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Strategies for Operation in Foreign Markets as a Source of the Polish Clothing Industry's Competitive Advantage in Europe

Abstract

Following Poland's entry to the European Union, its domestic market has been integrated into the Single European Market. The Polish clothing industry has been seeking competitive advantages by reducing manufacturing costs and ensuring the high quality of its products, but also by expanding into foreign markets. The article analyses the volume of clothing exported by Polish manufacturers, their strong and weak points, as well as opportunities and threats to the enlargement of internal export activities on the European clothing market.

Key words: textiles, clothing, marketing, foreign trade, European market.

Introduction

The present position of the Polish economy obliges domestic clothing producers to face new challenges. They have to function in a new market environment and apply marketing strategies that must consider the changed economic circumstances. Only enterprises which fully grasp what is happening around them, are able to identify trends and actively participate in the process of change will gain a competitive advantage. The process of Poland's integration into the European Union has been marked by the following milestones [1]:

- In 1997, the process aimed at liberalising conditions of trade between Poland and the Community was closed (the Interim Agreement was effective from 1 March 1992). As a result, Poland was granted free access to the EU market.
- On 1 May 2004 Poland entered the European Union. Barriers to trade and international cooperation within the enlarged Europe were lifted. External customs tariffs were introduced, as were market protection instruments which complied with the WTO rules.
- 1 January 2005 marked the end of a decade-long interim period in which the Agreement on Textiles and Clothing, signed on 15 April 1994 during the Uruguay Round in Marrakesh, had been in force. Clauses protecting trade within this group of products were abolished, and textiles and clothing were subject to GATT regulations.

Customs rates which apply to clothing under the Common Customs Tariff are lower than those charged by the Polish tariff prior to the integration process. In the EU, average consolidated customs rates on textiles and clothing amount

to 7.9%, whereas in the Polish customs tariff they were 13.1% [2]. Reductions in customs rates, the consequences of the aforementioned events and the international agreements that Poland has become an active party to as a result of her integration into the EU have caused many domestic clothing manufacturers to decide either to start exporting or to boost their foreign sales. The variety of available outlets provided enterprises with growth opportunities. Research shows that 93.1% of clothing manufacturers are exporters.

Analysis of the export volume of Polish clothing enterprises

In Poland, the volume of exported clothing and fur articles has shown observable variations. In 2002, 2003 and 2004 these export was valued at 6910.8 million zloty, 7281.5 million zloty and 6393.6 million zloty respectively [3, 4]. In the period 2002-2003, the market growth rate was estimated at 5.4%, and between 2003 and 2004 at -12.2%. The clothing industry's exports encompass not only clothing itself, but also external processing services. Table 1 illustrates the volume of export sales in enterprises covered by the survey carried out by the autor (for both types of business activities). The absolute values of export sales have been related to total sales, in order to identify percentages of export sales by activity type and in total. The remaining percentage value represents domestic sales.

Within the group of thirteen clothing enterprises (44.8% of the sample) exporting external processing services exclusively, the following organisations were distinguished:

Table 1. 2003 export values for the surveyed sample of clothing manufacturers by own products and outside processing services; **Source:** developed by the author based on the survey.

| Firm no. | Total value of sales, (thousand of PLN) | Value of exported services, (thousand of PLN) | Value of exported products, (thousand of PLN) | Share of exported services in total sales, % | Share of exported products in total sales, % | Total export as a share of total sales, % |
|----------|---|---|---|--|--|---|
| 4 | 3473 | 204 | 304 | 5.87 | 8.75 | 14.62 |
| 6 | 10641 | 5564 | 3385 | 52.29 | 31.81 | 84.10 |
| 15 | 48137 | 27000 | 2069 | 56.09 | 4.30 | 60.39 |
| 18 | 11850 | 7400 | 350 | 62.50 | 2.95 | 65.45 |
| 20 | 110025 | 27996 | 2065 | 25.45 | 1.88 | 27.33 |
| 21 | 30484 | 11735 | 705 | 38.50 | 2.31 | 40.81 |
| 22 | 91771 | 31191 | 2037 | 33.99 | 2.22 | 36.21 |
| 27 | 4344 | 962 | 796 | 22.15 | 18.32 | 40.47 |
| 1 | 64841 | 0 | 27411 | 0 | 42.27 | 42.27 |
| 2 | 20000 | 0 | 14000 | 0 | 70.00 | 70.00 |
| 3 | 131097 | 0 | 36313 | 0 | 27.70 | 2.77 |
| 25 | 374494 | 0 | 34913 | 0 | 9.32 | 9.32 |
| 26 | 8000 | 0 | 850 | 0 | 10.62 | 10.62 |
| 29 | 11352 | 0 | 23 | 0 | 0.20 | 0.20 |
| 7 | 4981 | 4896 | 0 | 98.29 | 0 | 98.29 |
| 8 | 12858 | 12854 | 0 | 99.97 | 0 | 99.97 |
| 9 | 9000 | 8580 | 0 | 95.33 | 0 | 95.33 |
| 10 | 6372 | 6357 | 0 | 99.76 | 0 | 99.76 |
| 11 | 690 | 396 | 0 | 57.39 | 0 | 57.39 |
| 12 | 8163 | 5062 | 0 | 62.01 | 0 | 62.01 |
| 13 | 3800 | 2580 | 0 | 67.89 | 0 | 67.89 |
| 14 | 14569 | 9765 | 0 | 67.03 | 0 | 67.03 |
| 16 | 7867 | 5327 | 0 | 67.71 | 0 | 67.71 |
| 17 | 12554 | 8915 | 0 | 71.01 | 0 | 71.01 |
| 19 | 27726 | 11790 | 0 | 42.52 | 0 | 42.52 |
| 23 | 4350 | 150 | 0 | 3.45 | 0 | 3.45 |
| 24 | 6215 | 3624 | 0 | 58.31 | 0 | 58.31 |

- Four enterprises (numbers 7, 8, 9 and 10), where the domestic sales accounted for less than 5% of their output. They export almost all of their production. The domestic market only receives the unexported surplus.
- Eight enterprises where the export of outside processing services ranged from 42% to 71%; the remaining production capacity was used to provide services at home.
- One enterprise providing most of its services for the domestic firms; only 3.5% of its capacity handled export operations.

Six firms (20.7% of the sample) exported their own products exclusively. Their foreign sales ranged from 10 to 70% of the output. The rates should be confronted with the absolute values, though, because for instance the 27.7% portion of export sales in enterprise 3 (valued at 36.313 million zloty) corresponds to the total sales of many of the surveyed enterprises. In firm 29, which has only just started expanding onto the foreign markets, exports accounted for only 0.2%.

Eight clothing enterprises (27.6% of the sample) were involved in both types of export activities. The values of their export sales ranged from 15% to 65%, with the outside processing services being the prevailing activity. The firms had been exporting the services for a long time. An exception in the group is firm 4, where the volume of export sales is the lowest, but it has run those two lines of business for too short a time to compare their profitability.

Only two clothing manufacturers (6.9% of the surveyed sample) did not export any products.

Sales of products are not the only instance of Polish clothing enterprises' expansion onto foreign markets; the survey revealed that they are also involved in capital operations. For instance:

- the enterprise that exports 70% of its output to Western Europe had decided to enter markets in the East. The perceived obstacles are high customs duties and other barriers to trade. The vehicle of the planned expansion will be a joint venture company established together with a foreign partner.

- Another instance of capital operations is the creation of a chain of manufacturer's own outlets. Five organisations in the sample decided to choose this option.

Assessment of the strong and weak points of Polish clothing manufacturers, as well as opportunities and threats to the development of internal export activities

The strategy of operating in foreign markets can stimulate an organisation's growth, but it can also expose it to threats. In order to assess what opportunities and threats might arise, the SWOT analysis technique was applied. This helps investigate the strong and weak points of the organisations surveyed, their opportunities for increasing exports of clothing, and barriers to expanding their foreign sales. The analysis results are summarised in Table 2. All the enterprises surveyed expressed very positive opinions on the quality of the clothing products and workers' qualifications, and indicated that the manufacturing costs were low compared with Western European countries, albeit high when set against Asian producers. Among external factors, the high costs of entering new markets and the exchange risk were pointed to as the major barriers to export.

An analysis of the survey results allows us to group the responding enterprises in the following way:

- Group I includes the first 13 firms (44.8% of the sample) that follow the Maxi-Maxi strategy. In 2003, they held the largest shares in the export of clothing, and their rates of export growth were the highest. These were strong organisations that perceived external factors as opportunities rather than threats. Their position allowed them to follow the strategy of expansion into foreign markets.
- Group II includes strong firms, which nevertheless mainly recognise threats to the export of clothing. No firms representing such a stance were identified in the survey.
- Group III is made up of 10 firms (34.5% of the sample) that pursue the Mini-Maxi strategy. The main reason for their low participation in the export of clothing in 2003 was their delayed decision to enter foreign markets. They are trying to overcome

Table 2. SWOT analysis – assessment of the strong and weak points of the surveyed clothing manufacturers, as well as the opportunities and threats to expanding foreign sales; Source: developed by the author based on the survey.

| | Specification | No. of firms with the trait |
|---------------|---|-----------------------------|
| Strong points | High quality of workmanship | 29 |
| | High qualifications of the workforce | 29 |
| | Low manufacturing costs compared with the EU | 28 |
| | Private ownership of enterprises | 24 |
| | Completed restructuring process | 17 |
| | Very attractive designs of offered products | 14 |
| | Broad range of offered products | 13 |
| | The need to expand and to boost sales | 12 |
| Weak points | High manufacturing costs compared with Asian countries | 24 |
| | Insufficient penetration of foreign markets | 21 |
| | Low propensity to invest | 18 |
| | Weak knowledge of domestic brands | 17 |
| | Lack of foreign operations strategies | 16 |
| | Level of management's skills in the new economic environment (in interviewer's opinion) | 10 |
| | Low financial liquidity and creditability | 9 |
| Opportunities | Stable demand among foreign clients for outside processing services | 14 |
| | Favourable exchange rates | 6 |
| | Growing demand for Polish products abroad | 5 |
| | EU' market opened to Chinese products from 2005 | 3 |
| | Development of the infrastructure (motorways, hotels, etc.) | 3 |
| Threats | High costs of entering a market | 25 |
| | Different levels of economic development between Poland and Western Europe | 19 |
| | Community's market opened to imports from China | 18 |
| | Low exchange rates | 6 |
| | Problems with the collection of debt | 5 |
| | No assistance from governmental agencies | 4 |
| | Customs duties and other barriers to trade | 3 |
| | Competition in the clothing market | 2 |

this disadvantage and dynamise their export sales by seizing opportunities presented by external factors. Within their strategy of operation, they seek opportunities to finance expansion onto new markets.

- Group IV has 4 firms (20.7% of the sample) that follow the Mini-Mini strategy and 2 non-export firms (6.9% of the sample). Firms in this group showed low export shares and low rates of export growth. They viewed the removal of barriers to export expansion as threats rather than opportunities.

The strategy of operating in foreign markets has partly been forced by limited sales on the domestic market. However, the special requirements of a foreign environment (unfamiliar laws, different levels of economic development, cultural factors) mean that direct or indirect actions must be launched after a relevant marketing strategy has been developed. New markets should be chosen on the basis of surveys conducted by the mar-

keting teams that assess the markets, set against the enterprise's resources and the necessary actions prescribed. On many occasions, this process reveals gaps and holes, and consequently Polish clothing manufacturers' attempts to enter foreign markets are not always satisfactory.

Conclusions

1. Export sales of clothing products (both the manufacturer's own brands and external processing services) are the most typical instrument for the Polish clothing manufacturers to internationalise. This was identified for 93.1% of firms in the sample.
2. Another instance of the domestic clothing manufacturers' expansion into foreign markets is capital operations, e.g. those involving the establishment of a joint-venture company with a foreign partner, or building a chain of own outlets.

3. The export of genuine Polish clothing is still at the market formation stage. Consequently, manufacturers operate in a blocked market, and have to overcome barriers checking their growth abroad. Manufacturers exporting their own products follow the classic marketing concept, and are focused on winning as many customers as possible.
4. Clothing products manufactured under external processing are exported onto an unblocked market. The customers highly evaluate the products they receive. Enterprises operating in the market take pains to maintain long-term, mutually beneficial relations with their foreign customers, which are the main source of their competitive advantage.
5. The main barriers to the clothing export growth in Poland include high costs of entering foreign markets, diverse levels of economic development, the openness of the European market to imports from China, problems with debt collection, and the exchange risk.
6. The main opportunities for the increased volume of clothing export from Poland are stable demand for external processing services, foreign clients' growing demand for Polish clothing, substantially reduced manufacturing costs and improving productivity of labour, the high quality of products ensured by the highly-skilled workforce, and low costs & short shipment times due to Poland's central location in Europe.

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