

Chapter 9

The Role of Trade Barriers and Exchange Rate Fluctuations in the Global Apparel Market

A. Trade barriers and the Multi Fibre Arrangement

(i) Trade barriers – the historical picture

Trade in textiles and clothing has been constrained or managed by a variety of restrictive devices for many years. Summaries of earlier arrangements can be found in Khanna (1991), Dickerson (1995) and Moore (1999), but since 1974 the main regulatory framework has been the Multi Fibre Arrangement or MFA. This derogation from the normal rules governing world trade established a complex system of quotas which restricted the growth of exports from a selected number of low cost producers into the developed markets. The theoretical effects of a quota are illustrated in Fig. 9.1 and discussed later in this chapter. The domestic demand and supply curves are D_d and S_d . In a free market supply is represented by the horizontal line PW WP . Price is PW and supply reaches from O to Q_d (8 units). Domestic output is from O to Q_s (2 units). Therefore imports must be OQ_d minus OQ_s or 6 units. If a quota restraint of 4 units is introduced (shown as the space between Q_s and Q_s^*) then the new supply curve is shown by $ACNS_q$. Price rises to PQ and the protected domestic industry increases output to Q_s^1 (3 units). The total market shrinks to the distance between O and Q_d^1 (7 units) of which 4 are supplied by imports. The most important impact on UK trade statistics would be to restrain the increase in UK imports from the MFA suppliers. However, to the extent that the MFA enhanced the ability of domestic producers to survive, there would be a protective effect upon continued production and employment in the UK.

On a global scale the main effects of the quota system on the observed trade pattern would be to slow down the total volume of trade flowing from those countries covered by quota arrangements; to divert trade towards countries with a favoured status, e.g. Turkey; to freeze trade patterns within existing

patterns as indicated by quota availability; and to impose costs upon consumers in the importing countries.

In the following discussion it will be assumed that the statement that free trade is preferable to restricted trade is accepted. The theoretical case for the advantages of free trade is rehearsed in many texts such as Begg (1991, p. 587–590). A brief summary of the case is contained in Figure 7.4 and is reflected, for example, in the conclusion drawn by Frankel (1999) that ‘trade has a quantitatively large and positive effect on income’. Therefore, from this global standpoint it can be stated that the imposition of the MFA had to be regarded as a retrograde step and its removal as a positive step. It is, of course, quite compatible with this viewpoint that individual groups of people in specific industries and locations could be damaged by free trade as patterns of competitive advantage shift over time – that, in effect, was the *raison d’être* of the MFA in the first place.

In addition to the existence of this complex system of quantitative trade controls the apparel sector is further protected by a relatively high tariff structure. A tariff is a tax on imports. Singleton (1997, p. 179) presents data for 1962–87 which shows that tariffs on apparel in the EU were in 1987 double the average on all manufactured goods, having started at a point of equality in 1962. Dickerson (1995, p. 501) argues that tariffs on apparel in the USA were over five times greater than the average.

Given the impending demise of this system of managed trade in the year 2005 it is not felt appropriate in this context to embark upon a detailed description of the MFA itself. Readers wishing to obtain such details are referred to the following sources: Jones (1994), Khanna (1991), Dickerson (1995) or Anson (1994).

In brief, the MFA is a quota-based system of trade control in which products are assigned category numbers and originally grouped into one of five groups – Group 1 products being the most sensitive. Initially the agreement was expected to last four years from 1974 to 1978 but was renewed several times until MFA IV emerged in 1986.

Each quota was assigned a growth rate and, until the formation of the Single European Market, imports covered by the MFA were shared between the EU member states under the so-called ‘burden sharing’ arrangement. The MFA could be modified during its life to take account of unanticipated disruptive trade movements by a variety of instruments such as the ‘basket extractor mechanism’. The introduction of the MFA meant that (Khanna, 1991, p. 21) the ‘liberal and non-discriminatory rules of international trade enshrined in the GATT were never applied to the field of textiles and apparel’.

The main focus of attention at the present time must be the identification of the threats and opportunities posed by the re-integration of textiles and apparel trade into the liberal and non-discriminatory system of rules governing world trade as enshrined in the GATT/WTO. The start of this process was signalled

by the emergence of the Agreement on Textiles and Clothing (ATC) from the Uruguay Round of GATT negotiations concluded at the end of 1993.

(ii) The level of protection provided by the MFA

The existence of the MFA has generated a great deal of passionate debate over the years. Opponents have, in particular, been keen to condemn the arrangement which was described by Khanna (1991, p.24) as ‘designed to manage trade to the advantage of countries that were fast losing international competitiveness ...’

It is, therefore, a little surprising that the amount and quality of evidence which measures objectively how protective it actually was is somewhat limited. An effectively protected product can be defined as one which could not be supplied by non-domestic sources at a time when growth in domestic demand was outstripping the capability of the domestic industry to meet that demand and when non-domestic production was available. In this case import penetration would not rise despite the existence of excess demand and prices would rise relatively sharply. As Moore (1999, p.267) expresses it, quotas ‘are only effective in so far as they reduce imports below the level they would be in their absence. Clearly this is somewhat difficult to ascertain’.

The majority of tests of the effectiveness of the MFA and/or the level of protection present in the UK or globally have not been cast in these terms. The alleged impact of the MFA is usually demonstrated by statistics such as those reproduced in Table 9.1. MFA III is taken as evidence of a protective effect. The level of protection within individual countries is often measured by data such as the level of imports per head of the population or in proportion to national income (Anson, 1994). Prior to the formation of the Single European Market it was possible to compare the share of imports taken by each member state with the share indicated by the so-called ‘burden sharing formula’ (Anson, 1994). On all these measures, the UK appears to have been relatively well protected.

Table 9.1 The MFA and levels of protection.

A.	EEC (12)			
	Imports from (as %):	1973	1981	1986
	Developed countries	35.3	27.6	27.8
	Developing countries	49.6	60.4	58.5
B.	Average import penetration (%)			
	from developing countries			
	MFA I	34.9		
	MFA II	36.4		

Source: based on R. Anson and P. Simpson, (1988) *World Textile Trade and Production Trends* (EIU Special Report, No. 118).

However, on the basis of the test of a protected product outlined above rather a different picture emerges in that in the period 1973–82 (roughly the life cycle of the first two MFAs) import penetration of the UK market rose from 11% to 35% (ONS, 1994, p. 231) during which period apparel consumption in real terms (at 1980 prices) rose by 23% but UK output (see Table 2.1) rose only very slowly. Moore (1999, p. 269) observes that, in the period 1978 to 1988, ‘in spite of restriction by MFA quotas import penetration in the clothing industry rose from 25% in 1978 to 39% in 1988’ and it has continued to rise ever since. Between 1975 and 1983 imports of apparel to the UK (in real terms) rose by 105% while consumption rose by 40%.

On the other side of the argument it can be demonstrated that the number of products and suppliers subject to restraint did rise over time and that (Dickerson, 1995, p. 349) ‘most of the major Asian suppliers utilise their quotas fully. The impact of quota control can also be seen in individual cases such as the 25% reduction of USA imports of newly restrained fibres between 1986–1988’.

Estimates of the proportion of trade under restraint vary greatly but Dickerson (1995, p. 347) estimates that, in 1994, 65% of USA textile and apparel imports were covered by restraints and that, globally, 35% of apparel trade was free of restraint, while only 40% was covered by the MFA. Evans (1995) reported that the MFA covered some 35% of world trade in apparel. Secondly, and linked to this fact, there have always been a number of major suppliers not subject to restraint so that in practice one of the major effects of the MFA has been trade diversion rather than trade destruction. Therefore, while the MFA did restrict imports from the controlled countries, there were so many other sources of cheap imports that trade supply increased from those sources so that the overall level of import penetration was able to rise. Khanna (1994, p. 22) confirms that EU imports from the preferential countries showed ‘sharp increase under MFA III, e.g. Turkey, Morocco, Tunisia, Egypt, Malta and Cyprus’.

It is significant that Wolf (1984), while being mainly concerned to stress the costs of protection and confirming that the MFA did ‘appear to achieve what is intended, namely a curb on the growth of imports from restricted suppliers’, pointed out that growth rates into the EU (1976–81) were much higher for the smaller countries and that this allowed developing countries as a whole to increase their share of both EU and USA markets. Wolf’s conclusion was (1984, p. 194) that ‘purchases are likely to be diverted towards the most competitive unrestricted producer’.

Moore (1999, p. 269) argues that trade diversion is indicated by the fall in Hong Kong’s share of the UK market and the associated rise in the proportion taken by other less developed countries from 21% to 29% over the same period (1974–1987).

In conclusion, therefore, the most likely explanation of the apparent para-

dox is that a substantial proportion of trade remained unrestricted, which mitigated the impact of the MFA and allowed penetration of the so-called protected markets to rise substantially. Spinanger (1996) shows that the proportion of developed country imports emanating from ‘new’ suppliers rose sharply over time, which could support the above hypotheses. In so far as trade was diverted to the second best suppliers, this production was relatively costly, so that the existence of costs of protection was not necessarily incompatible with the existence of rather mild levels of protection. This issue will be considered in the next section.

(iii) The costs of protection

If it is accepted that free trade generates the maximum global benefit then it follows that restrictions upon trade must represent a sub-optimal situation, i.e. all forms of protection involve costs as well as benefits. These costs normally fall upon the consumer and can be demonstrated by reference to Fig. 9.1.

The basic concept involved in any calculation of the cost of protection is that

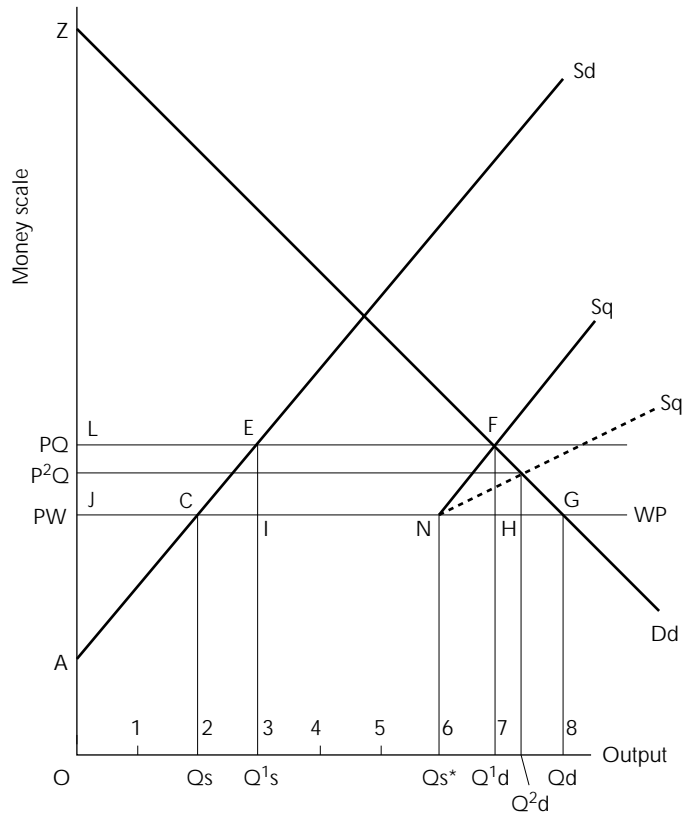


Fig. 9.1 The impact of a quota.

of consumer surplus. This is defined as the difference between what the consumer actually pays to consume a given volume of a product and what they would have paid if they had been charged a different price for each unit. This is represented by the area beneath the demand curve or the area ZGJ in Fig. 9.1. The problem with trade restrictions is twofold – first, that some of this surplus is captured by producers or the Government and, secondly, that some of it is simply dissipated by the inefficiencies introduced by protection. The former is usually called the cost of protection while the latter is known as the ‘dead weight loss’ of protection. The former generally exceeds the latter. In Fig. 9.1 the cost to consumers is represented by LFHJ. EFHI is transferred as quota rent to producers or agents while ECJL represents extra revenue to producers from higher prices. This, it will be clear, leaves the two areas ECI and FGH which have simply evaporated into thin air. These represent the ‘dead weight loss’, i.e. a loss to the global economy introduced by inefficiency. The former represents the relative inefficiency of the (increased) local production under protection while the latter represents loss of consumer surplus brought about by the fall in consumption from Q_d to Q^1_d . On the other side of the coin it can be seen that the domestic industry has expanded from Q_s to Q^1_s under the protection offered by the quota.

The output generated by the local industry also rises from $OQ_s \times PW$ to $OQ^1_s \times PQ$. The gain is shown by LECJ some of which obviously represents wages earned by workers whose jobs would have been lost in the absence of protection. Therefore, the gain to the labour force from the protection is some proportion of LECJ. Given that the whole of LECJ is much smaller than the costs of protection represented by LFHJ it is easy to see why opposition to trade restrictions grows. Theoretically LECJ could only equal LFHJ if S_d and D_d were *extremely* inelastic. The estimates of the size of these benefits relative to the costs will be considered below.

A large number of calculations have been made of the cost to the consumer consequent upon the protection of the textile and clothing sectors in, for example, Sweden, UK, USA and notably, Canada. These studies are summarised in Dickerson (1995) and Wolf (1984). Somewhat surprisingly there have been far fewer detailed estimates of the actual level of protection afforded to the sectors, although clearly there is an implication that the two things are positively related, i.e. a high level of effective protection must, by definition, lead to more cost than a low one. Unfortunately, in this case there does seem to be a mismatch between estimates (such as they are) of the degree of protection and the estimate of the costs of protection which have been given great prominence in the battle to remove the MFA.

The results of the estimates of the costs of protection are summarised in Table 9.2. In addition, Singleton (1997, p. 179) quotes a global figure for both textiles and clothing of \$15 billion. In the case of the UK, Silberston (1984) put

Table 9.2 The costs of protection – the apparel sector.

Costs of protection		
Country	Year	Cost (\$ million)
USA	1984	8,500–12,000
USA	1984	18,000
USA	1984	13,000
Canada	1984	923–1462
Australia	1980	235*

Dead weight loss		
Country	Year	Cost (\$ million)
Canada	1979	92
Canada	1984	73–356
EU	1980	1409
USA	1980	1509

Source: Dickerson, K. (1995), Tables 14.3 and 14.4.

- Notes: (1) * In dollars per household.
 (2) Dead weight loss is defined above as the loss of consumer surplus brought about by inefficient production plus the reduction in overall consumption.

the cost to consumers at some £500 million and in a later study (Silberston, 1989) estimated that the MFA had added 5% to UK apparel prices. Trela (1990) argued that the global gain from the elimination of restraints would be \$23 billion.

One of the best known studies was that by Jenkins (1982) for Canada. The total loss to the Canadian consumer was estimated to be \$107.5 million, of which 38% was due to the existence of quotas; 43% to inefficient use of resources and 19% due to the enforced reduction of consumption following the effect of price increases generated by the protective devices.

As has been seen from Fig. 9.1 there will also be some ‘winners’ in that some jobs were saved – as has been stated above some proportion of the area LECJ represents wages paid to employees who would otherwise most probably have lost their jobs. Unfortunately, the number of employees in the sector in most developed countries was by the mid to late 1980s very small relative to the number of consumers, so it was very difficult to envisage circumstances in which their gain (part of LECJ) could go anywhere near matching the loss to consumer represented by LFHJ. The result is that all the studies of the costs and benefits of protection concluded that the former substantially outweighed the latter. Cable (1982, p. 235), for example, quotes an estimate for the late 1970s of dead weight losses of seven times the benefits, concluding that the gain

from the removal of restrictions far exceeds 'any plausible estimate of the employment costs'.

Jenkins (1982), in his study of the Canadian economy, estimated that the gain to domestic producers from protection was approximately \$267 million or roughly half the cost to consumers. These estimates are all of a static nature and it is even more difficult to calculate the dynamic effects of protection on the economy. Cable (1982) argues that the relative absence of protection to the German textile industry acted as a spur to their adoption of offshore production strategies while in the UK the dynamic effects of protection were never sufficient 'to permit re-exposure to competition from low wage economies'.

In an attempt to calculate both the dynamic and macro-economic impacts of protection of textiles in the UK, Cable (1982) used the Cambridge Growth Model to simulate the impact of restraints. The results did not support the protective argument and that although 'the assumptions made (in the model) are somewhat favourable to a protectionist outcome ... it is ... all the more significant that the textiles case gives a generally negative result.'

It was also shown that the tariff equivalent level of protection required simply to hold the degree of import penetration at a steady level in the case of apparel in the UK in 1990 would have been extremely high at 55%. This is twice as high as the estimated (Evans, 1995) level of MFA quotas and provides further support to the contention made above that the actual overall level of protection afforded to the sector was, in fact, rather low. There is, therefore, a second paradox to be resolved: why should the estimates of the cost of the MFA be so high and so aggressively promoted if the actual protective impact on trade flows and prices was, as has been suggested above, rather weak?

A number of explanations may be put forward to reconcile this apparent conflict. First, it has to be recalled that the proportion of trade under MFA restriction has generally been relatively low – many unrestricted, low cost suppliers to the EU could be located such as Bangladesh, for example. The effect of the existence of uncontrolled low cost producers on the outcome can be illustrated inserting a new supply curve Sq^2 in Fig. 9.1. This represents the behaviour of preferential suppliers: their existence has the effect of increasing the elasticity of the supply curve and mitigating the price increase caused by quota controls so that prices rise only to P^2Q rather than to PQ . The market now only shrinks to Q^2d , not to Q^1d .

In the free trade situation the total market was 8 of which imports supplied 6 and domestic producers 2. In the quota controlled situation imports fell to 4 and domestic output rose to 3. However, if preferred, low cost suppliers exist then imports under control stay at 4, domestic production rises (less) to 2.5 and the preferred sources supply 0.5. The loss to the consumer is much reduced as prices rise less and consumption falls less than under the previous scenario.

Secondly, the methodology whereby the cost estimates were reached could

be suspect. While it is always true that the inability of economists to conduct controlled experiments raises difficulties in conducting statistical tests, it seems, to the present author, that in the particular context under discussion this is not a major issue. The studies used a variety of standard econometric devices and often employed quite sophisticated economic models. It is true that if, for example, estimates of demand and supply elasticities were changed this produced rather large swings in the cost estimates. It has to be accepted that the cost figures were produced by extremely thorough and respected methodologies. Therefore, the main explanation for the apparent paradox probably lies in the actual size of the cost estimates relative to the absolute size of the economies involved, e.g. in the case of the UK (in the mid-1980s) the Silberston figure represented some 0.17% of GDP and 0.25% of total consumer expenditure.

In the final analysis, the argument that the costs of protection were unjustifiable carried the day. In De La Torre's (1986, p. 220) words, 'the job preservation strategy proved to be extremely costly and ineffective in maintaining employment'.

The political will to maintain the MFA was slowly eroded. In particular, a survey of the literature suggests that the EU's view gradually swung from the protective to the liberal. Khanna (1991, p. 128) described the EU's position in 1981 prior to MFA III 'as the most protectionist of all' but by 1986 he described their stance as 'liberal'. The lack of political support for the sector is not surprising given the increasingly marginal contribution it makes to the economy, as outlined in Chapter 1. Moore (1999, p. 217) contrasts the view taken on the cost of the MFA with that taken on the Common Agricultural Policy in the EU which is estimated to cost £134 per person per year in the UK (roughly £6 billion per year) despite which 'consumer pressure groups do not appear to have exerted much influence; the population at large seems scarcely aware of how high food prices are compared with international prices'.

In the case of the USA also, Khanna (1994) pointed out that the textile lobby weakened significantly in its political impact between 1986 and 1994. In addition, the developed countries producers were increasingly turning (other than in the UK) to the exploitation of offshore production as a method of regaining some competitive advantage so that the existence of quotas became seen as more of a hindrance than a benefit. In Anson's (1992, p. 13) words:

'a few firms in the West are glad to see the back of MFA. And even some of its supporters now question its value . . . at a time when technology needs to grab all the opportunities it can for keeping costs under control . . . [another] argument against retention [of the MFA] has emerged as the industry has become more international. To maximise their competitiveness, more and more companies in the UK are chasing an optimal mix of own manufacturing and buying in . . . MFA quotas can get in the way . . .'

As late as 1986, De La Torre (1986, p. 136) could write that the official EC view was that 'a return to free trade . . . remains a very unlikely eventuality' and yet, for the reasons explained above by the start of the Uruguay Round in 1986 this item was at the top of the agenda.

(iv) The phase out arrangements

The Uruguay Round was eventually concluded in Geneva on 15 December 1993. The Final Act of the Round (ATC, 1995) was signed in May 1995. The Agreement (of December) sets out (GATT, 1994) 'provisions to be applied by members during a transition period for the integration of the textiles and clothing sector into the GATT 1994' (Article 1, para 1).

This is a logical result of the Punta Del Este agreement that 'negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT'.

The Agreement sets out the steps by which the MFA is to be phased out, thus re-integrating textiles and clothing into the GATT system over a period of ten years. The system of bilateral quota control of trade flows will be terminated. In addition, textile exporting countries are required to reduce their own barriers to imports from other countries. As soon as the Agreement was ratified each signatory:

'shall integrate into GATT 1994 16% of the total volume of imports in 1990 of products with Annex (which defines the products covered by the Agreement) in terms of HS (Harmonised Commodity Description and Coding System) lines or categories' (Article 2, para 6).

The text of the Agreement does not specify which products must be freed from quota control in this way, implying that each country can select which products to free provided that, in total, the categories selected total at least 16% of the volume of imports in 1990.

The rest of the products have to be integrated into GATT (i.e. have quotas removed) in three further stages:

- (1) on the first day of the 37th month that the Agreement is in effect 'products which, in 1990, accounted for not less than 17% of the total volume of 1990 imports' (Article 2, para 8A);
- (2) on the first day of the 85th month that this Agreement is in effect, products which, in 1990 'accounted for not less than 18% of the total volume of 1990 imports' (Article 2, para 8B);
- (3) on the first day of the 121st month 'the textiles and clothing sector shall stand integrated into GATT 1994, all restrictions . . . having been eliminated' (Article 2, para 8C), i.e. the last 49% will be removed from quota.

These percentages and timing are minimum requirements and the Agreement does allow an earlier removal of controls if countries desire this. It will be realised that the percentages given above through the above stages sum to 51% of volume of 1990 trade and that, by themselves, these removals from control cannot take us to the total elimination of controls – particularly as it is probable that the volume of trade has grown since 1990 in most cases. At each stage of the removal of restraints it is clear that some products (a declining number) remain under quota control. The base levels for these controls will be the levels obtained the day before the final signing of the Agreement (May 1995). During the first stage of quota removal (i.e. in the first 36 months):

‘the level of each restriction (i.e. size of quota ... in force for the twelve month period prior to its entry into force (i.e. prior to final agreement) shall be increased annually by not less than the growth rate established for their respective restrictions, increased by 16%’ (Article 2, para 13).

Thus, if a remaining quota was, under the existing arrangements, due to rise by (say) 2% annually, it would now rise by 2.32 % annually, i.e. 2% plus 16% of 2%. Finally, along the same lines a similar adjustment to growth rates will be made in stages 2 (37th to 84th month) and 3 (85th month to 120th month) in that annual growth rates of quota on those products remaining under quota control will be increased by 25% and 27% respectively. In our example, therefore, the (now) 2.32% would grow to 2.9% and 3.68 pa respectively.

Unfortunately, the interpretation of these higher growth rates is not clear. The Americans argue that quotas will increase by the normal rates over the base rates. Others argue that growth will be compounded annually. These two interpretations give greatly different results.

It is further stated that flexibility provisions of ‘swing, carry over and carry forward applicable to all qualitative restrictions in force ... shall be the same as those provided for in bilateral agreements’ prior to the final signing of the Agreement (Article 2, para 16).

The Agreement also makes provision for the termination of quantitative restrictions which may have been developed outside the MFA. Most countries using the MFA have examples of such restriction, e.g. UK and China. It is stated that:

‘within sixty days following the entry into force of this Agreement, members maintained restrictions on textile and clothing (other than restrictions maintained under the MFA – whether consistent with GATT 94 or not, shall (a) notify them in detail to the Textiles Monitoring Body or (b) provide to the TAB notifications with respect to them which have been submitted to a ... other Multilateral Trade Organisation’ (Article 3, para 1).

All these restrictions must either be:

- (1) 'brought into conformity with the GATT 94 within one year ...' or
- (2) 'phased out progressively according to a programme to be presented (within) six months' (Article 3, para 2).

The text of the Agreement then moves on to deal with items such as falsification of the country of origin which importing countries (such as the UK) have always considered to be a flaw in the MFA system. The Agreement states that:

'circumvention by trans-shipment, re-routing, false declaration concerning ... place of origin ... frustrates the implementation of this Agreement to integrate the textiles and clothing sector into the GATT 1994. Accordingly, members should establish the necessary level provisions ... to address and take action against circumvention'. (Article 5, para 1)

If a mutually satisfactory solution cannot be found, the matter can then (para 2) be referred to the TAB for 'recommendations'. In Article 4, para 4, it states that if such actions can be proven, various steps can be taken against the guilty party, e.g. denial of market entry and introduction of restraints against all countries involved.

Article 6 deals with transitional safeguards (during the transition period) for importers, i.e. things which could be done during the phasing-out period 'to protect' sectors which are suffering severe problems as imports rise. This is covered in Article 6, para 2, by the statement that safeguard action may be taken if:

'it is demonstrated that a particular product into its territory in such increased quantities as to cause serious damage or actual threat thereof, to the domestic industry producing ... directly competitive products'.

It must be noted, however, that a member state would have to prove that the damage was caused only by the increased imports and not by other factors, such as technological change or changes in consumer preferences.

Finally, the vexed question of reciprocal access to the domestic markets of the exporting countries is dealt with in Article 7. The Agreement states that all members must take such action as is necessary to:

- (1) achieve improved access to markets for textile and clothing products;
- (2) ensure the application of policies relating to fair trade in textiles and clothing.

Many Western commentators believe the reciprocity clause is weak, and argue that it should have been specifically linked to the quota phase-out programme, although in practice this is being achieved. The UK, for example, is not freeing trade with India from quota for this reason.

The final sentence of the text states that after the ten year period, textiles and clothing will be integrated into GATT and that there 'shall be no extension'. It is clear then that plans must be made for a new trading environment free of quota restraints, i.e. strategies need to be reconsidered; even if it is agreed (as was suggested above) that the real level of protection was somewhat low, no-one has argued that there was no protective effect. As Anson (1966, p. 6) stated, integration has a finality about it.

A note of dissent is voiced by Spinanger (1996, p.91) who argued that because a large percentage of trade (49%) remained under quota until the very last day of the agreement 'there is a potential danger that this embodies the seeds of a new round of protectionism' although there does not seem to be any evidence to support this conclusion.

This is confirmed by Majumdar (1996, p. 35) who notes that 'once a product category has been integrated importing countries are not permitted to re-introduce quotas restricting imports of that product.'

Although it is true that tariffs remain relatively high, this would not seem to constitute a basis for any optimism that some form of protection will be reintroduced simply because, since 1974, this has been the rule. It is somewhat surprising, therefore, to find that Barton (2000) in a survey of practitioners found that there was a general feeling that 'something will be done' to replace the MFA. This confirmed the findings of an earlier survey by Jones (1997) which uncovered a similar situation in the north west of England in that 31% of respondents had never heard of the MFA, while 92% had no specific plans in place to deal with the consequences of the re-integration process. It is recognised that both surveys were small, but the state of affairs revealed compared unfavourably with the responses obtained to similar enquiries in, for example, Hong Kong, as revealed by Moon (1999, p. 164) who found that most companies had anticipated the removed of the MFA in making future plans and concluded that the view of the Hong Kong industry was that:

'the demise of the MFA will, inevitably, change the current disposition of the global textile and clothing trade, which, in turn, provides opportunities and challenges for the MFA exporting members. There is little question that those clothing manufacturers striving for future success should re-examine their marketing approaches in order to fit in with the new trading arena.'

The remarkably flexible mindset of the Hong Kong industry is further revealed by Au (1999) in his review of the overseas investment policies of the Hong Kong industry over time which, he concludes, 'represents a *continual* pursuit for advantageous overseas locations both in terms of quota availability or market access and lower production costs.' Ignorance of the changing nature of the trading environment and/or faith that 'something will be done' hardly appears a responsible response by comparison.

While the phasing out of the MFA is the major change taking place in formal trade arrangements affecting apparel trade, it is not the only one. The EU has, for example, already signed agreements of association with most of the countries of Central and Eastern Europe in anticipation (EU, 1998) 'of their eventual accession to the EU. Textile quotas on imports from these countries are already high and will be *abolished completely in the next few years* so rarely present an obstacle to trade.'

These countries include Poland, Hungary, Bulgaria, Romania and the former Czechoslovakia. It will be recalled from Chapter 5 that Romania has already entered the list of the UK's leading low cost suppliers while imports from Poland had risen by a factor of 4 between 1996 and 1997. At the end of 1999 (Helm, 1999) it was agreed that talks about accession of Slovakia, Romania, Bulgaria, Latvia, Lithuania and Malta should start in 2000. The Union is already holding accession discussions with Poland, Hungary, the Czech Republic, Cyprus, Slovenia and Estonia – all very low cost suppliers. As the EU (1998) states:

'just like other GATT countries, these countries will benefit as the EU gradually receives products from the scope of its quota regime pursuant to its GATT Uruguay Round commitments.'

There are a number of ways of regarding these trends. On the one hand they could be seen as a great threat – a sort of Trojan Horse, which invites low cost sources into the EU itself; on the other hand it could be argued that given that in most cases the trend since 1987 has been to gradually allow increasingly free access, the shock following full access will be correspondingly reduced. Either way the trend represents another source of increased competitive pressure, e.g. the relationship of the EU to Turkey is important in that customisation arrangements began in 1996. The issue of Eastern Europe is further complicated by its value as an emerging market rather than just as a low cost production centre, as will be seen in Chapter 11.

The entire thrust of current EU textile policy is one of liberalisation. The *official* view (EU, 1998) is that this will not be the most important factor affecting the competitive position of the EU textile/apparel sector because it is estimated that only 30% of textile trade by value is affected by liberalisation policy. The present author would argue that this official view is not obviously shared by expert commentators such as Khanna (1994) or Majumdar (1996, p. 31) who argued that:

'the phase out will have a significant impact on the pattern of extra-EU trade and sourcing over the next nine years. It will also have major impact on the evolution of the EU's textile policy'.

The present author would also contend that – in so far as they are aware of the situation – this is not the view of UK industrialists, although he would accept

that some of the surveys of opinion have been small. For example, Barton (2000) found that the removal of the MFA was felt to be the most important factor influencing future company strategy.

(v) The phase out process in the UK

It will be apparent from the phase out timetable above that Stage Two has now been completed and Stage Three is upon us. In the words of the WTO (1998, p. 23):

‘the integration of clothing and textiles under the Agreement on Textiles and Clothing has continued with the second stage underway from 1 January 1998. In the first two stages a total of 33% of members’ textiles and clothing imports was brought under GATT 1994 rules; where the integrated products were subject to quota these were removed. The third stage of the integrative process ... reaching 51% of imports by volume, will begin on 1 January 2002. Growth rates of the remaining quotas have also been increased at the beginning of each of the first two stages.’

In Stage 1 of the phase out the majority of the products freed from quota were non-sensitive items – see Fig. 9.2. In Stage 2 the UK phased out quotas on 23 categories of which eight were under restraint and most were in the non-sensitive groups – see Fig. 9.3. Therefore, the impact likely to have been felt is liable to have been small, which might offer a partial explanation for the calm with which UK companies were, seemingly, viewing the process. In Stage 3 (2002), of course, the phase out must by definition start to bite into more sensitive categories – as can be seen from Tables 9.3 and 9.4. As Anson (1993) puts it:

‘while the products liberated from quota so far were never really restricted in the first place, the next phase of quota integration after 2002 is likely to see the liberalisation of real quotas.’

It has also to be re-affirmed that, as was seen above, the most spectacular



Fig. 9.2 MFA phase-out – UK – stage 1.

Woven handkerchiefs
Synthetic yarn
Corded/combed wool
Carpets
Narrow woven fabrics
Knitted fabrics
Knitted accessories
Synthetic tights
Swimwear
Knitted ensembles
Woven workwear
Woven ski suits
Woven scarves
Corsets
Woven gloves
Woven socks
Tents
Non-woven fabric
Laminated fabric
Mattresses
Camping goods
Staple fibres

Fig. 9.3 MFA phase-out – UK – stage 2.

Table 9.3 Percentage trade (1990) still under restriction.

	Textile and clothing (%)	Apparel only
Group 1	33.5	13.2
Group 2	18.1	12.3
Group 3	9.6	0.4
Group 4	0.2	—
Group 5	4.4	—

Source: Private correspondence with DTI.

Note: This means that apparel products in Group 1 total to 13.2% of the base against which the percentage needed to re-integrate the sector will have to be found in order to meet the Treaty obligations. The next stage requires this percentage to total to 18%.

growth of imports into the UK in recent years has come from countries not under MFA restraint, such as Turkey and the CEEC countries with which the EU has negotiated preferential agreements.

The position of China in the future is both important and somewhat problematical, as was stated earlier. China was not a member of GATT and, as a consequence, not a participant in the phase-out so restraints may remain. However, if, as is likely, China does join the WTO this would no longer be the case. The position of Hong Kong is also of interest. An agreement has been

Table 9.4 MFA phase-out: the current situation.

	Category	% of (1990) trade still under restriction	Number of restricted countries	Restricted countries as % of trade	Average quota utilisation (top three suppliers)	Quota utilisation (top five suppliers)
Group I	4 (T shirts)	2.8	16	24.2	89	66–100
	5 (Jerseys)	2.5	15	37.6	98	72–100
	6 (Trousers)	4.4	17	30.8	97	90–100
	7 (Blouses)	1.2	16	41.6	90	29–99
	8 (Shirts)	2.3	16	35.9	84	61–100
Group II	12 (Tights)	0.6	8	17.3	75	28–100
	13 (Pants)	0.6	9	47.9	84	9–100
	14 (Men's overcoats)	0.4	4	40.9	50	1–87
	15 (Women's overcoats)	0.9	9	24.3	92	16–99
	16 (Men's suits)	0.5	7	30.3	33	1–33
	17 (Men's jackets)	0.4	3	33.5	86	0–86
	18 (Nightwear)	0.7	7	55.1	59	7–100
	21 (Parkas)	1.9	12	58.0	78	30–100
	24 (Pyjamas)	0.9	9	45.2	80	1–100
	26 (Dresses)	0.6	12	41.6	89	19–100
	27 (Skirts)	0.7	7	15.2	55	17–79
	28 (Overalls)	0.5	5	33.0	71	44–100
	29 (Women's suits)	0.6	7	40.6	45	1–78
	31 (Brassieres)	0.2	6	37.0	68	51–100
	68 (Babies clothes)	0.8	5	39.1	56	14–96
73 (Tracksuits)	0.7	9	34.4	53	22–91	
78	1.2	6	45.5	57	13–99	
83 (Overcoats, jackets)	0.3	7	47.2	73	45–100	
Group III		0.4	7	43.8	80	43–100

Source: Private correspondence with DTI.

made that Hong Kong and China can be treated as separate entities for textile trade issues for 50 years after 1997. This will mean that until China joins the WTO, quotas will be progressively removed for Hong Kong and remain for China.

Quotas are (since 1993) set on an EU-wide basis. Quota removal is organised by the Article 113 Textile Committee which operates on the principle of qualified majority voting. The UK has ten votes out of 87, therefore, in principle, it is possible for a particular member state to determine which products are phased out and/or the balance between garments and textiles if it can carry sufficient votes.

Reciprocity is still a large problem as is exemplified by the fact that the EU did not phase out any restricted categories in Stage 1 and explains why the EU did not include India and Pakistan in the phase-out arrangements in Stage 2.

The phase-out arrangements in the UK have by definition to be seen within the context of overall EU trade policy towards the sector. The EU currently has 49 agreements with other countries and has imposed quotas on four others (Bosnia, Croatia, Macedonia and North Korea). The EU has MFA bilateral agreements with 26 WTO members covering some 160 categories of products. The EU's textile trade policy is based on distinguishing between various types of country, as follows:

- (1) Preferred countries, such as Tunisia and Morocco.
- (2) Lomé Convention members, such as Mauritius.
- (3) The Least Developed Countries, such as Bangladesh.
- (4) EFTA members.
- (5) OECD members.
- (6) Autonomous regimes, such as North Korea.
- (7) Central and Eastern European countries.
- (8) WTO registered countries.
- (9) China and Taiwan.

In brief, categories 6–9 are restricted although there are also some tariffs applied to OECD members (Majumdar, 1996). In addition, restraints on Central and Eastern Countries are very weak and, in most cases, in the process of being removed. Moore (1999, p.279) confirms that 'in comparison with the MFA developing countries the CEEC countries receive preferential treatment'. In practice duties and quotas on goods from the CEECs will have been virtually phased out by the end of 2002.

In principle there are no formal quotas on imports from Turkey which, in 1994, was the EU's biggest supplier of clothing in value terms (Majumdar, 1996, p. 46). Morocco and Tunisia were the third and fourth major suppliers. In fact, with the notable exception of China and Hong Kong, the favoured supplying regions rank highly as major suppliers both in value and volume terms.

The view taken of this process of liberalisation as it enters its critical stage obviously depends upon the views of various interest groups. Coster (1996, p. 131) reports the sharply diverging views expressed by importers who were 'at pains to defend their textile and clothing industries' and those of the exporters who 'expressed their disappointment at the delaying tactics of the main importing regions'. It is clear from Table 9.4 that the possibility of further delay is now remote. The categories of apparel remaining under restraint include the sensitive items which, by definition, will have to be used to meet the obligations under the agreement.

The general picture seems to be that most product categories represent rather small proportions of the total remaining under protection and that the percentage of trade represented by restricted trade is generally less than 50%.

However, the degree of quota utilisation is in most cases rather high, especially in the case of China. The inescapable conclusion must be that the period up to 2005 will be one of ever increasing competitive pressure from imports and that future strategies must be based on an unrestricted trade scenario. As Khanna (1994) pointed out, even the American textile lobby which was at its strongest in 1986 had weakened significantly by 1994.

It is extremely difficult to be precise as to the relative impact of the anticipated increase in competitive pressure on the sub sectors of the industry. Jiwa (1994) attempted to assess, for the UK, which product categories had the most to fear from trade liberalisation and identified ski suits, swimwear, blouses, women's overcoats and parkas as falling into that category. As can be seen from Table 9.4, three of these items are still protected. Jones (1988b) identified (see Chapter 3) a number of product categories in which negative links between imports and UK production were appearing, e.g. skirts, overcoats, trousers and t-shirts. Most of these remain under protection prior to Stage Three.

(vi) The impact of quota removal on company strategies

It is clearly the case that the actual impact (as opposed to the theoretical) of the removal of a trade barrier will greatly depend on how effective the barrier was in restraining trade. This is a vexed question in that some experts argue that the MFA was effective – Scheffer (1992), for example, argued that this was the case between 1976 and 1986 – while others point to the fact that many quotas were never fully utilised as evidence that they did not 'bite' and were correspondingly ineffective (Curran, 1995). This argument is even further complicated by the contention of Khanna (1991) that quotas could, in fact, still be effective at restraining exports from the low cost countries even when quotas were not fully taken up because administrative inefficiencies often resulted in potential exports being unable to take up spare quota. The majority view seems to be that, with the exception of MFA I, the system did act to slow down the growth of exports from the low cost producers into the developed countries and it will be assumed in subsequent discussion that the MFA was mildly effective in restricting trade and that any review of options must assume that liberalised trade flows will be greater than those which took place under the system of managed trade. The conclusion which might be justified by imperfect evidence is probably that expressed by Zeitlin (1988) that the UK engaged in a 'mild form of protection after 1974'.

Anson (1994), for example, concluded that there was no doubt that 'import penetration in the West would have been higher without the MFA' while Winterton (1996, p.38) likewise argued that the MFA 'has affected some protection to the UK clothing industry'. Therefore, it must be assumed – especially in those instances where quota utilisation is very high – that imports

into the UK will rise as the MFA is progressively removed. UK-based producers will face ever more severe competition from low cost sources with consequent effects on output and employment.

In addition to exposing Western producers to more competition, it is probable that further trade diversion effects can be anticipated. As Khanna (1994) observed, the agreement 'will have a major impact on the pattern of world clothing and textile trade'. Companies sourcing offshore will be more able to optimise their production locations. The impact of trade liberalisation will vary as between interest groups. The view of Evans (1995) is that the big winners will be the consumers in developed countries while the major losers will be domestic producers in high wage locations.

The impact of quota removal on a domestic industry might be indicated by the experience of countries which have gone through this experience such as Australia and Sweden. Van Acker (1997) studied the Australian example and concluded that, following the announcement in 1987 of a plan to phase out protection, employment and production had steadily declined while import penetration climbed remorselessly. Jones (1990, p. 36) found that, in the case of Sweden, 'deregulation . . . increased competition between suppliers' and prices fell. Sung (1994) found that after three years of free trade in Sweden, imports from China had doubled.

Finally, developed country producers should be able to secure easier access to the emerging markets in the developing countries provided that the reciprocity provisions are delivered. This will be considered in Chapter 11.

The great unknown is the future of China. As Khanna (1994) expressed it, quotas are likely 'to remain on China, which is not a GATT member, but if its application for membership is successful, China unrestricted by quota could end up supplying 60–80% of Europe's and the USA's import volume'. China has now been accepted for membership of the World Trade Organisation.

B. The role of exchange rate fluctuations

(i) Introduction – the theory

One of the major differences between domestic and international business transactions is the impact of exchange rate fluctuations on income, costs and profits. An exchange rate is the number of units of one currency which can be exchanged for a second, e.g. if £1 buys \$1.80 then the rate is 1:1.8. If the rate changes so that £1 buys more of the second currency (e.g. £1 buys \$2) then the pound is rising in value (and the dollar is by definition falling). Alternative terms for rising are strengthening or appreciating while a falling currency can also be said to be weakening or depreciating. A model of exchange rate fluctuation is given in Appendix C. Therefore, a rising pound against the dollar

makes UK exports to the USA (or anywhere else using the dollar) dearer, so that they should fall while simultaneously making imports from the USA into the UK cheaper. A falling pound has the opposite effect. Prices of products sourced offshore therefore depend partly on the local cost and partly on the cost of purchasing the currency required to pay for them. Exchange rate fluctuations can, therefore, be expected to influence trade flows including those which represent sourcing decisions. Since 1973 most major currencies have been free to move against each other. The sterling exchange rate is shown in Table 9.5 and the rate against the dollar in Table 9.6.

Anson and Simpson (1988) pointed out that the value of the dollar is particularly important to the evolution of trade flows in the textile and apparel sector because the ‘currencies of most of the Far Eastern producers are linked to it’. Scheffer (1992) likewise observed that some 75% of EU textile imports and 50% of exports are traded in dollars. The £ : \$ rate is shown in Table 9.6.

Table 9.5 Sterling exchange rate (1990 = 100).

Year	
1975	129.6
1978	107.2
1982	123.3
1984	111.4
1987	99.3
1990	100.0
1995	84.8
1998	103.9

Source: *Economic Trends* (1999 Annual Supplement, Table 5.1, p. 224).

Table 9.6 Sterling exchange rate against the US\$.

Year	\$ per £
1945	4.0
1950	2.8
1955	2.8
1960	2.8
1965	2.8
1970	2.4
1975	2.2
1980	2.3
1985	1.3
1990	1.8
1995	1.6
1998	1.7

Source: *Economic Trends* (1999 Annual Supplement, Table 5.1, p. 224).

Therefore, it is clear that the observed pattern of UK apparel trade and sourcing owes some part of its evolution to fluctuations in exchange rates. The pound was in effect devalued when the UK left the Exchange Rate Mechanism in 1992, but has subsequently enjoyed (or endured) a period of relative strength after 1995 although it weakened against the dollar in 2000.

Sterling was one of the strongest currencies in the period 1995–1999 during which period it rose by 33% (*Economist*, 2000, p. 143). It is important, however, to note that in the same period the dollar rose by 15% so that, while the pound has gained substantially against, for example, other major European currencies, it did not do so against the dollar (Table 9.6). This is important because a large proportion of trade in textile and apparel products is conducted in dollars and because of the impact a weak pound relative to the dollar has on labour cost comparisons (Jones, 2002).

As Moore (1999) observes, the UK's interest in exchange rate stability 'is as much with the rest of the world as with the EU'. As Segall (2000) noted, the pound was at a six year low against the US dollar in May 2000. It is vital that the trend in the currency is not used as an irrational explanation for all economic problems. When C&A announced the closure of its UK operations, for example, the unions involved stated that this demonstrated that the strong pound was hurting all sectors of the UK economy – but C&A was not exporting from the UK and sourced centrally from the Eurozone so, if anything, the strong pound should have helped the company, not damaged it!

(ii) The impact of exchange rate fluctuations

The major problem introduced by exchange rate fluctuations is the passage of time and the uncertainty this introduces. If fluctuations could be perfectly anticipated many of the problems would disappear. It is true that a number of forecasting systems have been developed but none has proven to be sufficiently reliable or accurate as to remove the element of uncertainty completely.

Exchange rate fluctuations can impact on a variety of business decisions and activities, for example:

- (1) Exporting.
- (2) Sourcing (or purchasing of inputs).
- (3) Raising finance and investment decisions.
- (4) Payment practices.

As was noted in Chapter 1, the UK apparel industry exports some 40% of its UK produced output. Therefore, the potential for exchange rate fluctuations to impact the prosperity of the sector is large. A strong pound makes exports from the UK into areas against which the pound is strong more expensive and, depending upon the elasticity of demand, will cause demand to fall. An issue of

current importance is that of the relationship between the pound and the euro. As Jones (1999, p. 205) pointed out, some 62% of the UK apparel exports go into the Eurozone. If the pound is strong against the Euro then this task becomes more difficult. The potential impact of the weakness of the euro against the pound is illustrated by the case of Toyota’s sourcing policy. Brogan (2000) reported that Toyota was increasing Eurozone sourcing at the expense of UK suppliers. Clearly, if the pound buys more euros then the cost to a UK buyer of supplies denominated in euros would fall over time. Toyota planned to force UK suppliers to trade in euros rather than the pound. In relation to the model set out later in Fig. 9.5 it must be noted that decisions need to be reversed because Toyota as the buyer was trying to protect its income.

It has been argued in Chapter 7 that offshore production or sourcing will become increasingly important in the future. Sourcing decisions can be influenced by changes in exchange rates in a variety of ways. Most importantly the basic choice of the cheapest supplying source can be affected. Figure 9.4 contains a simplified example of the issue. If it is assumed that the choice depends entirely on price then supplier A would be chosen on the basis of the rates prevailing today when the decision is taken (the so-called ‘spot’ rates). Payment has to be made at some time in the future at which point the rates in the bottom section of the table prevail and these would be called ‘forward’ rates. Clearly supplier B should have been selected.

Country A quotes	\$10 000
Country B quotes	60 000 francs
Country C quotes	30 000 D-marks
Exchange rates are	£1 = 2\$ £1 = 10 francs £1 = 4 D-marks
Rates change to	£1 = 1\$ £1 = 15 francs £1 = 3 D-marks

Fig. 9.4 Sourcing costs and exchange rate fluctuations.

Fluctuations in local rates against the currency used to settle accounts – which is frequently the US dollar – can also mitigate the impact of local inflation on costs. Table 9.7 illustrates this position in that it demonstrates how depreciation of domestic currencies in the Far East against the UK dollar could have the effect of maintaining competitiveness. In 1980–91, for example, although wages in China grew by 200% in local currency they only rose by 70% in dollar terms. In the same period costs in Indonesia, while rising by 89% in local terms, actually fell in dollar terms. A brief summary of the impact of exchange fluctuations on the textile complex appears in Dickerson (1995, p. 215).

Table 9.7 Exchange rates and inflation.

	Percentage change 1982–1992 Exchange rate	Local inflation
Turkey	– 237	+ 290
Philippines	– 34	+ 37

Source: *Textile Outlook International*, September 1993, p. 118.

Investment decisions can also be affected by fluctuations in exchange rates. On the one hand it can become very attractive for a company based in a strong currency zone to build capacity in a country with a weak currency if construction costs are paid in the local currency because the strong currency will buy vast quantities of the weak currency. On the other hand, the decision on where to raise finance can also be influenced by the relative strengths of different currencies. For example, the real cost of borrowing dollars in an overseas financial market is influenced not only by the rate of interest payable, but by the relationship between the dollar and the local currency if that is to be used for repayment. If the dollar is falling over time against the repayment currency, the cost of repayments would be rising each year.

There is some research evidence on the actual impact of exchange rate fluctuations on apparel trade flows. The evidence does not always confirm the predictions of the model in Appendix C. Clautier (1993), for example, indicates a very poor relationship between apparel trade flows between the EU and low cost suppliers and the strength of the dollar. Curran (1995) studied apparel trade flows between the UK and a variety of EU members (prior to the introduction of the euro). This research revealed that the theoretical implications of exchange rate fluctuations on apparel trade flows were only partially validated by the evidence. In the case of UK–German trade, for example, the pound was falling against the Deutschmark between 1985 and 1989, but UK apparel imports from Germany rose. The data on trade with the Eurozone (Chapter 5) does, for the most part, reveal the expected relationships as has been shown by Jones (2001). This would be further supported by, for example, Khanna (1991, p. 14) who commented that:

‘the particularly sharp rise in exports to the EC in 1987 is attributable partly to India’s exchange rate policy of allowing the rupee to fall with the US dollar, leading to a fall in the value of the rupee against major European currencies and resulting in enhanced competitiveness in EC markets’.

There may be a number of reasons for the existence of conflicting data: non-price variables may be important, for example, or effects may be lagged in time in a complex manner. It is likely that small and short-lived fluctuations can be ignored as is argued by Blyth (1996, p. 125) who contends that the evidence in

the textile sector suggests that ‘even quite large fluctuations in exchange rate can have little effect on the ranking of the countries’ so that ‘most fluctuations within one year make no difference to sourcing decisions’ but ‘year to year fluctuations can change the basis for the number of items which should be sourced or not and where they should be sourced’.

Finally, it must be noted that because much textile/apparel trade is conducted in US dollars it would be the case that any rise in the value of the pound against the dollar (or any weakness of the dollar against the pound) would magnify the advantages of offshore production as against domestic production. UK domestic apparel production would, accordingly, be exposed to the greatest adverse comparison with offshore alternatives should the removal of ‘real quotas’ between 2002 and 2005 coincide with a period of sterling strength.

(iii) The management of exchange rate issues

The basic aim of managing exchange rate risk is to protect company income and profits from the negative impact of exchange rate fluctuations and to ensure that income and profits are at least equal to what they would have been had operations been entirely domestic. There are two main types of exchange rate risk:

- (1) ‘Transaction risk’ refers to the possibility that the amount of receivables and payables invoice values from foreign transactions may change over time as rates fluctuate.
- (2) ‘Translation risk’ is the term used to describe events which cause the value of the balance sheet to change as rates fluctuate.

Companies which are open to these risks are said to be ‘exposed’ to exchange rate risks. This can be a particular problem if a company’s liabilities are more exposed than its assets. In particular, the worst scenario is that liabilities (spending) are in a hard/strong currency which is expensive to purchase in the (weak) domestic currency while income is in a weak currency which then translates into relatively small amounts of (strong) domestic currency – therefore, having a cost base in a hard currency and an income base in a weak one is a very unfortunate event.

It can be stated by way of a broad generalisation that offshore sourcing primarily directed by the search for low labour costs will result in the local costs normally being in weak currencies – but the problem may be that payment has to be made in a relative strong currency, such as the dollar.

One of the basic issues which will be faced is whether or not to follow a lead or lag policy. If a transaction is conducted earlier than is contractually necessary then it is called a lead policy and *vice versa*. In this context there is a basic difference between domestic and international strategies in that if a buyer

owes money to a supplier in a hard or rising currency it pays to lead and settle early. This is the opposite of normal business policy in a purely domestic situation, such as if a UK buyer has to pay \$200 to an American supplier and the dollar is rising (and the pound falling) from \$1 = 56p to \$1 = 71p (or from £1 = 1.79 to £1 = 1.41) then early payment would cost £112 while delayed payment would cost £143. If the UK company had to collect money owed to it in a foreign currency which is falling against the pound it would be vital to collect as early as possible. Thus, if \$300 is to be collected in three months during which time the £:\$ rate changes from £1:\$1 to £1:\$2 then collecting now would convert to £100 but collection in three months would generate only £50.

A related issue is the choice of currency in which the transaction will be conducted. The currency used to set the purchase price is known as the pricing currency. The currency in which the account is actually settled is known as the payment currency. If a buyer allows the price to be set in the seller's currency then the buyer is taking on the risk. If, for example, the buyer is in the UK and agrees to buy an item whose price is set at 500 000 Yen at £1:85Y and the rate changes to £1:75Y (the pound is weakening) then the UK buyer would have to find £66 667 to purchase the currency rather than £58 824 and the extra cost to the buyer would be £7843. The supplier still, of course, would receive 5 000 000 yen so has assumed no risk. If the transaction had been in pounds (say, to pay £58 824) all the risk would have shifted to the seller who would have received only 4 411 800 yen instead of 5 000 000 yen. If the bill were in yen and the pound rose, both supplier and purchaser would be all right. Why would the buyer accept the risk of paying in yen? According to Locke (1996) the reason could only be to receive a price discount.

Mathur (1982) has laid down some ground rules for setting the billing currency. These are reproduced as Fig. 9.5. It must be remembered that the aim in this case is to protect the income of the seller. The seller wishes to gain as much of his own currency as possible so that if a UK seller with a German customer expresses the invoice in D-marks when the D-mark is rising, then the D-mark received will convert into more pounds as time passes.

A number of financial instruments exist which permit the risks identified

	Seller in →	Hard currency	Soft currency
Buyer in ↓	Hard currency	Invoice in buyer's currency	Invoice in buyer's currency
	Soft currency	Invoice in seller's currency	Neutral

Source: Based upon Mathur, I. (1982), *Managing Foreign Exchange Risk Profitability*, *Columbia Journal of World Business*.

Note: If the buyer is in a hard currency while the seller is in a soft currency, the invoice should be in the buyer's currency, and so on.

Fig. 9.5 Currency of settlement decisions.

above to be minimised. The majority of text books recommend some form of hedging. In brief this shifts the risk to a bank upon payment of a fee. The simplest kind of hedging is known as forward hedging. If an exporter makes a £10 000 sale payable in the *customer's* currency in 30 days' time and the rate of exchange moved from £1:\$1.50 now to £1:\$1.40 over the period the seller would receive only \$14 000 not the expected \$15 000. This risk can be transferred, for a fee, to a bank by agreeing to sell to the bank £10 000 in 30 days at an agreed forward rate of £1:\$1.50. The exporter thus receives the expected \$15 000 less the fee. The bank will make equal and offsetting contracts to sell the same amount of currency it has agreed to buy in this transaction.

Locke (1996) argues against the use of hedging practices, favouring instead the use of currency options. This is the right to buy or sell (without obligation) a specified currency at a negotiated rate on a particular day. It is not a contract so that if its use appears questionable it can simply be allowed to expire. If, for example, a UK company is required to pay 50 million yen in six months when the spot rate is £1:85Y it is possible to purchase (for a set price) an option to buy in six months at the current rate. If the rate in fact changes to £1:80Y (i.e. the pound weakens) the option to obtain 85yen to the £ would be exercised. If the pound rose the option would be allowed to expire.

Locke (1996) demonstrates that the relative costs of managing exchange rate risk by a variety of techniques changes if the buyer's currency is rising. In this case buying at spot when needed is the cheapest option. If the buyer's currency is weak then this, in contrast, would be the worst choice and either an option or a forward purchase would be preferable. The problem is, of course, that there is no way of predicting with certainty which way the currency values will move. If the company is risk averse then options are cheaper than forwards if the buyer's currency rises.

Glaum (1990) argues that the management of exchange rate risks should be seen as a long-term strategic issue rather than as a short term tactical problem and that the tools to exercise this management should include the choice of products to be made, the sources of manufacture and purchase of inputs, and the selection of markets into which to sell.

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Chapter 10

The Economics of the UK Apparel Market

A. Introduction

The main focus of this book is the apparel manufacturing sector of the textile pipeline. The justification for the inclusion of a chapter on the fourth cell in the pipeline – the apparel market – is twofold. First, the pipeline is, as has been demonstrated, retail-driven and, second, some 60% of the output of apparel produced in the UK is retained for sale in the domestic market. The major aim of this chapter is to consider the role of economic factors in determining the size and structure of that market. However, it would be foolish and counter-productive to pretend that an understanding of the apparel marketplace can be achieved by reference to economic factors alone. In fact it is unlikely that the market for any consumer good could be explained in this way. As Chisnall (1985, p. 16) puts it, the complexity of ‘modern patterns of consumption demands sophisticated understanding; explanations based solely on economic theory are clearly inadequate. The other social sciences – psychology, sociology and anthropology – can provide extra valuable knowledge of buying behaviour’.

Many commentators argue that social and psychological factors are relatively more important in apparel markets than in others and that the apparel market is, in some sense, unique. This concern manifests itself in a variety of ways. The role of design provides a good illustration of this issue. Good design is clearly vastly important as a marketing feature in many product areas, in particular in those areas where product differentiation is the main route to competitive advantage, e.g. the Apple iMac computer. The subtle difference between these markets and the apparel market is that design or ‘fashion’ in the latter is frequently elevated to the role of an art form almost for its own sake. In addition, for largely historical reasons in the UK, design has been taught in art schools rather than marketing departments (Jones, 1997).

The danger this produces is that apparel designers and apparel marketing specialists tend to come from radically different academic and philosophical

cultures. This problem is compounded by the further difficulty that, as Sproles (1981, p. 123) observed during his study of the fashion cycle, there is a 'pervasive obstacle to scientific analysis', in that 'the fashion industry has a mystique . . . that fashion is not susceptible to science . . .'. Therefore, in order to provide a comprehensive review of contributions from a range of disciplines towards an understanding of market trends it is frequently necessary to move away from the positivist research tradition identified in Chapter 1.

It is, by way of an illustration, quite common to come across statements such as 'the fashion market is becoming more fragmented' or 'the speed of fashion change is increasing' without such statements being supported by objective, empirical data. This is not to argue that alternative research methods are wrong but it is important to recognise that they are different and that these differences do generate very real problems in model building and testing particularly when (see Section D) an attempt is made to combine two research philosophies in one model. The interface between competing research paradigms can often be an uncomfortable space to occupy.

Finally, it will be recalled that an early decision was taken to adopt the word 'apparel' rather than the word 'fashion'. In the context of this chapter it will be occasionally necessary to abandon this convention and revert to the use of the word 'fashion' in order to obviate the necessity to employ a cumbersome phrase to describe a change in style, design or colour in the marketplace.

The apparel market can be examined from a variety of perspectives:

- (1) The size and rate of growth of the market.
- (2) The structure of the market.
- (3) The process of consumer decision making expressed in the marketplace.
- (4) The speed of change in demand for various products. This might be closely linked to the issue of size of the market if, as is likely in the case of apparel, most purchases do not represent replacement of worn out goods, i.e. it is 'wants driven' not 'needs driven'.
- (5) The concept of the fashion cycle defined as the time elapsing from the introduction of a new fashion to its replacement.
- (6) The direction of, and mechanism whereby, new styles flow through society. This can be defined as the process of fashion change which has been defined by Davies (1992, p. 103) as a 'complex system of influences and interactions among people, institutions and organisations which animates the cycle'.

The decision to concentrate on economic issues has been taken mainly because this reflects the focus of the text, but also in the belief that while economics can provide a good base from which to study the first two issues listed above, it has very little useful to contribute to an examination of issues four to six. Issue three is extensively covered in general marketing texts such as

Chisnall (1985) and Schiffman (1994) while a brief summary in the context of the apparel sector can be found in Easey (1995).

B. The evolution of the UK apparel market

(i) Market size

The long term trend in consumer expenditure on apparel in the UK is shown in Table 10.1. It can be seen that the market grew very little between 1906 and 1938 – by only 28% in real terms. Rationing was introduced in 1941 and removed in 1948 so that by 1950 the market had recovered to its pre-war size. The emergence of an apparel market of the order of magnitude which was commonplace in the late 1990s can be traced not to the 1960s but to the period 1975–1990 during which period the market grew from 40%–70% of its 1999 size in value terms. The so-called youth market of the 1960s represented only some 30% of today’s apparel market which has exploded despite the fact that the population has been ageing rapidly since the early 1970s. The explanation would appear to lie entirely in the increasing wealth of the community and the incredible value for money represented by apparel in a period of steady inflation. As TMS (1996, p. 1) concluded, ‘the boom conditions of the late

Table 10.1 Expenditure on clothing in the UK 1900–1983 (in £ millions).

	At 1938 prices	At 1980 prices
1900	342	3,170
1924	366	—
1930	401	3,708
1935	425	—
1938	439	4,060
1939	447	—
1945	229	2,688
1948	432	—
1950	479	4,468
1955	491	4,698
1960		5,719
1965		6,555
1970		7,436
1978		8,350
1980		9,863
1983		11,683

- Sources: (1) Sigsworth, E.M. (1990) *M. Burton – The Tailor of Taste*. MUP, Manchester.
 (2) Mitchell, B. and Deane, P. (1962) *Abstract of Historical Statistics*.
 (3) *Economist* (1985) *Economic Statistics 1900–1983*.

1980s, supported by high earnings and personal disposable income, drove consumer expenditure to almost unheard of growth rates'. The most recent figures on expenditure in the UK by broad product category are shown in Table 10.2

Table 10.2 Consumer expenditure: changes in the pattern of consumption 1990–1998 (£m at current prices and percentages of total).

	1990		1998	
	£m	%	£m	%
Food	41,817	12.4	54,113	10.3
Alcohol and tobacco	30,009	8.9	41,577	7.9
Clothing and footwear	21,934	6.5	32,479	6.2
Clothing only	18,196	5.4	27,988	5.3
Furnishings	19,882	5.9	31,999	6.1
Housing	56,729	16.9	94,341	18.0
Transport	51,767	15.4	78,806	15.1
Health	3,559	1.1	6,186	1.2
Communication	6,485	1.9	10,835	2.1
Recreation and culture	35,733	10.6	58,485	11.2
Education	3,221	1.0	8,492	1.6
Restaurants and hotels	24,762	7.4	39,910	7.6
Miscellaneous services	40,166	12.0	66,149	12.6
Total	336,064		523,372	

Source: *Consumer Trends* (2nd Qu. 1999) ONS.

Note: In 1998 men's wear expenditure was roughly 48% of that devoted to expenditure on women's, girls' and infants' wear.

These reveal some quite encouraging trends in that the growth of expenditure on apparel has been quite impressive, e.g. between 1990 and 1998 it rose by 47% as against a 16% rise in total expenditure in real terms. It can also be seen (from Tables 10.2 and 10.3) that the proportion of expenditure devoted to apparel purchases has risen in real terms during the period 1990 to 1998. This is important because the accepted wisdom is that (*Retail Intelligence*, 1999) the trend has been steadily downward: in 1960 the proportion was just over 10% whereas at the end of the 1990s it had stabilised at around 6%. Unfortunately, the conclusion is sensitive to the basis of measurement – the long term decline shows up most clearly if measurements are conducted in current price terms, e.g. it fell from 9.7% in 1960 to 5.9% in 1990 (*Economic Trends*, ONS, 1999b) and from 7.7% in 1976 to 5.9% in 1995 (Curwen, 1997). In real terms, however, a different picture emerges: between 1980 and 1990 the percentage rose from 6.1% to 6.4% at 1985 prices (*Economic Trends*, ONS, 1999b) and in 1990 prices, from 5.3% in 1971 to 6.9% in 1995 (*Social Trends*, ONS, 1997, p. 108). As can be seen from Table 10.3, the percentage is rising in terms of 1995 prices.

Table 10.3 Consumer expenditure: changes in the pattern of consumption 1990–1998 (£m at 1995 prices and percentages of total).

	1990		1998	
	£m	%	£m	%
Food	47,055	11.3	51,972	10.8
Alcohol and tobacco	41,654	10.1	36,378	7.5
Clothing and footwear	22,999	5.5	32,542	6.7
Clothing only	18,934	4.5	27,760	5.7
Housing	80,247	19.2	87,976	18.2
Furnishings	22,606	5.4	30,575	6.3
Health	4,498	1.1	5,480	1.1
Transport	63,127	15.1	69,274	14.3
Communication	6,661	1.6	11,510	2.4
Recreation and culture	41,660	10.0	55,819	11.6
Education	4,653	1.1	6,562	1.4
Restaurants and hotels	32,724	7.8	36,650	7.6
Miscellaneous services	49,531	11.9	58,078	12.0
Total	417,399		483,266	

Source: *Consumer Trends* (2nd Quarter, 1999) ONS.

- Note: (1) Between 1990 and 1998 the percentage of expenditure devoted to audio visual and information processing rose from 1.5% to 2.3%.
 (2) Between 1992 and 1998 the percentage devoted to telecommunications rose from 1.4% to 2.1%.
 (3) If 1985 prices are used the percentage devoted to clothing and footwear rose from 6.1% in 1980 to 6.4% in 1990 (*Economic Trends, Annual Supplement*, 1999).
 (4) In 1998 men's wear expenditure was roughly half of the women's, girls' and infants' wear total.

Therefore, the picture is far from bleak and should not be overlooked because while, as will be seen below, the rise in expenditure on apparel has clearly been driven by the (almost) uninterrupted rise in incomes, it does not follow automatically that the proportion of expenditure devoted to all product groups will rise as affluence and expenditure rises.

As *Social Trends* (ONS, 1997, p. 108) observes, total expenditure in the UK 'increased by 77% in real terms between 1971 and 1995 [but] the pattern of spending changed considerably ... reflecting both changes in quantities purchased and the relative prices of the different categories of goods and services ... The proportion spent on food has fallen by a third since 1971; that spent on alcohol fell by a quarter ... In contrast the proportion spent on recreation, entertainment and education rose by nearly two-thirds over the same period'. *Social Trends* (2000) recorded that in 1998/9 for the first time spending on leisure goods and services was the biggest item of household expenditure.

There is obviously competition for the consumers' purse and over time new products will be brought to the market, some of which will be successful and

absorb consumer spending – the most spectacular recent example being the mobile phone. Changes in the pattern of expenditure as between product groups will be brought about by a variety of factors such as changes in the relative real cost of products; demographic changes and more complex social and cultural change. These issues will be considered in Section C below.

The enormous increase in expenditure on apparel can be explained by reference to the growth in consumption and real incomes over the period and is usually expressed in the concept of the aggregate consumption function (Begg, 1991, p. 372) which reveals ‘the level of consumption desired at each level of personal disposable income’. There is a very strong relationship between consumption and income which seems to hold not only at the aggregate level but also (see Section B (ii) below) for various product categories. Therefore, by far the most ‘salient influence on consumption . . . is probably current income’ (Artis, 1992).

Consumption as a proportion of national wealth grew from 60% in 1980 to 64% in 1995 while between 1971 and 1996 real consumption rose by 80% (Curwen, 1997). This is not to deny that, in the period under consideration, many important social changes occurred and these will be considered below (Section C). It can be seen from Table 10.4 that the periods of most rapid

Table 10.4 Changes in key variables 1950–1998.

Period	% change in real consumption	% change in expenditure on clothing	% change in real incomes (at 1995 prices)
1950–1955	+ 11.5	+ 5.1	+ 13.2
1955–1960	+ 14.0	+ 21.8	+ 19.1
1960–1965	+ 13.4	+ 14.8	+ 17.0
1965–1970	+ 10.6	+ 13.5	+ 10.5
1970–1975	+ 13.7	+ 12.4	+ 16.5
1975–1980	+ 9.9	+ 18.2	+ 12.5
1980–1985	+ 11.4	+ 25.3	+ 8.9
1985–1990	+ 25.5	+ 20.4	+ 23.0
1990–1995	+ 5.5	+ 28.2	+ 12.7
1995–1998	+ 11.4	+ 11.9	+ 6.1

Source: *Economic Trends 1999 (Annual Supplement)* (ONS, 1999b), Tables 1.6, 1.7 and 2.1. Calculations made by the author.

Note: The index of real income for 1999 was 109.3 (*Consumer Trends (2nd Quarter, 1999)* (ONS, 1999a).

Year	£ millions	Index
1992	461,964	93.4
1995	494,574	100.0
1996	505,392	102.2
1997	524,501	106.1
1998	524,296	106.1
1999	540,811	109.3

growth in expenditure on clothing corresponded to periods of very rapid growth in income and consumption.

These figures confirm the rapid expansion of the market (in real terms) in the period 1980–1990 and the role of changes in real incomes in promoting expenditure on apparel. As is made clear below, the trend in real incomes in the UK has been steadily upwards over a long period – as Curwen (1997) concludes, ‘personal income has risen continuously since 1979’. It is a statistical fact that consumption is very closely related to income – a relationship which is expressed by economists in the concept of the consumption function (Begg, 1991) as was noted above. Therefore, the UK apparel market is likely to remain attractive to both domestic and foreign suppliers by virtue of its size. Women’s wear accounts for some 56% of the market.

According to latest research (Mintel, 2000) men care little, in the UK, about their appearance. The report revealed that only 2 per cent of men bought the latest fashions while just one in 14 were shopaholics compared with one in five women. A quarter of all men in the survey said they were ‘anti-shopping’. This view is confirmed by Moore (2000) who concluded that it was ‘apparent that the British (male) fashion customer is much less confident than his European counterparts’ and is ‘characterised by a sense of alienation . . . as they search for fashion clothing’.

In the period 1992–1998 expenditure upon women’s wear rose from 3.2% to 3.7% of all consumer expenditure despite the fact that women as a proportion of the population fell marginally over the period (*Annual Abstract*, ONS, 1999c). The size of various sub-sectors of the market is indicated in Table 10.5. The pessimistic sentiments expressed in 1998 about the future size of the UK apparel market have not been confirmed by events and future growth is expected to be steady if not spectacular. Trends in prices will be examined in the next section and it is the case that the market is extremely competitive, as witnessed by the decision of C&A to leave the market place in Spring 2000.

Table 10.5 Size of apparel segments in the UK in 1997 (£m).

Women’s outerwear	11,785	
Lingerie	1,675	
Hosiery	508	
Women’s wear total		13,968
Men’s outerwear	6,036	
Men’s underwear	610	
Men’s wear total		6,646
Children’s wear		4,064
Total		24,674

Source: UK Fashion Report (EMAP/MTI 1998/9).

(ii) Price trends

It was demonstrated in Chapter 5 that a very high, and rising, proportion of the UK market is supplied by imports. In addition, the market is extremely price competitive. These two facts are almost certainly connected in that there is extensive literature which confirms the power of import competition to influence prices. Katics (1994, p.277) concluded a study of the effect of rising imports in the USA with the statement that ‘our estimates indicate a sizeable effect of import competition on price cost margins for the . . . period 1976–86’. Conyan (1991) also found that high degrees of import penetration were positively associated with lower margins. In the words of *Retail Intelligence* (1999, p. 37) ‘one virtual constant remains and that is price deflation’, estimating that between 1994 and 1999 men’s wear prices fell by 3%; women’s wear by 9% and children’s wear by 2% at a time when the average price change was +15.6%. Prices remain under severe pressure as can be seen from Table 10.6.

Table 10.6 Price and sales trends.

(a) Price trends (1987 = 100)

	Clothing and footwear	All items
1990	115.0	126.1
1991	118.5	133.5
1992	118.8	138.5
1993	119.8	140.7
1994	120.4	144.1
1995	120.6	149.1
1996	119.7	152.7
1997	120.6	157.5
1998	119.9	162.9

(b) Sales trends – clothing: textiles and footwear.

	Volume (% change)	Value (% change)
1998	0.7	0.5
1999		
January	2.8	1.8
February	1.3	0.2
March	5.1	3.5
April	2.4	0.6
May	2.6	0.1
June	8.0	5.4
July	4.5	3.1
August	3.7	1.7
September	5.0	2.3
October	7.5	4.8

Sources: Price data – *Consumer Trends* (2nd Quarter, 1999) (ONS, 1999a).
Sales data – *Retail Intelligence* (1999).

This pressure in turn promotes the search for lower cost, offshore locations. Competition is fierce, resulting in extensive discounting and a wide choice for the consumer.

These competitive pressures are also reflected in the retail sales figures. It can be seen from Table 10.6 that volume figures normally run far ahead of value figures. *Retail Intelligence* (1999, p. 29) concludes that the sales figures do not necessarily 'suggest an upturn in the sector's fortunes as retailers are having to make some substantial markdowns in order to generate this volume growth' as was seen in the price trend data.

Although it has been demonstrated above that the main factor behind the explosion in expenditure on apparel has been the virtually uninterrupted rise in real incomes experienced in the UK, it has also to be recognised that the very slow rate of increase of apparel prices has reinforced this trend by representing exceptional value for money in real terms. Jones (1994) showed that the apparel price index, over the period 1974–1991, had collapsed to 50% of the average (see Table 10.7). In fact inflation is a comparatively modern phenomenon and Newman (1995) shows that the purchasing power of the pound which fell by only 44% in the period 1900–1939 fell by 80% in the period 1960 to 1980. If 1985 is taken as the base year it can be shown (*Economic Trends*, ONS, 1999b)

Table 10.7 Apparel prices relative to the Average Price Index (1974 = 100).

Year	Jan 1974 = 100	Ratio ¹
1974	100	100
1975	126	94
1976	139	86
1977	157	86
1978	171	87
1979	187	84
1980	205	79
1981	208	71
1982	210	66
1983	215	65
1984	215	61
1985	223	60
1986	229	59
1987	233	58
1988	250	59
1989	254	56
1990	266	53
1991	275	51

¹The ratio is given by $\frac{\text{Apparel Price Index}}{\text{RPI}} \times 100$

Source: Jones, R.M. (1994) 'The Demand for Clothing in the UK 1974–1991', in *The Journal of Clothing Technology and Management*, **11**, 85–114.

that the purchasing power of the pound fell by a factor of 200 between 1950 and 1998 and by 42% between 1985 and 1998. Apparel prices rose very little during these times of rapid inflation and therefore represented extremely good value to the consumer. This reflects the general fact that inflationary pressures are not constant across all product groups, e.g. (Manning, 1999) shows that between 1965 and 1999 bread prices fell by 16% while beer prices rose by a factor of 19.

Unfortunately most of the studies of consumer prices do not refer to apparel. The ONS, contacted by the author, commented that we ‘do not release information relating to the average prices of individual goods . . . other than those in the food category’. (It is not immediately obvious why trends in apparel prices should be regarded as sensitive!)

Robinson (1999) conducted a study of the relative change in apparel prices and the average wage in the UK between 1974 and 1988 for a range of garments based on data from the Littlewoods catalogue. This data source was selected for the convenience of providing a single source over a long time period. Table 10.8, based on Robinson’s data, confirms the exceptionally good value for money enjoyed by apparel consumers in the UK. By way of a generalisation this study suggested that the time worked to earn a selection of garments had fallen by between two and three times. In a comparison of price movements between 1971 and 1996 it was estimated (*Social Trends*, ONS, 1997) that the time required to earn the motor vehicle excise licence also fell by a factor of two whereas the working time needed to earn a pint of beer had hardly changed.

Table 10.8 Time worked to purchase apparel in minutes.

Garment type	1974	1979	1984	1989	1994	1998
Blouse	338	144	116	140	131	146
Skirt	297	144	136	280	139	138
Suit	1559	1032	851	668	624	588
Shirt (male)	332	104	128	143	69	88
Collar t-shirt	223	116	99	133	62	76

Source: Robinson, N. (1999) A Study of Working Time and Apparel Purchases, unpublished MMU Research Paper. This research was funded by the Hollings Faculty Short Research Project Fund.

This downward trend in the value of working time required to purchase apparel is further confirmed, for GB, by the International Metal Workers Federation (1998) in their study of the wages of various groups of workers in the metal industry between 1982 and 1995. A motor vehicle worker, for example, had to work for 25 hours to purchase a suit in 1982 but for only 18 hours in 1995. This may help account for the stabilisation in the proportion of expenditure devoted to apparel which was noted above although it is clear that

as the range of consumer goods and services (such as electronic products) available to the consumer expands over time the struggle to maintain the proportion of expenditure devoted to purchases of apparel will continue. In this context, it may be significant that the apparel industry spends a surprisingly small amount of money on advertising and a survey of the top 100 UK advertisers in 1998 (*Marketing*, 1999) revealed that there was not a single apparel manufacturer or retailer in the list. In 1998, in the UK, the top brand advertisement in the apparel sector was (UK Fashion Report, EMAP/MTI 1998/9) Levi Dockers spending £1.4 millions which amounted to 1.3% of what the top advertiser spent (£105 million). In 1997, for example, BT (British Telecom) spent more on advertising than the entire UK apparel sector. In 1997 the sector of the apparel sector which advertised most heavily was jeans and this sector *as a whole* spent 25% of the amount spent by *one* motor vehicle manufacturer, Ford.

Finally, it can be noted that Waterson (1999) has produced a calculation of the advertising:sales ratios for a variety of products. High ratios indicate intensive advertising activity. With the exception of the aforementioned jeans, most types of apparel scored in the region of 0.1 to 0.2 whereas the heavy spending product groups (such as toys, cereals, aspirins and deodorants) scored between 8.0 and 11.0. It is recognised that advertising is only one element in the promotions mix and that apparel products benefit from, for example, exposure in magazine articles and from in store promotions and point of sale displays. It has already been recorded above that the share of consumer expenditure devoted to apparel has remained stable in the recent past and this could be taken as justification for the low level of advertising expenditure noted above. It is, nevertheless, somewhat striking that an image-driven product such as apparel should spend such relatively small amounts on a major element of the promotional mix and it will be interesting to see if this does, over time, impact unfavourably on apparel spending, in particular as new products, such as electronic communications, come on stream. *Social Trends* (2000) noted that spending on TV and audio equipment rose by a factor of four between the late 1960s and 1999, for example.

(iii) Retail structure and the future of apparel retailing in the UK

Existing structure

The UK retail market for apparel is highly concentrated. Easey (1995, p. 152) estimated that some 30% of apparel sales in 1990 were controlled by the top four retail groups. De Silva (2000) concluded that 'when taking account of cumulative inflation for the period (1992–6) there was in fact a real decrease in sales by smaller businesses of 11.1%. The share of total sales taken by larger businesses

... increased by 3.7% to 83.2% of the total'. *Retail Intelligence* (1999) estimated that 72.5% of UK apparel sales went through larger retailers in 1998.

It was noted in Chapter 1 that the textile-apparel supply chain is retailer-led. The importance of this cannot be overstressed. As Murphy (1999, p. 379) puts it, 'the most significant trend in retailing has been the shift in power between the suppliers to the retail trade. Up until the mid-1960s manufacturers held a powerful position in distribution channels as they were the source of almost all product innovations and new product developments' but changes began to take place as retailers sourced from a greater variety of manufacturers and geographical locations. In De Silva's estimation (2000, p. 166) the existing structure of the retail sector is best described as 'one where concentration prevails ... larger retailers are increasingly controlling the supply chain, gaining relative bargaining power at the expense of manufacturers'. Zuhone (1995), in a study based on the theory of power-dependency, found that there was a marked imbalance of power 'with retailers having greater power than manufacturers in key decision making areas' and that while there were some signs of the balance becoming more even (or less uneven) 'both retailers and manufacturers felt that retailers would continue to have greater power than manufacturers in the future'.

In McGoldrick's opinion (1990, p. 4) the main reasons behind this trend have been the abolition of Retail Price Maintenance in 1964; the increase in the relative size of the retailers (see Chapter 2) and the rise in the importance of retail brands. This factor was also stressed by De Silva (2000) who noted that the retailers 'do not rely on the innovation of the supplier in creating new lines'. In terms of the Five Forces Model it has been suggested (in Chapter 2) that, in the UK, the dominance of the supply chain by large retailers seeking relatively long and 'safe' production runs resulted in the degree of sophistication of the buyer to the manufacturer being relatively low and, in the long run, counter-productive to the ability of UK-based manufacturers to develop winning strategies on a global basis.

The current division of the UK apparel market between the various distribution channels is summarised in Table 10.9. The dominant role of multiples and variety chains is clear. Department stores have suffered a slow but steady decline between 1988 and 1993 (Williams, 1997) but have enjoyed a minor renaissance since the mid-1990s, prompted perhaps by the ageing of the population. The share of the market taken by mail order has been static – at about 10% – for some time although this may, in the future, be influenced by the rise in electronic shopping. As for the independents, most commentators, such as the UK Fashion Report (EMAP/MTI 1998/9, p. 13) contend that 'clothing retailing is heading for a shakeout and ... the future for most independents is bleak'. The major UK apparel retailers are identified in Table 10.10. The most important recent trends have been the rise of the so-called 'discounters' such as Matalan.

Table 10.9 Retail market shares (%).

Type of outlet	W	L	WO	M	MU	Children's wear	All clothing and footwear
Variety chains	23.0	46.4	19.7	18.9	48.0	18.9	19.6
Multiples	28.7	10.4	32.6	23.7	9.8	20.3	23.7
Independents	11.3	5.1	12.3	18.0	4.5	6.7	11.2
Discounters	4.4	4.6	4.6	3.2	7.0	5.1	3.9
Mail order	10.6	14.5	10.6	7.2	8.1	6.8	9.4
Department stores	10.3	9.1	10.0	9.5	8.4	4.1	8.6
Supermarkets	2.7	3.2	2.0	2.5	5.3	4.8	2.7

Source: *UK Fashion Report* (EMAP/MTI 1998/9).

Key: W = All women's wear
 L = Lingerie
 WO = Women's outerwear
 M = All men's wear
 MU = Men's underwear

Table 10.10 Largest UK apparel retailers (sales in £000).

Retailer	1996/97	1997/98
Marks and Spencer PLC	7,841,900	8,243,300
Arcadia PLC	2,562,300	2,086,600
Littlewoods PLC	2,205,704	2,286,200
Debenhams Retail PLC	2,474,500	1,678,100
Next Retail Ltd	846,631	1,072,123
BHS PLC	805,984	855,126
Sears Clothing	373,313	485,188
Laura Ashley Holdings PLC	327,600	338,392
River Island	285,451	284,476
Matalan PLC	185,470	229,635
New Look Retailers	224,939	279,493
Peacock Stores	105,846	123,069

Source: Schober Direct Marketing, *Business Ratio, Clothing Retailers*, 1999.

As Murphy (1998) concluded, the current UK apparel retailing industry shows indicators of both a transformation and being in a state of flux. The future importance of a number of previously dominant retail groups seems to be in doubt while the challenge of new shopping modes looms on the horizon.

However, it is clearly possible – if ever more difficult – to achieve success as has been shown by the performance of companies such as Gap, New Look and Matalan who have demonstrated what can be achieved by adopting a differentiation strategy. There seems little doubt that the retailers will remain dominant in the supply chain and that increasingly they will look to offshore sources of supply. Finally, in this section, it can be noted that Levie (2000) has demonstrated that there are regular and predictable patterns to store visits which can be forecast by the use of an appropriate model.

The role of the retail buyer

The concentration of retail power described above has elevated the role of the retail buyer to a position of great importance. There have been few recent studies of the precise nature of the apparel retail buying process. As Sternquist (1989) noted, 'the literature about retail buyers' behaviour is sparse'. In more general terms, most standard marketing texts contain sections on the differences between the personal and organisational buyer which recognise the complexities of the latter. Chisnall (1985, p. 183), for example, summarises the distinction by recognising that organisational buying is 'complex, in that it deals with suppliers often far more sophisticated in nature than most consumer products; the process of buying is seldom settled entirely by one person's decision; scale of purchase is mostly substantial and the repercussions of purchasing a specific product ... may be profoundly felt ...'.

In the words of McGoldrick (1990, p. 188) buying 'represents the translation of a retailer's strategic positioning statement into the overall assortment and the specific products to support that statement. The retail buyer holds a pivotal role in the implementation of a retail strategy ...'. McGoldrick (1990, p. 190) argues, first, that there is some evidence that successful buying does translate into good overall company performance and, secondly, that the buying function has become increasingly centralised. Fairham (1990) also found that buyer performance and experience affected profits.

One of the specific studies of the role of the buyer in the apparel industry was carried out by Harris (1991) who compared the attitudes of apparel buyers in the USA, Canada and Western Europe. The study largely confirmed both the changes in global sourcing highlighted in Chapter 3 and revealed some interesting variations in buying practices between the three regions studied. European buyers exhibited greater enthusiasm for non-domestic sourcing and expected it to increase, and price was given as the dominant reason for a change to non-domestic sourcing which is in line with the importance placed on labour costs in Chapter 4.

Interestingly, Canadian buyers gave quotas as a reason for decreasing imports from major offshore suppliers, which may support the view expressed in Chapter 9 that the main effect of the MFA was trade diversion. Quick response, somewhat surprisingly, was not recognised as a major factor in the buying decision. Hong Kong dominated the private label field as the source of first choice whereas in the case of high priced products Italy ranked as the number one source in designer labels. In terms of rating the factors which would be considered in selecting a source country, a conflict emerged between (Harris, 1991, p. 93) the 'declared principle of seeking quality of product and service and the apparent practice of buying on the basis of price. It could be assumed that, while quality and service are what buyers believe they are

seeking, price is the determining factor'. This again justifies both the emphasis placed on labour costs and the conclusion drawn that offshore sourcing is bound to increase.

Finally, there were substantial differences in the sources of information utilised by buyers in identifying potential suppliers; in Canada sales agents were dominant whereas in Europe, international domestic trade shows were the preferred source. In the USA, buying offices were three times more important than any other source of information. The study by Sternquist (1989) had also found that quality was the main factor given for purchasing foreign products and noted that retail buyers did not perceive sourcing offshore to be risky. De Silva (2000) found in a survey of 102 UK apparel buyers that there was not 'a general, all encompassing way of describing how buyers make decisions' but that they typically functioned within a group and frequently enjoyed considerable autonomy although when making sourcing decisions they typically had to liaise with others for approval on issues of a budgetary nature. The majority of apparel buyers were female and there was a clear trend towards the employment of more graduates.

It maybe significant – in relation to the future of the apparel industry in the UK – that the performance of buyers was usually assessed by reference to margins achieved with the result that decisions were taken 'more often on "hard" criteria such as cost'. It is unlikely that the power of the apparel retailer relative to that of the manufacturer will decline in the near future so the attitudes and behaviour of the retail buyer will remain of interest. In addition, as the proportion of the market supplied offshore goes up and the role of domestic assembly declines, buying offices in areas of low labour costs are likely to achieve greater importance in the supply chain in the future – see, for example, the report by Magretta (1998) on the role of buying offices in Hong Kong.

It is also conceivable that the increased use of electronic marketplaces within the textile pipeline may result in buyers reducing their supplier base (if only because larger suppliers may be more equipped to participate) with a consequent rise in the power of a limited number of large purchases – as has been described by Mathieson (2000) in relation to British Airways and by Baker (2000) in relation to the World Wide Retail Exchange, headed by an ex-Courtaulds Textiles executive. Specialist textiles marketplaces already exist as demonstrated by Textiles Solutions.com based in Gothenburg (Karin, 2000)

The future structure of apparel retailing in the UK

At the present time it can legitimately be argued that (Murphy, 1998, p. 380) 'substitutes to the High Street . . . currently are relatively unimportant in terms of market share' but it is also true that the market exhibits signs of unrest and

transformation with, in particular, some of the previously most successful and important (in terms of market share) companies, such as Marks and Spencer and Arcadia, showing signs of a loss of direction and vitality.

The retailing of apparel is the fourth cell of the pipeline described in Fig. 1.1. Apparel has, after manufacture, to be delivered to the consumer. This can be achieved by a variety of mechanisms such as conventional high street stores, out of town shopping malls, traditional mail order or electronic home shopping.

The accepted doctrine is that this fourth cell in the pipeline has had the power to capture a disproportionately high proportion of the value added generated within the pipeline as a whole (see Chapter 2). The relative strength of each cell can be assessed using the concept of buyer power from the Five Forces Model outlined in Chapter 1. In this case it will be useful to picture the pipeline horizontally (see Fig. 10.1) so as to highlight the buyer-seller relationships throughout the pipeline. As product moves from left to right each element sells to their customer. The manufacturer’s customer is the retailer personified by the retail buyer; the retailer’s customer is the final consumer.

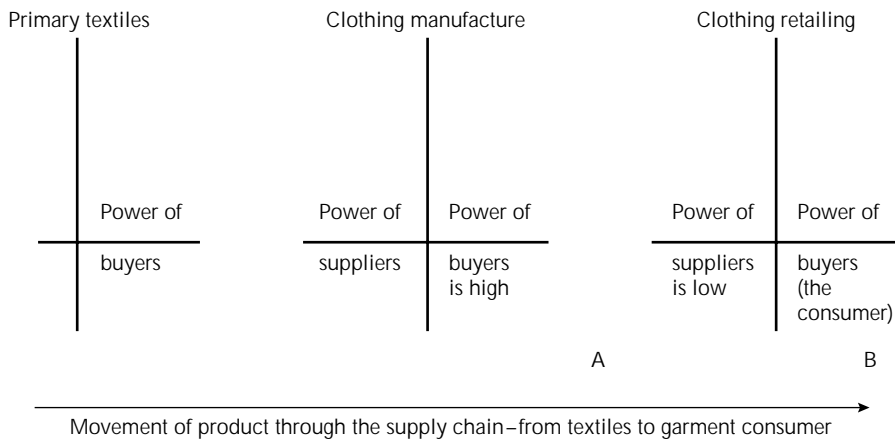


Fig. 10.1 The textiles-fashion supply chain and the power of the consumer.

In this context the present author must strongly disagree with other published versions of this model as outlined in Murphy (1999) and Cox (2000). In these two sources the concept of the bargaining power of buyers applied to the retail sector is related to the strength of the retailers themselves. Cox (2000, p. 32), for example, gives as an illustration of the power of a customer to force down supplier prices the power of Marks and Spencer as the UK’s third biggest retailer; Murphy (1999) likewise (using Cox as the justification) argues that the power of buyers in the Five Forces Model should be represented by the ‘bargaining power of retailers’. This seems to be quite indefensible. It is clear that

the large retailers exercise tremendous power in the pipeline so that a retailer like Marks and Spencer can be, as Cox puts it (2000, p. 32) 'in a stronger position to force down supplier prices' but this force must, by definition, be applied by the retailers to *their* suppliers, namely the manufacturers at A in Fig. 10.1. The customers of the retail sector who might apply strong or weak bargaining power as the *buyers* of the output of the retail sector are the final consumers (at B) – they cannot be the retailers themselves exerting bargaining power as the buyers of their own output! Porter (1998, p. 35) argues that powerful 'buyers or suppliers bargain away the profits for themselves' and that 'buyer power ... is a function of such things as the number of buyers, how much a firm's sales are at risk to any one buyer ...'. The suppliers to the retailer are the apparel manufacturers; the purchasers ... are the final consumers. Clearly the proportion of an apparel retailer's sales which are at risk to any one consumer is negligible. The only exception to this rule would be cases in which powerful consumer groups organised to boycott a specific apparel retailer. It is, of course, true that each consumer wields the ultimate sanction of deciding not to buy a product and it is possible that, over time, consumers could turn away from apparel purchases towards, for example, electronic products or consumer services. An illustration of the exercise of this power 'not to buy' would be the experience of the motor vehicle trade at the end of 1999. However, it seems to the present author unlikely that the biggest threats to the ability of the fourth cell in the textile pipeline to capture a large share of the total profit generated by the pipeline is likely to come from an increase in consumer power. The consumer can prevent prices being raised but provided that the fourth cell remains powerful relative to the other cells in the pipeline and provided that adversarial rather than co-operative relationships prevail, this 'problem' can be passed back down the pipeline and, for example, the manufacturing cell can be forced to absorb the pressure. There is little or nothing in current developments to suggest that the power of the retailer relative to the manufacturer is declining as was noted in the introduction to this section. The potential impact of the creation of electronic market places on the internet for intermediate products upon the relative power of different elements in the supply chain is problematic but Mortished (2000) argues that the power of purchasing managers will rise and business will be channelled 'only to those whose electronic systems can be integrated sufficiently with those of an all powerful [retail] buyer' and that the advantage will lie with larger businesses. In the textile-apparel supply chain this would simply confirm the existing power of the retail buyer.

In relation to the question of shifts in the balance of power between alternative forms of business *within* a particular cell of the supply chain it seems most likely that the greatest threat to the position of the traditional apparel retailer will be manifested through other elements of the Five Forces Model such as, in particular, the threat of New Entry into the market by overseas

retailers such as Benetton, Morgan, Kookai, Gap, Diesel and Zara and the threat of substitutes such as the evolution of non-traditional methods of shopping.

Substitution of non-apparel products in the overall expenditure of consumers has already been seen to be another threat. In Cox's words (2000, p. 31) 'different forms of retail channel compete for custom and a new and growing threat is from the Internet . . . Again, there is a gain in convenience as in mail order shopping. E-commerce is continually improving its accessibility and performance and this will attract more personal computer users to link up to it'.

The major unknown in this context is the extent to which consumers will differentiate between types of products in which E-commerce will really take off and those in which it will not because, for example, they wish to inspect the product or regard conventional shopping for a product as a social event. Williams (1997, p. 164) argues that teleshopping 'has the potential to effect major changes in shopping patterns. Its impact on the retail fashion market will develop over the coming years influenced by consumer acceptance and its own cost effectiveness'.

The ability of home shopping to capture a significant share of the market has been trumpeted many times in the past, e.g. Brenninkmeyer (1986) and, as Murphy (1998, p. 380) observed, while the traditional high street has 'had some competition from substitutability by conventional mail order catalogue companies . . . none of these has had more than a peripheral effect on mainstream UK retailing'. The wide availability of access to the internet via PC and TV has revived claims that the age of electronic shopping is about to dawn. It is difficult to be objective about the size of the electronic shopping market in the UK because, first, a wide range of estimates of current access appear in the literature and, second, many of the statistics quoted are forecasts – which also differ alarmingly. Griffiths (1999) estimates that currently, in the UK, some 23% of households have access to a PC. The same author estimated that the total spend in the internet including connection charges was only 0.034% of total UK household spending in 1998. Actual consumer spending from commercial web sites was estimated at only £35 million while the average spend in 1997 was only £12.40. Corporate Intelligence (1997) estimated that in the six months up to March 1997, 250 000 UK customers made an on-line purchase.

Most commentators are making very optimistic forecasts for the growth of electronic home shopping. The Future Foundation (1999), for example, forecast that by 2004 50% of the UK population will be connected to the internet. Verdict predict (*Daily Telegraph*, 2000) that the internet's share of the total market will rise from 0.3% in 1999 to 3% in 2004. Therefore, much of the enthusiasm is based on future expectations rather than current experience and much is based on a comparison with the USA where it is estimated

(Euromonitor, 1995, p. 1301) that some 28% of retail sales are made by the so-called 'distance' mode.

There is clearly a demand for a home shopping facility – it has been provided over many years by the traditional mail order route which currently holds 75% of the UK home shopping market (*Corporate Intelligence*, 1997). Weeks (1998) confirmed that catalogue shopping was still the preferred non-store option among female consumers but argued that electronic shopping did pose a significant threat in the future. In the present context the crucial issue is the extent to which the pattern of shopping for apparel in the UK will, in the future, be modified by the advent of electronic shopping. It is difficult to be prescriptive in the absence of a model of fashion behaviour but it is possible to indicate factors which will influence the impact E-commerce might have on the fashion retailing sector, e.g. the extent to which consumers regard shopping for apparel as a social event and the extent to which customers require to actually see, touch and try on the product.

A survey by the Future Foundation (1999) found that apparel was towards the bottom of a list of products which consumers said they purchase via the internet. As *Corporate Intelligence* (1997) conclude, not 'all products are suitable for selling through electronic shopping channels and those goods that consumers like to see, touch, feel . . . are likely to remain sold face to face'. The impact of electronic shopping will also depend on a number of non-product specific factors such as efficiency of delivery and fears about the security of payment systems.

There is no doubt that the growth of electronic home shopping is seen as a major issue by existing retailers. Thus, according to *Marketing* (1999) 46% of retailers believe this is the biggest challenge faced by the retailing sector. The full impact is probably some way into the future and, as Murphy (1998) notes, while 'a number of fashion retailers have made big investments in the internet – Arcadia, Marks and Spencer and Austin Reed to name just a few – most have been testing the water'. Bickerton (1999) concluded his survey of fashion retailing in Europe by arguing that electronic shopping 'will never replace personal selling, which holds a strong attraction for most European consumers, particularly young women'. Murphy (1998) concluded her survey of UK apparel retailers' use of the net with the words 'the future of electronic retailing is not about substituting software for human interaction . . . but rather how to use the WWW to create new kinds of interactions between consumers and businesses'. If this is correct then the challenge to existing face-to-face retailers will be to also create a new experience for the shopper; in the words of *Marketing* (1999) 'no-one believes that virtual shopping will make shops obsolete but retailers will need to justify and adapt their physical presence in order to survive'.

It remains to be seen whether or not the internet will provide a stronger

challenge than previous home shopping models. The pitfalls are well demonstrated by the collapse in the UK of Boo.com (Sabbagh, 2000). There may, therefore, be a degree of uncertainty about the relative future strengths of various modes of apparel distribution but a number of other features of the textile-apparel supply chain appear to be firmly established. First, it seems clear that the chain will continue to be retailer driven because, as Mattila (1996, p. 21) expresses it, they have ‘become much bigger and more powerful in product sourcing’ as they pursue their aim of going ‘direct to the source themselves and subcontract production of their collections’. Secondly, the role of own label seems set to rise to the detriment of traditional manufacturers who will (Mattila, 1996, p. 23) ‘face increasing competition in the future as retailers’ own label sales increase and as the products are primarily sourced from outside the EU’.

C. Social, cultural and demographic factors in the evolution of the apparel market

Although the main focus of the present chapter is an economic one, it would be inappropriate not to recognise that there have been a number of extremely significant social, cultural and demographic changes which have had the potential to affect significantly the demand for apparel. These include changing gender roles in society, reflected in the rising proportion of women going out to work which rose from 49% in 1984 to 53% in 1994 (*Key Data*, 1996, p. 17); the increasing proportion of the workforce in the service sector (see Chapter 1); the increased availability of credit; the growth of out of town shopping centres and the sheer availability of shops which encourage shopping as a leisure activity; the emergence of younger children as fashion consumers and the trend towards a more casual styled dress.

While it is true that (Chisnall, 1985, p. 16) explanations of consumer behaviour ‘based solely on economic theory are clearly inadequate’ and too narrow in focus there is, in a real sense, no necessary conflict between arguing that the size of the apparel market is primarily driven by economic factors and recognising the importance of social change. This is because many social changes have had the effect of increasing the affluence and economic independence of various groups enabling consumers to indulge their desire for change and their wish to purchase something new and stimulating – the social and economic trends thus work in tandem.

A useful summary of the impact of social and cultural influences on the market place is produced by Palmer (1992) who demonstrates, for example, that there is a body of evidence showing the relationship between social class and consumer behaviour. Families represent a vital reference group and as the

number of one parent families increases it must be expected that this will be reflected in the demand for various categories of products in the same way as the proportion of people living alone impacts upon the demand for food products packaged in smaller quantities.

Cultural changes may also influence consumption behaviour. Palmer (1992) shows how the ethnic make-up of the population of the UK has changed over time and how it varies as between regions. This may affect the demand for ethnic foods and apparel. Other important social and cultural changes which can be identified as potentially influencing the demand for products include an increased amount of time devoted to leisure; the raised awareness of healthy living and 'green' issues; the trend towards greater informality and the casualisation of modes of dress, to name but a few. It is not being argued here that these issues do not matter. Rather it is contended that economic affluence is a prerequisite or a facilitator through which these various and disparate social trends are often expressed.

One of the most important social changes to have taken place in the recent past has been a demographic one, i.e. the ageing of the population. The potential importance of this for the apparel market has been widely recognised in the literature as is exemplified by the comment of the *UK Fashion Report* (EMAP/MTI, 1988/9, p. 23) that the 'population will become gradually older with the mean age expected to rise from 38.4 in 1996 to 42 by 2021' and (Anon, 2000, p. 84) that 'future retail spending will be affected by the demographic profile of the UK' which exhibits clear peaks in the 40–54 age group of post-war baby boomers and the 25–39 age group which consists of the children of the early baby boomers. Table 10.11 confirms that the younger age groups will decline while the 45–64 age group, on the other hand, is expected to gain 3 million people, based on an estimated total UK population in 2011 of 61 million.

As Coleman and Salt (1992, p. 5) conclude, 'Business demographics is becoming big business in the USA and the ideas are now catching on in Britain. The centre of gravity of the baby boom in 1990 is still in the 15–29 group . . . By

Table 10.11 UK Population 1971–2011 (age groups as percentages of population).

Age group	In 1971	In 1997	In 2011 (projected)
0–14	24.1	19.2	17.2
15–29	21.1	19.9	19.3
30–44	17.5	22.3	20.0
45–64	24.0	22.8	27.1
30–64	41.5	45.1	47.1
65+	13.3	15.7	16.4
45+	37.3	38.5	43.5

Source: *Annual Abstract of Statistics* (ONS, 1999c) p. 28.

the 1990s it will have moved into the 30–44 age group; around the end of the century it will have made the latter middle aged group of over 45s the most potent force in the market place'. It is inevitable that by 2025 the people born in the two baby boom periods of the 1940s and 1960s will all be over 55 years of age. It is also a matter of record that many UK apparel retailers have targeted their customers by age. As Easey (1995, p. 102) states, 'the idea of segmentation has been taken on board by most of the high street retailers'. The Behling (1985) model reviewed below utilises the median age of the population as one of the independent variables. Therefore the view expressed by TMS (1996, p. 1) that 'age remains the biggest discriminator in clothing' has to be taken seriously.

It is also generally accepted in the literature that the younger age groups have been the fashion leaders. Easey (1995), for example, argues that innovators tend to be more open minded younger people and that the strength of feeling of group affiliations is greater in the young. The same point is made by Goldsmith (1991). Key Note (1998) showed that apparel spending also varies with age and income. ONS (1999) data shows that in absolute terms (in £s) expenditure by age group is highest in the under-thirties age segment of the population. Therefore, changes in either or both the age distribution of the population and the proportion of income/wealth controlled by each age group could reasonably be expected to have a significant impact on the apparel market. In the words of Johnson (1990, p. 59) the changes in demand in the market 'will not be simply from young to old . . . The booming teenage market of the 1960s and 1970s is a thing of the past and the new growth area will be people in later middle age'.

Verdict Research (2000) considers that retailers have been slow to respond to demographic changes, arguing that those retailers who continue to be fixated by younger consumers will lose out compared to those who target the older, more mature consumers who have real spending power. Verdict noted that by 2010 there will be 2 million fewer 25–39 year-olds in the UK, for example. The 20–24 group is also small following the low birth rate in the 1970s. Unfortunately, the implications of these changes for apparel purchases are, upon closer inspection, far less straightforward than might initially be expected.

Jones (1999) concluded that most age groups lost or gained income share in line with changes in their share of the population (see Table 10.12). In the UK, in the period 1986–1993, one age group emerged as significantly increasing their share of income, namely the 26–45 age group. However, McAdam (1996) concluded that in that period the strongest fashion influence remained with the young – despite the fact that the median age of the population was steadily rising and that the share of both population and income represented by the younger age group (16–25) was also falling. Therefore it may well be the case that the young will always have the greatest interest in, and influence upon, fashion trends irrespective of trends in income or population shares. As Evans (1989) noted, the 'future dwindling size of the youth markets will not detract

Table 10.12 Changes in population and income shares in UK 1986–1994 (as percentages).

Age group	Population change	Share of income change
16–25	–2.6	–0.8
26–45	+12.2	+12.5
46–64	+6.6	+5.6
65+	+1.9	+0.5
16–45	+9.6	+11.7
26–64	+18.8	+18.1
46+	+8.5	+6.1

Source: Jones, R.M. (1999) Demographics, the Distribution of Income and Wealth and the Marketing of Fashion in the UK. *Journal of the Textile Institute* (Part 2) Vol 90, 1999, pp. 1–14.

from their importance' because the concept of the youth market is so firmly extended in marketing analysis. Of almost equal interest to income distribution is the distribution of wealth. Unfortunately, as Dilnot (1994) points out, there is almost no empirical evidence concerning the distribution of wealth at the household or individual level in the UK. Jones (1999) secured some age specific data for the periods 1991/2 and 1997/8 and found that changes in the shares of wealth and population by age group were not particularly well correlated.

Over the period, two age groups noticeably increased their share of the UK's wealth – the 30–34 group and, more especially, the 45–49 group. The latter controlled 39% of the nation's wealth in 1991/2 and is predicted to account for 21% of the population in 2011. In 1991 the over-50s constituted 31% of the population but controlled 54% of the nation's wealth. The main conclusion drawn by Jones (1999) was that the use of predicted changes in the shares of the population accounted for by various age groups to act as a guide to the economic strength of these groups and, by implication, the desirability of retargeting the product offer towards the expanding groups is a much less straightforward matter than might have been anticipated.

Palmer (1992, p. 172) records the efforts made by the (then) Burton Group to re-align their shops towards an older age group which was entirely in line with demographic forecasts but, as events early in 2000 have shown, this by itself was insufficient to prevent the collapse of the (now) Arcadia Group. The issue of demographic change and its impact on the apparel market is further complicated by uncertainty about what might best be described as the behavioural (as opposed to the chronological age) of the middle-aged consumer in the early twenty-first century.

Dychtwald (1997), in fact, argued that we already have a new idea of what 'old' means in that it is recognised that many over 65 years of age are still active. Morchis (1997) stresses that 'ageing is multi-dimensional, that is people

gradually grow old biologically, psychologically and socially'. The second so-called 'baby boomer' group (of the 1960s) grew up under radically different social, economic and cultural circumstances to earlier generations – in particular, their experiences contrast vividly with those of the first 'baby boomer' period of the 1940s. Leventhal (1997) concluded that the second 'baby boomer' group was relatively more willing to try new products; was more widely read; more cynical; had a greater understanding of values and had a greater desire to obtain facts than earlier generations.

Bellan (1998, p. 106) in a study of age-related attitudes towards apparel in the USA suggested that 'many older people see themselves as younger than their chronological age' and that while there did not appear to be significant variations in the attitudes of younger and older women towards apparel there were great differences in their attitudes to media messages. Her conclusion was (Bellan, 1998, p. 111) that 'older women make up a large market with large discretionary income. They are willing to spend ... on apparel that fits appropriately and appeals to them'. In the women's wear market, however, there is considerable evidence (Jackson, 1994; Pruim, 1999) that irrespective of how women view themselves, body shape and size does change with age. Therefore, providing the correct balance between aspirations and practicability may represent a severe retailing challenge. The 'older' market is not homogeneous and is complex. Morchis (1997), for example, subdivides older consumers into four groups (healthy indulgers, ailing outgoers, healthy hermits and frail recluses) which would need to be served by entirely different marketing mixes. Therefore, as the above brief review has demonstrated, there is no escaping the fact that social, cultural and demographic changes all represent potentially significant variables in the evolution of the apparel market particularly when attention is focused upon the fashion process as opposed to the size of the market. It has proven to be extremely difficult to incorporate these factors in a workable model of the fashion process, as will be explained in the next section.

D. Theories of fashion and the limits of economic determinism in the apparel market

(i) A model of expenditure on apparel in the UK

It has been noted above that there is a well established and close relationship between income and aggregate expenditure. This was confirmed by Mills' (1997) study of household spending. Jones (1997) has tested a model of consumer expenditure on apparel in which the independent variables are the trend in real disposable income and the price of apparel relative to the movement in all prices. The rationale behind the model was that in developed economies the

demand for apparel can no longer be regarded as primarily a basic need. In Maslow's terms (Easey, 1995, p. 58) it is not a necessity in that most consumers have more garments than are required for functional purposes. Indeed it is imperative for the apparel industry that they are willing to replace garments which are not worn out.

Demand in these circumstances depends primarily on the amount of real disposable income available. The model has been tested for both the UK and Sweden. In both cases the model worked in the sense that changes in the two independent variables explained over 90% of the change in consumption upon apparel (see Fig. 10.2). In both cases it was possible to omit the price variable without significantly reducing the ability of the model to predict consumption but it was not possible to leave out the income variable without damaging the

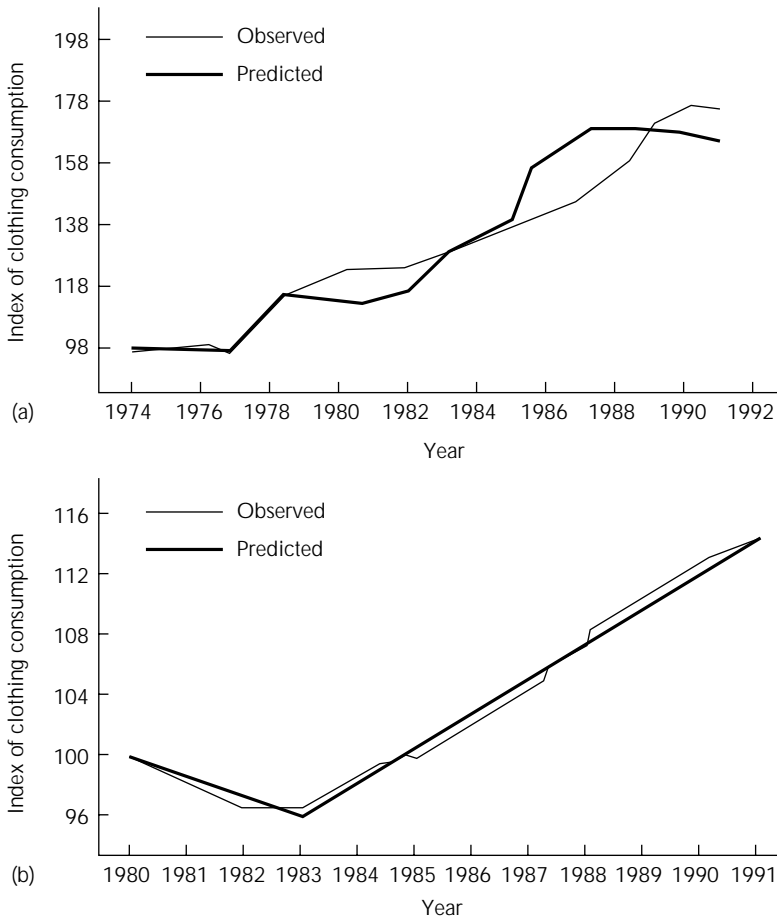


Fig. 10.2 A demand model tested for the UK and Sweden. Source: Jones, R.M. & Robb, P. (1997) *The Demand for Clothing in the UK and Sweden*. *Journal of Fashion Marketing and Management*, 1, 113–125. Reproduced with permission. The top chart is the UK.

efficiency of the model. Therefore it can be confirmed that the most important variable determining variations in expenditure upon apparel is the trend in income. The income elasticity of demand in the UK was +0.9223 while price elasticity was -0.3733. These results (for the period 1974–1991) contrast vividly with those recorded by Briscoe (1971, p. 51) for the period 1946–1964 – when the income elasticity was calculated as +0.5 and the price elasticity as -1.11. Stone (1966) estimated that the income elasticity of demand for apparel in the 1930s was 1.4. The latest research by Jones (2002) found that income elasticity in the period 1997–2000 had risen to +2.0 while price elasticity had returned to -1.1. This suggests that, in the UK, over time apparel has changed from being a necessity to a luxury.

The crucial role of income in determining consumption has been confirmed by Norum (1999) for apparel and fashion accessories in which case income elasticities were positive but much less than one. In a real sense, therefore, the likely future health of the UK apparel market can be predicted by examining trends in real personal disposable income which act as a leading indicator. The current trend is quite healthy (see Table 10.4) which bodes well for the market in the near future. The savings ratio has fallen from over 10% in 1995 to 7% in 1998 (*Sector Review*, ONS, 1999d) although, as will become clear in Section C, most economists regard the savings ratio as an extremely unreliable indicator. The most important fact is that in relation to the overall size of the market – a very important fact to most businesses – there is a reliable leading indicator, namely income.

As Balkwell (1992) concluded:

‘Economic and demographic variables are but part of the total fabric of culture. Consequently, they explain part of the major changes in dress dimensions and leave part unexplained.’

This is a particularly good illustration of the problems caused by the absence of an accepted model of the fashion process. In fact it is relatively easy to demonstrate that, for the UK at least, there is no relationship between the state of the economy and at least one specific dimension of fashion change viz skirt length. The assumption of cause and effect seems flawed in that there is no logical reason why skirts should be long in a recession and vice versa as has been argued by Mabry (1971) and many commentators since that date, such as Quant (1997). A test which takes skirt length ratios from Curran (1993) and correlates them against a range of standard economic indicators produces the results shown in Fig. 10.3. The extent to which the fashion cycle (as illustrated by variations in skirt length) can be explained by economic fluctuations is clearly refuted by the evidence and this particular idea can be disposed of once and for all. Economics has relatively little to contribute in this area of analysis but unfortunately rival constructs (which often incorporate some economic variables) have been slow to emerge.

Economic independent variable	R ² %
<i>Vogue data</i>	
RPI	0.5
FT index	7.6
Rate of interest*	12.6
% unemployed	6.5
GDP	0.2
<i>Littlewoods data</i>	
RPI	4.9
FT index	0.3
Rate of interest**	1.3
% unemployed	10.5
GDP	0.0

Notes: * The regression was significant at the 5% level.

** The regression was *not* significant at the 5% level.

The author wishes to acknowledge the assistance provided by Paul Robb, Departmental Statistical Assistant, who undertook the above computations.

Fig. 10.3 Summary of relationships between skirt lengths and economic variables.

(ii) *Alternative theories of the fashion process*

The trend in the size of the apparel market can be explained by reference to economic factors – primarily income and price. However, in relation to the other dimensions of the apparel market identified in the introduction to this chapter – the direction and process of fashion change and the sources of new fashions – achieving a sound theoretical base for examining these issues has been far more difficult. As Sproles (1981, p. 117) observed, fashion theory ‘includes a loosely organised array of *descriptive* (present author’s emphasis) principles and propositions but it is not formalised in that it does not specify a detailed structure of concepts, variables and relations’. The passage of time has only – in the works of Behling and Nagasawa – partially remedied these shortcomings. Although the focus of this text (and chapter) is the economic dimension, it is important that models of change in the apparel market be reviewed even though they fall outside the strictly defined field of economics because, first, they often incorporate an economic dimension and, second, because it is useful to grasp the difficulties which have been created by the absence of a thoroughly validated model of fashion change.

There is a large literature in the area widely defined as theories of fashion or models of the fashion process which will now be reviewed. First, a number of descriptive frameworks have been developed. The concept of the fashion cycle, for example, is well established in the literature (Easey, 1995, p. 127) and marketing theorists have devised classification systems which categorise consumers according to how likely they are to adopt new products (Easey, 1995, p. 67). The classic theory of innovation diffusion is attributed to Rogers and

Shoemaker (1971). According to this theory consumers can be allocated to one of five groups: (a) innovators; (b) early adopters; (c) early majority; (d) late majority and (e) laggards. Behling (1992, p.40) has identified the fashion innovators as having the following profile: 'is a relatively young individual, is not married . . . has no children, has a relatively high income and occupation level, is likely to be female . . . and is mobile'. Goldsmith (1992) has, in contrast, argued that age was the most important factor in identifying fashion leaders and that, in his sample, neither income nor education were significant.

Finally, a number of theories have been produced to describe the diffusions of fashions through society. The so-called conspiracy theory is based on the contention that fashions are forced upon consumers by the industry. According to Sproles (1981, p. 118) there is 'little empirical documentation to support this idea although there can be little doubt that regular change is necessary to the survival of the apparel industry'. Goldsmith (1992, p. 176) does argue that 'industry is the more powerful change agent for fashion, not consumers'. The alternative models are consumer-based and include the following:

- (1) *Trickle down theory*. This is the oldest model and was in vogue at the turn of the century. It contends that fashions spread downwards through society from an older, more affluent consumer in the higher social classes. Investigations by King (1981) and Field (1981) suggested that it had little empirical support. This, it must be stated, would not in itself reveal a fatal flaw in that, as will be seen, none of the so-called theoretical constructs enjoy much empirical verification.
- (2) *Trickle up theory*. This proposes that fashions evolve at street level and move upwards through the social classes. Initially the young were seen as the origin of these upward movements but Field (1981) suggested that other groups, such as blue-collar workers or the ethnic minorities might also be sources of inspiration for new fashions. This is sometimes known as the Status Float Phenomenon (Field, 1981).
- (3) *Trickle across theory*. This suggests that fashions spread laterally within each social class promoted by improvements in both mass production and communication.
- (4) *The theory of collective selection*. This proposes that designers capture the spirit of the age.
- (5) *The theory of sub-cultural innovation*. This suggests that ideas spread from disparate sub-cultural groups and are toned down, modified and adopted into mainstream fashion.

A useful summary of these concepts can be found in Curran (1991) but in reality none of these ideas constitute theories which have been subjected to any sort of rigorous testing although they have been supported by the use of

selected examples, usually after the fact. Sproles (1981, p. 119), for example, concluded that in relation to the theory of sub-cultural innovation, 'research was non-existent' and that the 'mechanism of collective selection . . . is vague'. None of the above provides a means by which fashion change can be forecast with any degree of confidence and several are mutually exclusive. The result is that the fashion process has not lent itself to definitive explanation.

Two theoretical models have, however, been developed to an advanced stage and are worthy of attention. The oldest of the two models of fashion change and diffusion is that due to Behling (1985). It will be important to review this model because it features so prominently in the literature. The model isolates two independent variables – age and affluence – and relates changes in them to changes in two dependent variables – the direction and speed of fashion change. The independent variables are both clearly defined and objectively measured. However, one of the dependent variables is not precisely defined and neither are measured (and may not be measurable) in numerical terms. The direction of change is defined in terms of the trickle up or trickle down and the prediction is that the median age of the population determines whether or not fashions trickle down from the older groups or up from the younger groups. It is (Behling, 1985, p. 23) the median age 'which determines who the role models for our society will be, is a critical component of this theoretical model and determines whether or not fashion flows up or down from the young or from an older, wealthy' group of people. The degree of affluence 'may speed up the fashion change process or slow it down as the amount of discretionary income of large numbers of the population decreases or increases'. The concept of 'speed of fashion change' is not defined precisely.

Behling (1985, p. 23) concluded that the model worked in that it 'enables us to explain changes in fashion which have occurred over the past six and a half decades' and, additionally, would predict that in the future (up to the year 2000) that 'fashion influence should continue to trickle down from an older, affluent and visible class for the remainder of this century'.

There are, however, a number of serious problems in using this model, most of which derive from the difficulties noted in the introduction to this chapter of mixing research philosophies. First, the selection of the variable to measure affluence (the proportion of consumer spending financed from income as opposed to saving) offers no advantage over a more straightforward measure such as the trend in disposable income. Second, using the example of such a unique event as the Great Depression to demonstrate the validity of the argument that consumers dis-save in a recession is also counterproductive because it is simply not the case – either in the USA or the UK – that the savings ratio always goes up when incomes are rising and *vice versa*. In fact, most mainstream economists regard the official savings ratio data as almost totally unreliable. Harbury (1996, p. 234), for example, states that it is dan-

gerous to read too much into the meaning of trends in the savings ratio which is a national income statistic known with remarkable little accuracy. In the UK the savings ratio peaked in 1980 and fell to 5% in 1988 at the height of the boom (Curwen, 1997). Artis (1992) points out that the traditional relationship between savings and the business cycle was no longer visible in the 1970s and 1980s. In the USA between 1960 and 1996 the savings ratio hardly moved in the affluent period 1960–70, remained constant in the mid-70s when incomes fell and then fell in the boom period of 1992–1996. Curwen (1997) argues that in the USA, the country within which the Behling model was developed, the official savings figures are regarded as something as a joke. Therefore, relying on the role of saving or dis-saving to generate an explanation of any trend is probably unwise.

Third, the two dependent variables are very difficult to define and measure objectively so that the mixing of objective data (on income) with more subjective analysis of fashion trends produces severe difficulties in that the result is a model which embodies the concept of casual relationships but cannot be tested by standard regression techniques because some of the variables are not measurable numerically. In effect the end product is a sort of hybrid model which employs the language of casual relationships but is not, in fact, a regression model in the real sense of the term.

Fourth, in both the UK and the USA the trend in affluence was, in the long period, almost exclusively upward (see Table 10.13 for the UK). It is true that minor and short term recessions, for example in 1981 in the UK, correspond with short term downturns in expenditure on apparel (Jones, 1997) but this does not discredit the observation that over the long term a steadily rising tide of affluence has remorselessly pulled up consumer expenditure. The same picture is revealed by the US Department of Commerce (1997) data for the post-1960 period.

Therefore, while Behling (1985) identifies periods of greater and lesser prosperity the fact is that affluence has been rising steadily during the last four decades and that this, as has been seen, has been largely responsible for the rise in expenditure on apparel observed in both countries. If a graph of the trend in disposable income is superimposed upon the graph used by Behling to show the switch from trickle down to trickle up it adds very little to the analysis because it is almost a straight line (see Fig. 10.4), indicating that variations in affluence cannot contribute towards an explanation of the change in the fashion process from trickle up to trickle down.

The search for an explanation of changes in the direction of fashion change cannot, therefore, be carried out in the economic arena. The basic argument in the Behling model is that the direction of change is normally trickle down from an older, more affluent social class. This direction of flow can be reversed if the economy is (1985, p. 23) ‘unusually depressed’ and especially if the median age

Table 10.13 Long term income trends in the UK (£ millions at 1995 prices).

Year	£ million	Index (1995 = 100)
1950	143,362	29.0
1955	162,351	32.8
1960	193,368	39.1
1965	226,187	45.7
1970	250,018	50.6
1971	253,002	51.1
1972	274,246	55.4
1973	291,872	59.0
1974	289,086	58.4
1975	291,249	58.9
1976	290,001	58.7
1977	284,092	57.5
1978	305,163	61.7
1979	322,410	65.2
1980	327,732	66.3
1981	326,175	65.9
1982	325,339	65.8
1983	333,192	67.4
1984	345,191	69.8
1985	356,994	72.2
1986	372,426	75.3
1987	385,240	77.9
1988	405,462	82.0
1989	423,145	85.6
1990	438,935	88.8
1991	445,552	90.1
1992	461,964	93.4
1993	475,850	96.2
1994	481,924	97.4
1995	494,574	100.0
1996	505,392	102.2
1997	524,501	106.1
1998	524,660	106.1

Source: *Economic Trends (Annual Supplement)* (ONS, 1999b).

Note: (1) The savings ratio rose from 5.8% in 1970 to 11.7% in 1980 then fell to 7.4% in 1990 before rising again to 10.3% in 1995. In 1998 it had fallen again to 6.4%.

of the population is low or falling. It is true, as was shown in Section C above, that in the UK, for example, older people do own a high proportion of the nation's income and wealth. Therefore, it could reasonably be argued that what really matters is what age groups are able to participate in the market place although the literature does indicate that older people spend proportionately less of their income on apparel (Key Note, 1998).

The concept of the speed of the fashion process is also not precisely defined in the Behling model but it could be equated with a greater amount of spending

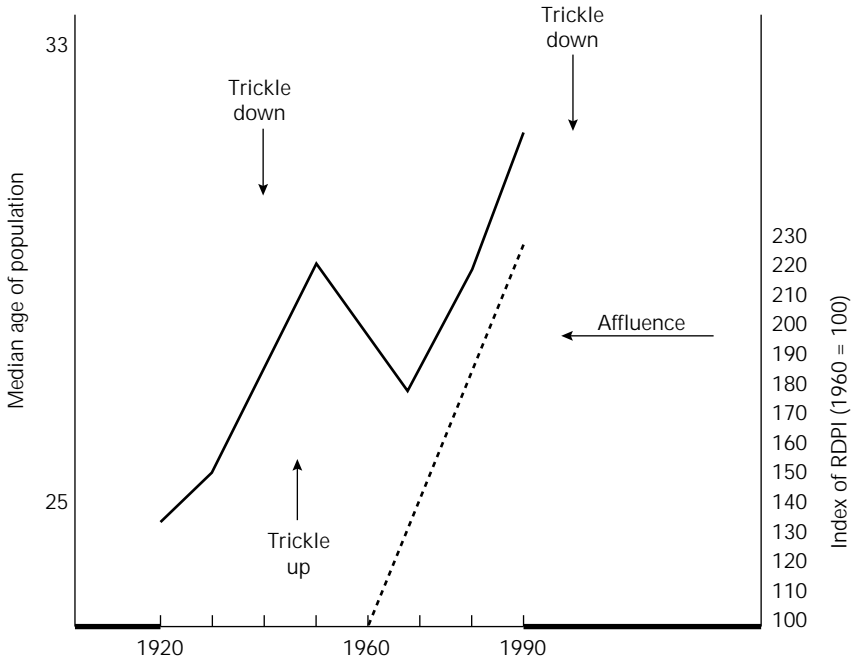


Fig. 10.4 A Model of the Fashion Process. (Adapted from Behling (1985)).

on apparel in which case it would be correct to argue that this is positively associated with changes in affluence. If it is accepted that most apparel purchases in a developed market economy are not motivated by considerations of functionality, it would be logical to argue that spending on apparel will be greater in periods of affluence when consumers have larger amounts of disposable income and may be more inclined to take risks in their spending pattern. The consumers' ability to satisfy a desire for change is enhanced by rising prosperity. In the same way if fragmentation is defined in terms of individuality then in periods of rising affluence more people will be able to indulge in a desire to purchase something new and stimulating. Behling's argument (1985, p. 23) that the 'state of the economy may speed up the fashion change process ... as the amount of discretionary income of the population decreases or increases' would be entirely correct in these terms.

The conclusion must, therefore, be that the Behling model cannot be regarded as a particularly satisfactory representation of the process of fashion change and diffusion. It does isolate some of the crucial variables such as levels of affluence and the age distribution of the population. McAdam (1996) applied the model to the UK and found that it was only partially successful in explaining trends and that, specifically, there were great difficulties in reconciling the steady increase in the median age in the UK population with the remaining influence of youth culture on the apparel market. It was shown

above (Jones, 1999) that in the UK between 1986 and 1993 the younger age groups decreased as a proportion of the population while the 26–45 age group gained heavily in terms of their share of income, but fashion trends (McAdam, 1996) continued to favour the young and youthful styles. It could be argued, therefore, that the young will always be more interested in fashion because of the social role played by dress and the lack of demands upon their income from such things as mortgages and dependent children.

It is probably unreasonable to expect any one model to be able to explain so many dimensions of the apparel market. The size of the market depends primarily on economic factors but other issues such as the direction of fashion influences remain difficult to explain within a testable model.

The second model does not attempt to explain all the dimensions of the fashion market and makes little or no reference to demographic or economic factors. The Symbolic Interactionist model of fashion has been developed by Nagasawa (1995; 1996). The model is cast within a post-modernist framework and claims to result in the formulation of ‘principles and theoretical statements in order to construct a theory of fashion’ which will allow the ‘development of scientific hypotheses’ which can be tested. The model is built around five basic principles:

- (1) *Cultural ambivalence* – that people entertain mixed emotions about their identities, e.g. a youthful appearance as opposed to chronological age.
- (2) *Heterogeneity in appearance modifying commodities* – that in a capitalist, market economy products will be developed to cope with cultural ambivalence.
- (3) *Symbolic ambiguity* – that this is fostered by the ability to manage appearance.
- (4) *Meaning negotiation and style adoption* – that the meaning of existing ambiguities have to be negotiated and that those styles which become acceptable and meaningful through this process will be adopted and will be fashionable.
- (5) *Ambivalence and style change* – that if the latter stage of adoption by a majority does not coincide with a resolution of cultural ambivalence then there will be further and, possibly, continuous change in fashion.

In the final paper (Nagasawa, 1996) the theory is tested against a feature of the apparel market (which has to be taken as correct) that youth styles exhibit more ambiguity and change than adult styles. The test is carried out by comparing the changes which take place in adolescents’ appearances and the stability exhibited by the traditional, male business suit. The theory is able to explain both these circumstances by reference to the basic concept of cultural ambivalence. The model has the great virtues of being cast within a traditional scientific framework and of setting out to produce a testable hypothesis from

the number of hypotheses that can be drawn out of the model. If cultural ambivalence increases, for example, the range of fashion products will increase but that if styles clarify ambivalence they will not change. However, a starting point is that it has to be accepted that (1995,a, p. 175) ‘ambivalence is a basic human condition’ and, as far as the present author can ascertain, no guidance is given as to how this is to be measured. Therefore, while it is stated (Nagasawa, 1995,b, p. 243) that ‘the theory should be testable empirically ... the theory should allow the derivation of observational statements both to predict and explain’ it does appear that the model is rather better at explaining than predicting – other than to predict that if ambivalence increases (and if this can be measured and recognised) certain consequences will follow, of which the most important seems to be increased unpredictability in the apparel market. The model is, however, relatively new and may hold out more promise for the future than any alternative.

Many studies of fashion change do not employ model building techniques at all. The comprehensive study of fashion change in the UK between 1900 and 1999, carried out by Mendes (1999) for example, is entirely descriptive and contains no model or theory of fashion change of any sort. The range of forces which is called upon to explain the observed changes in fashion is extremely wide, ranging from the impact of war with its impact on the availability of raw materials and the demand for practicality as well as the need to reflect more sombre times (or maybe to cheer people up!); changes in the level of affluence such as were experienced in the 1980s (when more ostentatious styles, power dressing and conspicuous consumption became the rule) or less sensationally so in the mid-1950s as economies recovered from post-war austerity; demographic changes as epitomised by the growing disposable income of young people in the 1960s which (Mendes, 1999, p. 157) ‘would shortly bring about significant and irreversable changes in both fashion design and ... retailing’; changes in gender values which, it is claimed, prevented men from being fashion aware in the 1940s but encouraged them to be preoccupied with appearance in the late 1960s; the role of film, theatre and music; the increased importance of sub-cultural influences as fashion became increasingly eclectic in the late 1990s, even extending to (Mendes, 1999, p. 256) the development of an all white style which ‘epitomised the desire for spiritual enlightenment’.

The main problem with this eclectic approach, however, is that while it is useful from a retrospective perspective, it is far less useful in a predictive sense because almost anything can be brought in after the fact to justify events.

Models are an abstraction which simplify the real world through isolating a few variables which generate predictive power. The problem with the all embracing, descriptive approach is that it sacrifices predictive power for descriptive realism. Therefore, it can be concluded that while economic theory can provide an explanation of the size of the apparel market, the search for a

predictive theory of fashion change and processes remains elusive. Behling (1992, p. 40), for example, concluded her exhaustive study of fashion adoption research with the warning that, although a profile of the early fashion adopter can be generated from the research a new model may still be required and that even that would 'not be a substitute for theory' but only an 'interim step towards one'.

It must be concluded, therefore, that while it is possible to make predictions from a sound theoretical base (and utilising a proven leading indicator) about the size of the apparel market the same cannot be said about the process of fashion change on other than an *ex post facto* basis. The reason that this matters is that it makes prediction of future trends in the market place extremely difficult. A good example of this problem is the frequently expressed view that the UK apparel market is becoming more difficult because it is increasingly fragmented. Sorensen (1995, p. 14), for example, wrote that the 'demand for clothing is now more fragmented' while Atkinson (1995, p. 133) noted that the trend 'in the 1990s is towards the desire for considerably more diverse ranges of products'.

The implication drawn is that this increased fragmentation makes the market more difficult to operate in. The *UK Fashion Report* (EMAP/MTI, 1998/9) and the *UK Retail Report* (Retail Intelligence, 1999) both stress this aspect of the market place. It is, however, rare to find a definition of what exactly becoming more fragmented actually means and what the marketing implications of this process might be – even if there were a sound theoretical model of the fashion process within which increased fragmentation could be assimilated. Clearly, the division of the apparel market into fragments or segments is not new. Nor is this a unique characteristic of the apparel market. As Chisnall (1985, p. 262) comments, 'practically every market is capable of refinement into significant sub-markets'.

Target marketing has been the norm in the UK apparel market for many years (see Easey (1995, Chapter 5), for example) and the definition of a fragment is very close to that of a segment – 'a part separable from other parts'. Therefore, fragmented could just mean segmented. Does greater fragmentation mean that the number of target markets is increasing while their size is decreasing? And, if so, how do we know? It appears that the standards of verification acceptable in discussions of 'fashion' are simply different from those usually encountered in mainstream economics or marketing.

One group of researchers who do deal with the concept of fragmentation are the so-called 'sub-culturalists' who stress that the increased cultural plurality in post-modern Western societies (Bauman, 1996) results in consumers having greater freedom to express their own desires in a way which is relatively unconstrained by more traditional conventions. Post-modernism refers to a body of thought or a set of beliefs about the nature of contemporary society

which rejects the idea that modern industrial society gradually changes for the better and that these changes are guided or driven by rational or scientific forces. Morgado (1996, p. 50) argues that fashion can be seen as the most visible expression of post-modernism in that ‘the diversity of contemporary styles and the increased speed of fashion cycles illustrate the sense of fracture and discontinuity characteristic of post-modern culture’. Post-modernism rejects the intrinsic value of traditional hierarchies and rules with the result that apparel markets would display (Morgado, 1996, p. 46) a ‘highly volatile and accelerated rate of fashion change as compared with the rhythmic cycles of change in modern culture; an unstable aesthetic code in contrast with modernist rules’ of appropriateness or co-ordination. In Kaiser’s words (1990, p. 165) post-modernism when ‘connected with advanced capitalism, spawns cultural ambivalence and a range of clothing styles that emerge, in part, to clarify and lend expression to ambivalence’.

It has been shown above that a new model of the fashion process has emerged from a consideration of post-modernist influences and, in particular, concern with this concept of ambivalence. One of the main implications of this model is that (Nagasawa, 1995a, p. 180) because society no longer sends out unambiguous messages as to what is appropriate or fashionable it follows that the apparel market must be characterised by increased ‘stylistic eclecticism’. Mendes (1999, p. 192) also notes that the apparel market has become increasingly eclectic during the last 30 years. It can be argued, therefore, that a definition of fragmentation is emerging from this work in that it implies that, as Evans (1989) put it, the era of the fashion dictate is over so that a sensible marketing response would be to concentrate on building ‘longer term brand images in a more segmented, pluralistic society’. This view would be confirmed by McAdam (1999, p. 6) who argued that ‘the Paris catwalk dictate gives way to a more fragmented democratic fashion influence from a variety of sources, such as street fashions, subcultures and immigrant cultures’ and this leads ‘to a pluralistic, decentred fashion system that permits the mixing of texts in the construction of multiple identities for multiple occasions’.

As McAdam (1999) points out, elements of subcultural style may then become incorporated into mainstream fashion. Greater individuality will produce greater fragmentation in the sense of extreme and unpredictable product differentiation. As society becomes more affluent consumers may become more demanding and discerning – they will demand and be able to obtain infinite variety to suit their individual needs. This would, it can easily be appreciated, make the market a difficult one in which to operate and would place a high premium on the ability to respond rapidly to unexpected changes in demand. It could be argued that this conclusion is well illustrated by the decision (Simpkins, 2000) taken by C&A to withdraw from the UK market. It may also be significant (Section E below) that one of the contributory factors in

the failure of C&A was the decision taken to buy centrally on a European basis. This resulted in the achievement of significant economies of scale but did not generate products acceptable to the British market.

If the post-modernist view of society is correct, the best prediction which can be made is that nothing is predictable! Lowson (1999, p. 4) reflected this view when he wrote 'a splintered society with its growing fragmentation and increasingly diverse consumer requirements' produces a future which is 'open ended, chaotic' and in which 'forecasting is . . . almost worthless'. This clearly would make the market an extremely difficult one in which to operate.

E. The EU as the home market

It could be argued that, since 1993, the correct designation of the domestic market is the EU and not the UK. As has been seen in Chapter 5, some 70% of UK apparel exports go to other members of the EU. This concentration can be explained by reference not only to the geographic proximity of the EU market but also to the concept of psychic or cultural distance (Lee, 1997, p. 9) which can be defined as the 'perceived sociocultural distance between the home and target markets in terms of language, businesses practices, legal and political systems and marketing infrastructure'. Lee (1997) concluded that there is evidence that export performance is negatively associated with cultural distance and it is intuitively likely that the gap between the UK and other EU members will be smaller than that between the UK and Asian markets.

The EU apparel market is extremely large, standing at £45.6 billion in 1996 and embracing a population of 373.7 million in 1997. The UK is the fourth largest apparel market in the EU after Germany, Italy and France (*UK Fashion Report*, EMAP/MTI, 1998/9). In terms of the proportion of consumer expenditure devoted to apparel and expenditure per head on apparel, however, the UK comes well down the list of the member states and prompted the *UK Fashion Report* (EMAP/MTI, 1998/99, p. 37) to comment that while many interpretations can be put upon these statistics, 'that the UK is the best dressed nation in the EU is not amongst them'.

The EU apparel market is extremely valuable but it is not homogeneous and probably cannot be treated from a marketing point of view as 'one' market. The structure of distribution, for example, varies greatly from one member state to another with the role of the independents being far greater in Southern Europe than in the UK (Mattila, 1996). McGoldrick (1995) points to the relatively greater importance of department stores in Germany; their unimportance in Italy and the remaining role of the variety store in the UK are examples of the variation to be found within the EU. The differences in apparel

markets in the individual members of the EU have been comprehensively summarised by Curran (1990). In addition, despite the claims of the globalists, there is evidence that patterns of spending within the EU do vary greatly. Spending on apparel ranges from a low of 3.5% of expenditure in Finland to a high of 8.5% in Portugal (Euromonitor, 1998).

It is also well documented that the national markets are structurally diverse within the Single European Market (SEM) – see, for example, Bickerton (1999) and Tordjman (1995). The questions of the degree of homogeneity in apparel markets; the extent to which this is increasing; the methods by which fashions spread within the SEM are extremely difficult to resolve in large part because of the absence of a validated theory of the fashion process. Tordjman (1995, p. 25) concluded that while there were some convergent trends in international retailing (such as the rise of discount stores) the convergence ‘remains partial and marginal’ relative to that achieved by the internationalisation of production. As Curran (1991, p. 49) argued, ‘it is very difficult to establish whether garments should be adapted for different countries . . . The available literature does not give any indication of how long any convergence of styles across geographical boundaries might take and what variables might influence the speed of any convergence’.

Brown (1981) has described the geographic approach to the distribution of innovation in which new ideas are seen as spreading from larger to smaller population centres. In a European context it could, therefore, be argued that the larger centres of population such as London, Paris, Milan and Berlin could be recognised as primary centres of fashion innovation. The concept of global homogeneity of consumer demand will be fully discussed in Chapter 11 but it can be noted here that the evidence for a convergence of spending patterns is not strong. Selvanathan (1993), for example, concluded that the hypothesis ‘that tastes are the same across countries was tested . . . and it was found that the OECD data do not support’ this hypothesis. Nevertheless it will be seen that some authors, in particular Levitt (1983), argued that consumers are becoming more homogeneous over time. On *a priori* grounds it might be argued that if this idea has any force it would be more strong within a trading bloc like the EU than between a European and an Asian grouping.

The main factors which, from a survey of the literature, might be expected to influence the acceptance of a particular fashion include: the impact of religion; the strength of feeling of national identity; the openness of a society as measured by such factors as foreign travel; and the impact of the mass media. Curran (1993, p. 6) attempted to provide an objective test of the variation between the UK and France in the fashionability of different skirt lengths over time and concluded that while fashion cycles seemed to be largely in conformity with one another in the two countries, data revealed ‘significant discrepancies

between prevailing skirt lengths in the eighties' and the degree of conformity had in fact declined over time.

The same author (Curran, 1999) compared trends in both skirt length and widths in Germany and the UK. In this case it was found that there was a great degree of similarity, especially in the case of skirt lengths, between trends in the two markets. It was seen in Chapter 5 (Table 5.2) that the vast majority of UK apparel exports go to the EU and it will be recalled from Chapter 1 that Owen (1999) argued that one of the main reasons for the poor performance of UK manufacturing industry was early exclusion from the huge market represented by the EU. Clearly this alleged defect can no longer be detected in the pattern of UK apparel trade but the rate of growth exhibited in the recent past by the EU has, by global standards, been unimpressive.

Jamieson (2000) shows that the rate of growth in the EU every year since 1992 ranged from 48% to 80% of that exhibited by the American economy. The absolute size of the EU and NAFTA trading areas in 1996 was, in fact, rather similar in that both had populations of around 380 million and Gross Domestic Products of around \$8 000 000 million (Euromonitor, 1996). As Moore (1999, p. 41) observed, the UK has a large positive balance on services and investment income with NAFTA so that, in effect, 'she is paying off most of the negative balance she is incurring with the EC (EU) by what she is earning from the rest of the world'. The delayed entry of the UK into the Community probably never did result in her catching up on the alleged lost opportunity (Owen, 1999) because as Moore (1999, p. 372) concludes 'imports from the other EC member states ousted her home produced goods from her home market . . . So far from participating in a rapidly growing market her rate of growth fell'.

It would be the ultimate irony if (assuming Owen's analysis was correct) the UK has at a late stage joined the wrong trading bloc in respect of future growth so that UK manufacturers are, again, excluded from those markets which are currently or in the future the engines of global expansion. In this regard it has to be noted that the American apparel market – which takes only 5.7% of UK exports – stood at some \$200 000 million (Euromonitor, 1996) in terms of consumer expenditure in 1993. It should also be noted that according to Dickerson (1995, p. 208) expenditure on apparel in the USA was both rising more quickly than general consumption and as a proportion of consumer expenditure between 1973 and 1992, which was a complete contrast to the position of Europe. Therefore, while the apparent concentration on European markets exhibited by the UK industry is in many respects understandable it is by no means obviously desirable as a long term strategy. The identification of potentially attractive future markets is considered in Chapter 11.

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