the trade press (*Emergingtextiles.com*) on 3 July 2007 and illustrates that it is possible to sell denim at the 'top end' to manufacturers who are producing cheaply.

Japan's denim exports to China and Vietnam are sharply rebounding this year, reflecting much stronger production of denim apparel in both countries. This is also a sign that US and EU retailers are increasingly requiring higher-quality fabrics for denim apparel made in low-cost countries in Asia.

### **Future economic forecasts and jeans and denim scenarios**

If there are two major economic facts (which sound contradictory) – low-cost country sourcing and the re-emergence of high-cost denim economies – then where does this leave the major denim source countries, given the strategic alliances seen in the last chapter?

The author's own view is that, although most economic changes are cyclical, there are some straight-line progressions which will never be reversed:

1. The US and Western Europe are dead as denim weaving and jeans producing regions.
2. Eastern Europe will not become a jeans region (with the exception of Turkey, which has the cotton).
3. Africa is not ready (and won't be ready for at least another 20-year generation).

4. Therefore it's China, the Indian sub-continent and Brazil where entrepreneurs, investors and manufacturers should be concentrating their attention.