

# **12 SWOT Analysis for the Hong Kong Denim Industry**

## **12.1 STRENGTHS**

After comparing the clothing manufacturing sectors in several countries, Hong Kong was viewed a place where you can get anything you want-any garment, in any material (cotton, wool, synthetics, fur, leather) at a competitive price, acceptable quality and delivered on time [1].

Hong Kong's textile and garment industry has been dominated by small- and medium-scale enterprises. Certain types of product, such as woven garments, involve a series of processes that are labour intensive. The small garment firms in Hong Kong, which did not possess any automation equipment, fitted into this kind of production and were able to provide a wide range of styles at low cost [2].

For small firms, efficient communication and quick response to external change is possible. It is generally agreed that the industry has been able to produce small quantities of high quality garments at short notice [3]. Firms were ready to adjust their production according to changing requirements of international markets [4]. To maintain such competitive edges, manufacturers in the industry tended not to expand their production capacities. Furthermore, manufacturers in the industry avoided long-term commitments (the payback period of the enterprise was always less than five years) [4].

Subcontracting activities are common in Hong Kong's textile and garment industry. After receiving orders from local trading firms, or directly from overseas buyers, many manufacturers subcontract a part of production processing to other factories [4].

## **12.2 WEAKNESSES**

Most textile and garment firms in Hong Kong do not aim at creating new fashions. Instead, they focus on garments which consumers demand most. Few enterprises regarded their products as unique either in the Hong Kong or overseas markets [4, pp93]. Most garment manufactures imitate others products; some simply copied exactly from other manufacturers and some copied with some modifications.

Table 12.1 SWOT analysis of Hong Kong denim industry

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Experience of international market success</li> <li>• Knowledge of international and national rules and regulations governing clothing exports</li> <li>• Managing production processes to keep costs low and profit margins high</li> <li>• Expert at co-ordination of multi-country production systems</li> <li>• Good at filling large volume orders of fairly sophisticated apparel in a short time (QR)</li> <li>• Knowledge of consumer market trends in US, Western Europe and Japan</li> <li>• Strong in manufacturing of denim apparel</li> <li>• Small and flexible firms that are very adept at learning from market leaders</li> <li>• Entrepreneurial dynamism</li> <li>• International form of legal system</li> <li>• Open and free market economy</li> </ul>	<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Prolonged denim <ul style="list-style-type: none"> <li>• widely accepted and versatile</li> </ul> </li> <li>• Emerging Asian denim market <ul style="list-style-type: none"> <li>• Possess factories in the countries</li> <li>• Size and culture fit of HK designers and manufacturers</li> </ul> </li> <li>• HK as emerging fashion center in Asia <ul style="list-style-type: none"> <li>• Become fashion leader in Asia</li> </ul> </li> <li>• Lack of well-known Asian labels <ul style="list-style-type: none"> <li>• Develop leading brand names of Asia</li> <li>• Regional fashion distribution network</li> </ul> </li> <li>• Casualisation in clothing trend</li> </ul>
<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Weak at new material innovation</li> <li>• Growing disadvantages in supplying US market <ul style="list-style-type: none"> <li>• QR inventory management –small lots shipment</li> <li>• Unwilling to accept unsold inventory</li> </ul> </li> <li>• Rejuvenating industry's leadership – fewer managers and young people working in HK denim industry</li> <li>• Dominant role of small enterprises – short term outlook and lack of R&amp;D capacity</li> <li>• Paternalistic corporate culture</li> <li>• Narrow range of export markets</li> <li>• Weak in technology development, utilization and commercialization</li> <li>• Weak R&amp;D culture and technological capabilities</li> <li>• Reliance on price oriented strategies and competition in price-sensitive market segments</li> <li>• Shortage of quality scientists and engineers</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Emergence of Mainland denim companies <ul style="list-style-type: none"> <li>• Overseas retailers may side-step HK</li> <li>• HK operations in China – breeding ground for Mainland entrepreneurs</li> <li>• More familiar with Mainland clothing market</li> </ul> </li> <li>• New competitors in the Americas – Mexico and parts of Caribbean <ul style="list-style-type: none"> <li>• Low tariff status</li> <li>• Close to the market – QR</li> </ul> </li> <li>• New competitors in East Europe <ul style="list-style-type: none"> <li>• Close to the market</li> <li>• Low tariff status</li> </ul> </li> <li>• 2005 ATC quotas – phase out <ul style="list-style-type: none"> <li>• Eliminate HK's protected access to US and EU markets</li> </ul> </li> <li>• Concentration in US clothing retail market <ul style="list-style-type: none"> <li>• Increasing bargaining power</li> <li>• Lower manufacturer's margin</li> <li>• Increased manufacturer's service</li> <li>• Reduced order size and delivery time</li> </ul> </li> </ul>

To catch up with world fashions, the manufactures usually adopt new designs by paying license fees to first-class designers all over the world [4].

In garment production, Hong Kong manufacturers have been late adopters of technology, and didn't want to commit to large investment. A survey in 1989 revealed that most textile and garment firms, large or small, still used outdated equipment and procedures. Many techniques depended on manual labour [4]. The level of Hong Kong firm's technology has historically been lower than that of parent firms or overseas competitors [5]. Similarly, a manpower survey conducted by the Hong Kong Training Council revealed that the textile and garment industry largely employed low-

skilled workers [6]. The industry was also found not to have experience in innovation at the design, processing, or production stages of manufacturing [5].

Innovations in textile and garment production through R&D were seldom undertaken in Hong Kong and the manufacturers were rarely interested in them [4].

The denim industry in Hong Kong is facing increasing difficulties due to changes in the operating conditions in Hong Kong. The operating environment is locally and internationally perceived as one of the industry's greatest weaknesses. Operating costs in Hong Kong have been rising rapidly in recent years, increasing pressure on domestic manufacturers. Hong Kong's costs of electricity and oil are among the highest of the major textiles producing countries, and the operating costs for Hong Kong's retail sector are heavily dependent on the cost of retail space, which in prime locations are higher than in Tokyo or New York [7].

The Hong Kong government introduced strict rules to control pollution in the 1990s, and there are basic and sewage charges levied. The water costs for Hong Kong manufacturers are really high, effectively wiping away a big part of the net profits of the denim industry [7].

The Hong Kong denim industry also experienced increasing difficulty in finding workers. Young entrants to the workforce today have many attractive alternatives in the service sector and other industries, as Hong Kong denim manufacturers are unable to offer the degree of wage increase necessary to compete in the labour market. The existing workforce is overage and internally not competitive [7].

### **12.3 OPPORTUNITIES**

A big opportunity for the Hong Kong denim industry is the potential market in the Chinese Mainland. China's economy has developed quickly, and is emerging as a giant in the world. The consumptive power of the Chinese people has increased much in the last two decade, as an open window, western lifestyle spread into China. Denim is a popular category, liked by the young, and Hong Kong denim producers are close to the Mainland and familiar with the business environment there. There are many successful examples of Hong Kong enterprises being very successful in the Mainland, such as Jeanswest, Bossini, and Giordano. Entering the 21st century, Hong Kong will link with the Mainland more closely, and this will help the Hong Kong denim business to expand in the Mainland.

Not just China, but other Asian developing countries, such as India and Pakistan, are also potential markets. These countries not only have huge populations, but their economies are registering strong growth. These factors will lead to increased spending on clothing.

### **12.4 THREATS**

Immigration from the mainland in the 1950s and 1960s brought a pool of low wage labour, and this was undoubtedly a major factor contributing to the dramatic growth of garment manufacturing in Hong Kong. This advantage has gradually been eroded over time. Rising labour and production costs in recent years have reduced the competitiveness of denim products made in Hong Kong. On the other hand, China has an ample supply of cheap labour, and Hong Kong garment manufacturers have

relocated their production to China [4]. The labor cost in the 1996 was US\$ 4.9 per hour in the Hong Kong textile sector, and compared with the costs of producers in developing countries of US\$ 2.02 per hour in Turkey, US\$ 0.58 per hour in China, US\$ 0.56 per hour in India, and US\$ 0.43 per hour in Pakistan, it was very high.

Further, other denim export countries have expanded and improved their capabilities in past years. Moreover, as the developed markets are putting a higher value on short lead times and responsiveness, supply sources closer to the consumer's market are becoming more competitive [7]. The Hong Kong share of the US and EU market was challenged fiercely by developing countries such as Mexico, Tunisia and Turkey.

A threat to the Hong Kong denim industry also comes from the changing consumer interests in clothing products. In recent years, denim jeans have been challenged by khaki twill slacks and other casual wear products. On the other hand, consumers in the older age brackets, who tend to spend less on clothing, will form a larger proportion of the population, and the elderly are not the core consumers group. Such consumer challenges have significant implications for the denim industry.

As Table 8.3 shows, the Hong Kong denim industry has a number of strengths in its manufacturing management, export-orientation and flexible small enterprises. But, the industry is weak at design and new product development, and is facing serious threats in its important traditional US and West European markets due to trade regionalism and retail concentration. Hong Kong denim manufacturers are facing stronger and stronger competition from Mainland China, Mexico, East European countries, South East Asian countries and other developing countries such as India and Pakistan. On the other hand, the industry has very good opportunities provided by casualisation trends in the developed countries and the emerging middle class consumer markets in Asian countries.

In summary, the Hong Kong denim industry is relatively healthy with many important strengths, but it also exhibits a significant number of weaknesses. Importantly, some characteristics that proved successful in the past are gradually becoming constraints on further growth. To gain sustainable competitive advantages in the new millennium, the Hong Kong clothing industry has to defend itself from the competition from developing countries and avoid the threats from trade regionalism and retail concentration in the Western countries. To achieve this goal, the industry needs to capitalize on the opportunities by fully utilizing its own strengths in manufacturing knowledge and management and overcome its weaknesses (i.e. develop as new strengths) in design, product development and marketing [8].

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