



**ECONOMIC AND SOCIAL
COUNCIL**

Distr.
LIMITED
E/ESCWA/ID/1999/WG.2/18
29 October 1999
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia

Expert Group Meeting on Enhancing the Competitiveness of Exports
in Textiles and Clothing in Countries of the ESCWA Region
in the Light of Globalization and the WTO Agreement
Beirut, 3-5 November 1999

UN ECONOMIC AND SOCIAL COMMISSION
FOR WESTERN ASIA

16 NOV 1999

LIBRARY + DOCUMENT SECTION

**PATTERNS OF SUCCESS IN THE PRODUCTION
AND EXPORT OF CLOTHING:
A CASE STUDY FROM LEBANON**

Note: This document has been reproduced in the form in which it was received, without formal editing. The opinions expressed are those of the author and do not necessarily reflect the views of ESCWA.

Mr. Roy Badaro

Presentation for the ESCWA expert group meeting: 3rd-5th, November 1999

Subject: Enhancing the competitiveness of exports of textiles and clothing in countries of the ESCWA region in light of globalization and WTO agreement.

For any company to expand exporting is essential, and subsequently increased exports strengthen a country's economy. Accordingly, government support of private enterprises is crucial for economic growth. As a basic rule, trade agreements are sought to stimulate exports. In fact, I first exported twenty years ago because of the opportunity granted by the 1978 trade agreement between Lebanon and the EEC. Conditions then made exporting feasible, and I had considerable success as a manufacturer selling textiles, and later children's clothing, to France. Unfortunately, by 1988 escalated political turmoil ended my export business.

Today globalization has unleashed unprecedented competition, and much more is required to boost exports. **Manufacturers must apply innovative measures in production and distribution, but without government assistance efforts will be futile. Successful economies today are showing that the public services which private enterprises depend on must also be commercially driven, as each input adds to the cost of final products.** Lebanese industrialists are setback because we do not have the tools needed to manufacture competitively, and we are losing out on the lucrative export business. Last year's trade deficit is a testament to this sorry truth – imagine that over \$7 billion in goods were imported into this country, while exports amounted to only \$716 million.

The reasons are numerous, and widely known. High production cost, high custom duties on raw materials, a bureaucratic and costly trade system, unavailability of funds for industrialists to modernize and upgrade operations, and unsustainable interest rates charged by banks for loans that *are* given. All the factors needed to manufacture competitively are absent, and consequently most manufacturers are producing below capacity. This is particularly true in the textiles and clothing industry, which has traditionally been an important export item for Lebanon. Textiles and clothing was the number one export out of Lebanon in 1996, amounting to 12.5% of total exports. Two years later it ranked fourth, and dropped to 10.10% of total exports. Lebanon's textile and clothing industry has great potential for future exports and we cannot allow it to fail altogether. But we must take a proactive stance now, before it's too late.

And that is the purpose of my presentation today – to relate the story of my success as a clothing manufacturer. The success of my company Kindou shows that, by confronting the challenges facing us, it is possible to uncover means and flourish as clothing manufacturer. In spite of all the obstacles and despite the recession, since 1991 my company Kindou has been growing by 20% every year. Kindou has established itself as a leading brand name in children's clothing – *which is made in Lebanon*. But let me clarify one point – Kindou is successful because I chose to forgo exports and focused instead on expanding within the local market. Because, I have mentioned before, with the present circumstances exporting is not feasible.

Kindou was built on what I call the 'substitution strategy'. That is, by manufacturing products of the same quality as European imports, but at cheaper prices. To do this requires applying a high value added line of production. For Lebanese textile and clothing manufacturers to succeed we must utilize this line of production. With Lebanon's high production costs we cannot aim at lower quality mass production. That market was captured by manufacturers in countries with low labor costs, such as in the Far East, and venturing to compete there would be a futile effort.

Kindou applies quality-oriented production, while at the same time keeping prices lower than comparable imports. First and foremost, we were able to keep our retail prices down by cutting out the middleman. Previously, I was exclusively a manufacturer of children's clothing and sold to wholesalers. As my factory was located near a military zone, it was forced to close down when clashes escalated in 1989. When I re-established my business in 1991, I decided to follow a trend which international companies, such as Benetton, was having great success with – that of manufacturer-retailer. I focussed on increasing my distribution network, which was achieved by applying the franchise system. In this way Kindou was able to expand without heavy investments, and at the same time it presents an opportunity for anyone interested in opening a business. The first Kindou shop opened in 1991, and today we have 17 Kindou outlets nationwide.

Kindou operates on low profit and high turnover. We put a smaller profit margin so that our clothes can reach a broader base of customers, thus guaranteeing a rapid turnover. Of course keeping production costs low is fundamental, and we have found one way to minimize costs through subcontracting. By outsourcing work, we are able to avoid additional high social security payments that come with hiring extra employees. Yet we keep our secret recipes – the design, cutting and control – within our factory. We subcontract the sewing and trimming to smaller workshops, that in turn benefit from having work.

Leading to our emphasis on quality production, which was achieved without the know-how exchange often provided by joint ventures with foreign companies. Manufacturing quality clothes requires investing in technology and sophisticated equipment. At Kindou we have invested substantial amounts of money in equipment. For example, we have recently purchased CAD-CAM, or computer aided design and computer aided manufacturing. High tech equipment such as CAD-CAM allows basic designs to be modulated quickly, and designs are not subjected to one person. This gives us at Kindou an edge of a few days, which is crucial in the fashion industry, where styles change fast. CAD-CAM helps us to immediately meet the needs of the market.

Responding to the needs of the market is important to succeed in this business, and we are able to do this at Kindou through the effective use of information technology. At Kindou we are market-oriented and IT oriented. Franchise holders are required to buy hardware, to which we install our software, which was developed in-house by our team of engineers. We use bar code technology, which provides us with a complete on-line system of data. Full integration enables us to monitor stock movements at all point of

sales, and subsequently better management decisions can be taken. Besides information on trends, the system allows us to know when stocks are reaching low and we can replenish them immediately. Through just-in-time delivery all Kindou retail outlets benefit from a rapid trade cycle and efficient consumer response (ECR).

As I mentioned before, at Kindou we are market-oriented. Two years ago we introduced the Fidelity card, or Kindou Club Card. This person to person marketing strategy has helped us gain customer loyalty, and today more than 2000 of our customers have been issued the Kindou Club Card. It is based on a bar code reader, and enables us to track all purchases and estimate the potential of every customer. Holders of the Kindou Club Card get special benefits, such as pre-warning of sales & discounts. Soon we will be converting the Kindou Club Card into a credit card. With the PROCC (private revolving open credit card), at the end of every month only 10% of the bill must be paid. It is anticipated that once the PROCC is available to our customers, sales will increase substantially.

Having established Kindou nationally, my next goal is to expand overseas. The first step will be to present Kindou to the Syrian market, largely encouraged by the recent trade agreement between Lebanon and Syria. But this will not happen until 2003, when all custom duties will be eliminated between the two countries. We plan to market Kindou as a premium brand there. Later we hope to establish Kindou throughout the Arab world, and we are looking for regional partners to franchise Kindou. Ultimately, we hope to move into Europe. But because exporting is presently not feasible, I do not anticipate overseas expansion for the next couple of years.

However, today a new business opportunity is presenting itself – selling over the Internet. Starting in January 2000 Kindou will be on line – we will have a web site and deliver door to door, to customers all over the world. Selling over the Internet will allow us to price our products cheaper, as it eliminates the high rents charged for store space. Through the Internet we will be able to reach far more customers. The Internet is the best way for Kindou, and any other manufacturer in Lebanon, to reach export markets. Of course there will be a \$100 minimum purchase order, and an arrangement must be made with a courier company, but it will have huge benefits. By taking advantage of the Internet, I anticipate Kindou's sales will double and possibly triple its present turnover.

At Kindou we do not expect to grow exponentially before two years, because more than profit is required to finance extra high growth. We need substantial funds, which can be acquired in two ways. Either through a foreign agreement – a merger or a joint venture – which is a very strong solution for manufacturers in developing countries; or by going public to increase our equity – which is the most effective way to finance growth. Probably in 2000 Kindou will be listed on the Beirut Stock Exchange, but we must first expand further before this can happen.

To conclude, let me end on a very serious note. I was asked by the organizers of this workshop to give a presentation about my company Kindou, which is meant to be an example of a successful producer and exporter of clothing. But the irony is that, despite our desire at Kindou to export, we have yet to. Unless our present production and export costs decrease, our export potential will never be realized. I often imagine the immense size Kindou could have already been if we were able to manufacture competitively and export – if exports were encouraged.

Textiles and clothing is an industry that has great export potential for Lebanon and the ESCWA region. The Lebanese have a great advantage – our sophisticated sense of style. But governmental support of the industry – in fact all industries – is critical. Manufacturers are not asking for protection from imports. In this era of globalization protectionism means isolationism, which means stagnation. Yes, it is in the hands of the private sector to join forces and come up with solutions to face the challenges of the new era. But we need government support – cooperation between the private and public sectors is the key to success.