Yesterday, Today And Tomorrow

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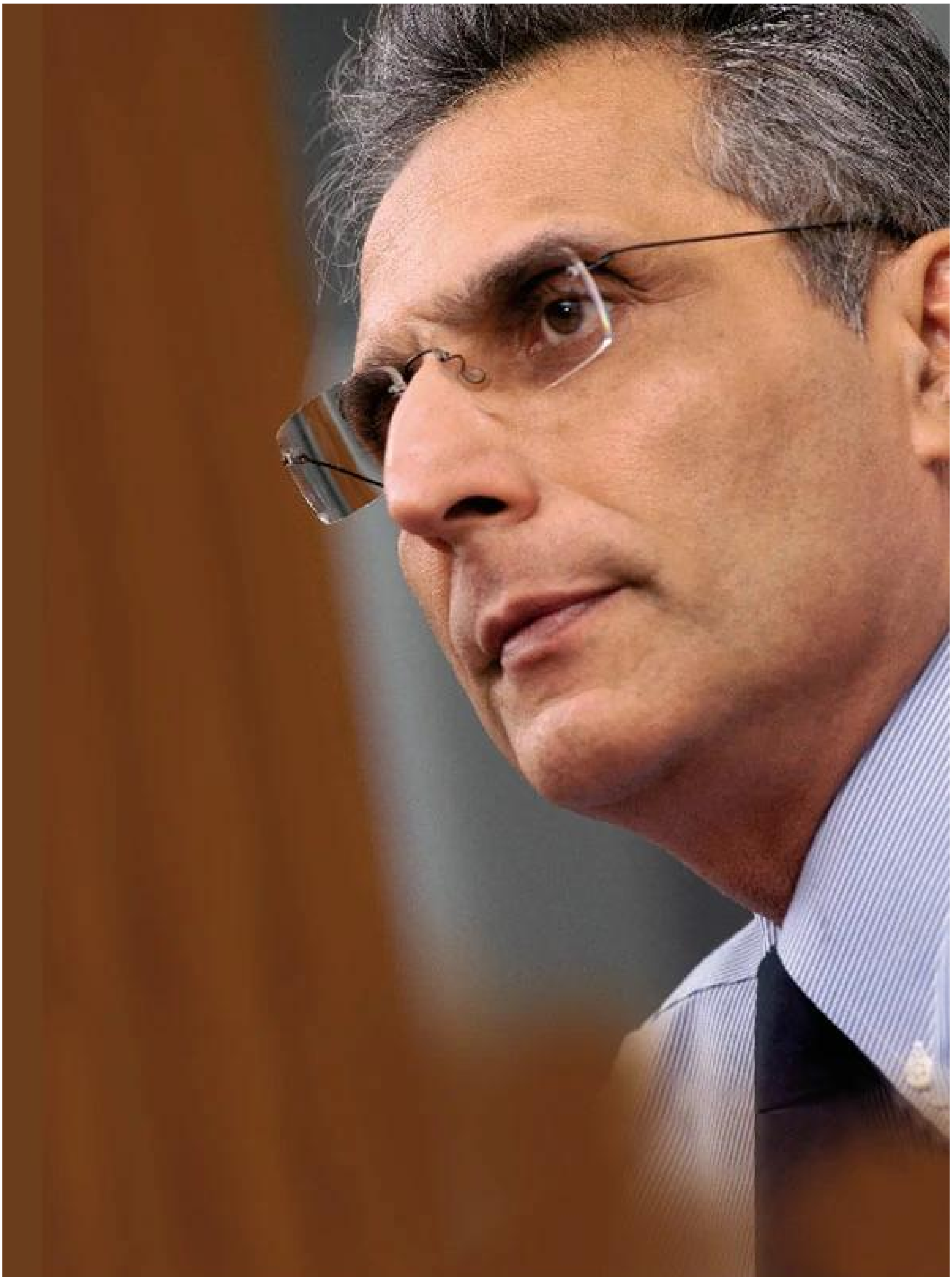

Brandix is Sri Lanka’s largest exporter with an annual consolidated group turnover of over USD 320 million. Ashroff Omar, CEO of Brandix and Udena Wickremesooriya, Director, Brandix Lanka, tell Business Today of the Group’s growth in the quota era, the challenges of a turbulent present in the non-quota era and also how Brandix is preparing for the future with their landmark country-first investment in a vertically integrated Apparel City.

By Keith Bernard. Assisted by Harin Fernando
Photos by Varuna Liyanage

When you started the company 30 years ago did you envisage it growing to the present scale and form?
The history of the company and the business goes back more than 30 years to its earliest stages as LM Apparel, Phoenix Ventures etc. But to answer your question, frankly, no – it was a growth market and we used whatever opportunities that came our way. Once we became a certain size, we started to think big and about how we could grow.

What did you do different from the rest to succeed and thrive in this business?
I believe our joint venture with MAST Industries helped to change our thinking and many of the individuals who were there at the time, in a way are still around. There were also many others who ventured into the sector during the ‘200 garment’ time and then went away, but most of the older companies are still around and doing reasonably well.

Because of our joint venture our thinking was different when it came to marketing. Even at the time we joined MAST we were to a certain degree a vertical operation. The joint venture did not guarantee purchase; it only left the door open for us, we had to go out and sell. Our joint venture did not ensure that we automatically got orders; we had to fight for the orders just like everybody else and this experience made us stronger.

In 1978 we used to manufacture vests and underwear for the local market. We knitted our own fabric. By 1980 we expanded this domestic operation to textile printing, dyeing and finishing and thereafter we expanded into exports. It was steps like these that perhaps differentiated us.

The apparel industry is sometimes referred to as a grasshopper industry moving from country to country depending on the economic progress and factor input competitiveness.

The expiration of the Multi Fibre Arrangement (MFA) in 2005 also took away the protection enjoyed by the industry. What did you do to counter the challenge?

We see a longer future for the industry in Sri Lanka, as there is a lot more space and time for the industry in Sri Lanka to reach its level of saturation. We have the entire north-east labour force that is currently unavailable to us and hopefully the war will be over soon and this pool of resources will be accessible to us.

Udena – If you look at this industry purely from a manufacturing perspective your concerns are very valid, but if you look at this industry as a solutions provider, then there are a lot more opportunities still available.

"The Mass Market Might Not Be Our Bread And Butter In The Future But There Are Value Additions Such As Quick Response That We Can Take Advantage Of."

In the past you had a greater offshore presence in addition to your local operations. Were quota allocations and labour costs the prime influence for locating yourselves overseas?

It was purely a play for quota and for duty free status. We were in the Maldives for ten years and that was mainly for the quotas. The moment the quotas went away we brought everything back to Sri Lanka. In Madagascar we were present to obtain the duty free 'AGOA' Status and we did not find this a compelling reason to remain there, because the logistics and cycle times were very much longer than what the market demanded. We therefore decided to exit such operating environments.

At present we are in Bangladesh producing sewing thread, but other than this we manufacture predominantly in Sri Lanka.

At a time when most businesses choose to focus on their core business processes and outsource as much as possible to stay competitive, do you see your investments into the production of thread, buttons and other trims and accessories as strategically important?

For us these investments have been strategic. Firstly, some of the investments were made specifically to make a particular product available in Sri Lanka and we don't own a majority stake in those areas. Buttons is an example. We merely acted as a catalyst to bring them to Sri Lanka. Our fabric production we believe is a key part of our plan to becoming a total solutions provider.

Lower minute costs due to scale, and proximity to markets and supply sources have made countries such as China and others in the Far East probably a subject of consternation to you. What is your response to the development?

We are offering comparable quality and if you compare our prices with 'proper' Chinese factories – that is those that are not government owned or subsidised, but are private sector entities – our prices are very similar. In addition, in Sri Lanka the industry and the government have worked together to ensure that Sri Lanka's track record on market access, compliance and IP laws is far ahead of China. So I think whatever happens, Sri Lanka will be a strong contender under any conditions.

When we started we even had to import polybags and cartons, but since then many accessories have been produced here. Today polybags are being exported out of Sri Lanka and both our plants export fabric to India. I think the ball-game has changed but definitely Sri Lanka does not have more than 40% of its fabric requirement, so we have to import. We also have to leverage the fabric bases in Pakistan and India in order to augment the supply structure.

Udena – China will anyway dominate the global market, there is nothing we can do about it. So if you leave aside what China will have, there is still a lot of opportunities for a lot more players. If you look at the global markets' size, even if a single player has 50 – 55 % of the global share there is still a lot of scope available. India's growth alone last year was the size of Sri Lanka's total industry. I do not think we should look at competing with China or India, rather we should look at positioning ourselves differently.

If you look at the commodity category I do not think we can really compete head-on based in Sri Lanka, but if you were to look at the value added category and providing buyers with total solutions, certainly there is scope. We should compete based on the value of our solutions. Today quality and on time delivery are crucial.

The mass market might not be our bread and butter in the future but there are value additions such as quick response that we can take advantage of. “We should compete based on the value of our solutions. Today quality and on time delivery are crucial.”

Given the sector’s production inefficiencies coupled with the growing compliance requirements, is the industry sustainable in Sri Lanka?
If you look at the post-quota era, for two years successively the country has grown. The percentage is small, but the reason for this is primarily a market adjustment on products. In some product categories we are definitely not competitive, such as luggage and jackets with a lot of embellishments. This is due to a lack of raw materials and accessories. If you were to look at the categories that Sri Lanka has been strong, the growth has been between 15 – 30%.

For example a big Hong Kong based manufacturer took over a big local company in the zone recently and another company is doubling its size in Sri Lanka. So there are categories that are not suitable for Sri Lanka given the new dynamics of the quota not being there, but there are other areas where Sri Lanka remains strong.

In the past we exported about approximately 75% to the USA and the rest mainly to Europe, but today the ratio is around 53: 47 respectively. Because of the GSP+ scheme, Europe has become an increasingly attractive market for Sri Lanka. I do not necessarily agree that compliance has increased our costs and that we are inefficient in general. If you really study the business in Sri Lanka you will find lots of companies have exploited the opportunities and it will tell a story of growth.

You have relationships with a number of high profile labels. How strong are your relationships with them and what have you done to keep them in the longer term?
I believe the relationships are pretty strong; some buyers have been with us for over 15 years. However, in our industry there is a saying ‘you are only as good as your last delivery.’ So the strong relationship does not mean a thing if you fail to consistently deliver a quality product on time. Therefore we have to be on our toes all the time to nurture and maintain these relationships.

You have showed an inclination to introduce your own brands? What progress have you made?
These plans are currently on the back-burner as it is not high on our list of priorities. We hope to do this one-day, but our vision is ‘to be the inspired solution for branded

clothing' and we intend to live this vision.

How would you articulate your vision of 'inspired solution for branded clothing'?
In the quota era, every retailer or brand was compelled to manufacture in many parts of the world and therefore we witnessed a global trade in garment manufacturing from Saipan to Sri Lanka. It is the quotas that drove them overseas and in order to purchase from those countries they either used agents, trading companies or set up their own virtual production units complete with fabric, trim and design divisions. However, most retailers could not sustain these divisions because they found it to be too costly, translating in a higher cost per garment. At the same time they cannot buy only from trading companies, because trading companies are also costly.

So our offer is to take these hassles away from the customer by providing a total solution from concept at the design stage right up to the point it hits the shop floor. This is the vision we strive to achieve.

For this you need knowledge in fabric development, design, fashion and production, quality and social compliance, and shipping to the buyer without the buyer investing and being involved in those areas of the supply chain. This constitutes our inspired solution.

But how do you manage such a complex process?
It is not easy. With some customers I believe we are where we want to be, but to many others we are only offering parts of this inspired solution.
Udena – It becomes difficult if you look at each one as a component, but if you say that 'this is what the customer wants' and it is our responsibility to pull all these capabilities together and offer it as an integrated solution, then you see the simplicity of the process.

Do you have in-house designers and do you offer these services to buyers?
We have some very talented individuals and we are very happy with their results.

Udena – We work very closely with our customers' designers by jointly working on design and development programmes and activities and have strengthened our capabilities through internships where our designers work with our customers' design teams. A number of our designs have in fact been picked up by buyers and appear in their catalogues. Our design hit rates are very good.

To what extent does R&D, fabric development and finishing services factor in to your design capability?
Udena – That is what makes us different and makes our investments in supply chain solutions very crucial to our offerings. It is because of these involvements that we are able to engage the buyer at a much earlier stage and service them with a total solution.

We have in fact tied up with two of China's largest fabric mills here in Sri Lanka. We have our own finishing capability that we believe is a leader in innovation. We have tie-ups with other companies, that are leaders in their relevant fields, be it printing or embroidery. This helps us bring that much wanted newness to our customers. Certainly there is a long way to go, but we are pretty much leading the innovation curve and the domain of 'newness.'

Brandix broke new ground in the industry by becoming the first in South Asia to set up an Apparel City in Andhra Pradesh in India? What was the rationale for this landmark investment?
Udena – You can always grow incrementally. However, looking at the current levels of consolidation in the industry, if we are to be a serious global player in the future, we also need to be a large and strong supply chain solutions provider. It is when we began thinking of how we could achieve this next big leap that we came up with the 'Apparel City' solution. We were in reality trying to define and predict the next frontier.

Whilst Sri Lanka has many strengths, the Apparel City solution is based on the key fundamentals that have driven the levels and speed of China's and India's industry growth. If you look at India, it is the second largest cotton producer in the world. Andhra as a state, is the second or third largest cotton producer in India Infrastructure including water and power (Andhra has a rated capacity of 11,000 MW of power), a highly productive port, road and rail connectivity, strong social infrastructure and labour availability all contributed substantially towards our decision to locate in Vizag.

We said to ourselves 'How do we make use of these resources that are available?' and through a parallel between what Hong Kong was to China, we conjectured what Sri Lanka can be to India, and within that context how Brandix should position itself in this backdrop. This was the parallel equation that we followed and it is on these fundamentals that we are building this concept.

At full capacity on a 1,000 acre facility, we are looking at employing 60,000 employees with a number of world class players working together to generate a projected turnover in excess of US$ 1 billion through an investment close to about US$ 1 billion.

The advantages of scale and fundamentals are what we are leveraging to ultimately deliver to the customer a higher level of speed and replenishment at a very competitive cost.

What is the role of the other big players partnering you in this venture?
First of all, the park must fundamentally be right as a business. Secondly it is not only Brandix that is investing, but a series of global players who will set up as independent units working on their own. All of these partners could sell or buy to and from others in the region or anywhere they want.

The final phase of this solution is the total integration of the supply chain. When this is done, we will have fabric mills, apparel manufacturers, embroidery facilities, washing plants, printing facilities, logistics solutions providers etc, all working together to provide an unmatched level of speed and a competitive cost platform to our customers
“Certainly There Is A Long Way To Go, But We Are Pretty Much Leading The Innovation Curve And The Domain Of ‘Newness.’ We Have Some Very Talented Individuals And We Are Very Happy With Their Results.”
This is clearly a very ambitious project, are you pleased with the progress thus far?
We have just returned from Vizag after completing a visit with the entire board and senior management and what we saw progress, in terms of what we have done and what the government has done is really encouraging.

Today we have over 400 trained sewing operators in India. We have a plant that has already begun commercial production and we will launch our first export in March. If you really look at it, our internal board proposal was approved in September and within a period of four months we have the facilities ready in a location with no previous apparel manufacture.

We have trained the operators and the initial output is extremely good.

How do you set about training such a large workforce?
That is the challenge and that is why we are taking it in small bites at the moment. By the end of 2007, the Brandix manufacturing facility will have about 2,000 workers, and with the operations of our partners it will push this number to 12,000 by the end of 2008.

From what we have learnt here, there is a lot more thinking and learning to do and there are also lots of new things to do and we are taking it in a modular structure. Presently we have about 25 Sri Lankans in Vizag – including trainers, mechanics and senior management.

With the projected levels of 60,000 employees, we would have close to 700 – 1,000 expats at a given moment and maybe 200 – 300 Sri Lankans, who will be given the exposure and opportunity to transfer knowledge and technology.

To what extent will you be automating your plant in Vizag, and what level of back-up support can you expect from state-of-the-art equipment suppliers?
With regard to automation we are tying up with specialist technology providers and they will set up facilities within the park. Machine manufacturers would have service and spare part centres within the park, there will also be training facilities. We are also talking to world-class Japanese technology specialists.

Although it is a Brandix India Apparel City, it is about sharing the risks and rewards between a number of global players on a common mission.

How is the venture funded and how is the ownership structured?
We own 51% and we have Ameri-cans, Chinese, Mauritian and Sri Lankan partners who will hold the balance 49%. Funding is through equity and we have also been awarded a grant from the Indian government coupled with a small portion of debt. Martin Trust a person who really changed the landscape of the Sri Lanka apparel industry is also a partner.

Being granted Special Economic Zone status, what special incentives and concessions has Brandix been offered by the Andhra Pradesh government, and have these incentives and concessions been authorised or ratified by

the Central Government?
The Indian government has allocated land to be leased out to us at a nominal cost and that will be gradually transferred to the company as and when the employee milestones are met.

We have got approval for the setting up of a Special Economic Zone SEZ) one. There are however a few technical issues that need to be resolved and we are confident of completing all relevant documentation soon. All other approvals have been received and we have been given permission to proceed, and part of the grant has also been released to us.

If you look at the whole process, the concept was finalised in 2005 and the MoU was signed on July 2, 2005. We have gone through the approval process and the formalities and we have taken our time to decide what we want and what we do not want, and also made sure the approvals are in place. The only thing that is outstanding at the moment is the SEZ status.
“Our Vision Is To Be The ‘Inspired Solutions For Branded Clothing’ And We Want To Live This Vision.”
What is the initial lease term?
The land is on a 25 year renewable lease.

What is the gestation period you are looking at?
We see ourselves building a critical mass within the next three years, but we would like to do it in two years. Thus by early 2009 we would have the critical mass to really start delivering value to a wide base of customers. This is on the basis of a ‘completed’ park. However, if you were to take individual entities, by the middle to end of this year (2007) we will be catering to the individual needs of our customers.

Will your Indian operations restrict or curtail your expansion or operations in Sri Lanka?
Certainly not. Our financial year ends on March 31st, and this year as we speak, we have bought and developed a 10-acre facility in Ja-Ela for a ‘Centre of Inspiration’ to build a total supply chain for woven pants. We have tripled our capacity in garment dyeing by setting up a new dyeing plant in Seethawaka.

We have just acquired land to set up a Centre for Intimate Apparel and as we speak three concurrent building constructions are taking place. To apply our what we learnt in Andhra Pradesh we have acquired 200 acres in Horana because we believe

Sri Lanka will be a very potent manufacturer for Europe, as a result of the trade agreements.

We took over a factory in Pollonaruwa this year and we are negotiating two more acquisitions in the rural areas. Our focus remains on Sri Lanka which is our engine and intellectual centre.

From April 2006 to March 2007 we would have had about 25% growth and going forward we are targeting a similar growth rate. Our contribution from India to our top and bottom lines will only kick in next year.

Udena – We see the business strengths of India and Sri Lanka as complementary to each other rather than competing with each other. What one can do in India, one cannot do here considering the scale and magnitude and vice versa. So for us this is a very complementary strategy.

There are many Indian companies in Sri Lanka and we are today exporting fabric to India and Vietnam – would you have believed that happening 10 years ago. In turn we also import fabric from India. So when you say ‘global trade’ it moves. This is what we want to portray. Some people ask us ‘Why should we be in India?’ There are Chinese companies here in Sri Lanka, even with their superior economic power, so my reply is ‘Why not?’