



APPAREL SECTOR ACTION PLAN

OVERVIEW AND STRATEGIC RECOMMENDATIONS

FINAL

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ABSTRACT

This report provides an overview of the Republic of Georgia's Cut-Make-Trim apparel sector and recommendations for the sector's development. It includes a summary of the four major changes underway in the global textile and apparel industry: sourcing or garment procurement, consumer behavior, raw materials selection, and access to capital. A rapid assessment of Georgia's sector is presented, based on visits to a selection of factories in April 2011. The report outlines overall training needs and offers a long-term vision and goals for Georgia's apparel industry development, marketing, and investment promotion followed by a recommended action plan.

ABBREVIATIONS

AGOA	Africa Growth and Opportunities Act
CIS	Commonwealth of Independent States
CMT	Cut-Make-Trim
EPI Georgia	Economic Prosperity Initiative Georgia
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GNIA	Georgia National Investment Agency
GSP+	General System of Preferences Plus
HELP	Haiti Economic Lift Program
HOPE	Haitian Hemispheric Opportunity through Partnership Encouragement Act
SWOT	Strengths, Weaknesses, Opportunities, and Threats
USAID	United States Agency for International Development
WRAP	Worldwide Responsible Accredited Production

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I. EXECUTIVE SUMMARY

This report has been drafted at the request of Deloitte Consulting LLP and the USAID-funded EPI project. The report and the recommendations within have been based on a country visit and rapid assessment conducted in April 2011; professional knowledge of the global industry and changes underway; and extensive secondary research.

The apparel industry worldwide is in a state of profound change. Global trends include:

- A growing shift in sourcing by international brands and retailers from factories in China to countries elsewhere due to rising costs, decreasing available production capacity, rising uncertainty, and decreased financing;
- Changing consumer behavior from seeking status to seeking value; this is being observed across segments from the luxury level down to the moderate-priced mass-market tier;
- Substitution of other fibers for cotton as raw fiber prices sky rocketed; and
- Decline in financing working capital needed to fill the product pipeline.

The factories visited included two Georgian-owned firms, one Georgian-German joint venture, and three Turkish-owned factories. They were producing export clothing such as athletic wear, jeans, knitwear, woven dresses, men's and women's dress shirts, highly constructed coats, suits, and work uniforms. Quality was good to very good despite requiring a variety of skills, fabrics, and sewing operations.

Georgia has several well-trained designers. At least three sell couture; two have designer ready to wear lines; another reportedly collaborates with the Georgian-German firm, and one works as a technical designer for a local factory, where she prepares technical specifications commonly referred to in industry as *tech packs*. Technical design skills are value-added skills vitally important for industry growth and development; they can be easily shared across willing factories on a fee-paid basis, transforming a cost center to a profit center for the host firm.

A few factories had old, mismatched equipment, but most visited had a good assortment of modern Japanese Juki brand equipment. At least one factory had automated equipment for making pattern layouts; this can reduce costly fabric waste by up to 15% over hand-made layouts for cutting fabric. Most factories generally appeared to be socially compliant on safety and workplace conditions. One, however, had a damaged floor and large cracks in the walls.

Very little current comparative wage data could be publicly accessed, but limited data and anecdotal evidence point to an important wage advantage over many garment countries, including Turkey. The strengths, weaknesses, opportunities, and threats (SWOT) analysis pointed to good potential for industry growth despite inconsistent operator training programs, lack of in-country yarn and fabric production, lack of domestic mass-market brands that help build a strong and stable industry, and a negative quality perception by Georgians of domestically produced apparel. Good quality production of highly constructed garments coupled with bilateral and multilateral trade preferences afford good opportunities for growth of Georgia's export production. However, market studies, deliberate and comprehensive

training and firm-level technical assistance, and a well-crafted marketing strategy and plan will be key to realizing Georgia's potential. Reasonable long-term goals could include:

- Expand export to the European Union, the CIS, and neighboring countries, taking full advantage of Georgia's preferential trade status and existing relationships;
- Build attractiveness to buyers and investors through 1) strategic workforce development, 2) development of greater value-added service capabilities, 3) crafting a reputation as a quality producing country, and 4) effective international marketing of the industry to brands, retailers, and investors; and
- Developing 3 to 5 mass-market women's wear and/or men's wear brands for domestic and export markets in order to vertically integrate the industry, diversify market risk, and retain more profits in-country.

Based on the rapid assessments in April 2011, professional industry knowledge, and extensive secondary research, the following specific industry needs have been identified. They are listed in recommended order of priority:

- Detailed firm-level efficiency, training, product, technology, and social compliance assessments;
- Detailed market research on key current and potential export markets in Eurasia and the CIS such as Germany, Ukraine, Turkey, Armenia, Poland, Czech Republic, Hungary, and Azerbaijan, and Georgia's domestic market to identify market size by segment, specific tariff differential advantages, market voids, wholesale and retail distribution channels, and price sensitivity and style preferences. This will help inform and refine other industry recommendations based on highest potential markets for the Georgian firms;
- Professional continuing education workshop(s) to share information about global industry trends, global industry competitiveness, international quality assurance/quality control and social compliance requirements, quality control testing, and lean manufacturing;
- Firm-level technical assistance to address efficiency shortfalls;
- Phased, comprehensive upgrading and equipping of vocational training programs for improved training results, and better alignment with industry needs;
- Development and implementation of a cohesive industry- and firm-level marketing strategy and plan (including business linkages) targeted to a) international brands and retailers and b) foreign investors;
- Development and implementation of a country-wide quality improvement and awareness-building campaign designed to change the quality image of Georgian-made wearing apparel, drawing on the similar experience of Japan, South Korea, and Taiwan; and
- Development of relatively easy and affordable supply chain linkages and value-added services such as design (technical and fashion), pattern making, product quality lab testing, labels, and packaging.

With its good product quality, proximity to major European and CIS markets, and its trade preference status with the EU, Commonwealth of Independent States (CIS), and neighbors, the Republic of Georgia is a good candidate for attracting foreign direct investment. Based on their investment interest elsewhere and desire to expand their shares of the key external

markets, Turkey, South Korea, China, and Brazil are all good candidates for investment promotion. However, they will want to know about available factories and land, quality and output of sewing operator training programs, and government incentives for FDI.

In summary, the Republic of Georgia has a good basic foundation in the apparel industry; it has several competitive advantages despite some shortfalls, and it is well placed to attract important FDI. A comprehensive program of training and firm-level technical assistance coupled with good marketing research and a well-crafted marketing strategy and plan should drive industry growth.

II. APPENDICES

- A. BACKGROUND**
- B. FINDINGS**
- C. RECOMMENDATIONS**
- D. ADDITIONAL INFORMATION**

A. BACKGROUND

This report was drafted at the request of Deloitte Consulting LLP and the USAID-funded EPI Project. It outlines the global trends occurring in the apparel industry today. It also gives an overview and rapid assessment of the apparel industry in the Republic of Georgia, based on April 2011 visits to six factories, four vocational colleges, the Georgia National Investment Agency (GNIA), one multi-outlet retail entrepreneur, one packaging firm, and countless interviews with EPI staff, factory owners and production managers, local designers, and Georgian consumers. The report offers professional recommendations on industry potential and suggested next steps for assistance to build a bigger and more prosperous industry that can drive semi-skilled, skilled, and professional job creation and add to the local and national economies of the Republic of Georgia.

Georgia has a rich history in apparel production dating back to the Soviet era. Its apparel and textile markets collapsed with the dissolution of the Soviet Union. In recent years, entrepreneurs wishing to revitalize the sector purchased new and used machinery and facilities and re-launched apparel cut-make-trim (CMT) for domestic consumption (mostly uniforms and work wear). Four Turkish companies opened factories to take advantage of favorable wage differentials. In addition, there is one Georgian-German partnership. Georgia's apparel factories, employing roughly 6,000 people today, are mainly clustered in Tbilisi and the Adjara region of Western Georgia.¹ Factories visited in April 2011 have unused production capacity and at least one Georgian factory owner expressed interest in expansion. In light of important unemployment challenges the country faces today, the labor-intensive apparel sector is viewed as a good vehicle for driving significant job creation and economic prosperity.

¹ EPI project description and consultant Scope of Work

B. FINDINGS

GLOBAL TRENDS – APPAREL AND TEXTILES

The global apparel industry today is in a state of profound change. International brands and retailers are revising their global sourcing modalities and consumer behavior and purchasing power has shifted in the wake of the ongoing global economic malaise that began in 2008. Contractions in the credit industry and capital markets are affecting short term financing of raw materials and working capital within the apparel supply chain. In 2010 and 2011, cotton created worldwide turmoil as fiber prices surged to an all-time high.

In spring 2011, global trends in apparel and textiles, detailed in the following pages, can be categorized as changes in:

- Global sourcing,
- Raw materials,
- Consumer behavior, and
- Availability of short-term financing.

CHANGES IN GLOBAL SOURCING BY INTERNATIONAL BRANDS AND RETAILERS

Since the end of most quotas for wearing apparel in 2005, China has produced the largest share of the world's manufactured garments. In 2010, China exported USD 205 billion in textiles and apparel.² However, significant increases in labor rates, shifting labor patterns (low-skilled to higher-skilled jobs; coastal migration back to inland regions), surging domestic demand, decreased production capacity available to external customers, increased financing costs, decreased availability of financing, increased labor unrest, and growing political uncertainty in China are driving U.S. and European brands and retailers to reevaluate their global sourcing portfolios. Increasingly, foreign brands and retailers are shifting apparel sourcing away from China.

Cambodia, Vietnam, and Bangladesh have gained customers in this shift but these countries have limited capacity to absorb additional orders. Increased fuel costs and instability in the Middle East, coupled with the ongoing industry drive for speed-to-market are prompting international brands and retailers to look beyond Asia for producers closer to their market/s.

This represents new export opportunities for apparel manufacturers in Georgia to supply Eurasia and the CIS.

CHANGES IN RAW MATERIALS SELECTION

Although peak cotton prices have received vast press coverage in recent months, more recent pricing reports indicate notable declines in raw fiber prices as new crops come to

² "Textile and Garment Exports Hit a Record High 206.5 Billion U.S. Dollars," (11 January 2011). Retrieved from <http://www.chinawuliu.com.cn/en/news/content/201101/20116257.html>

harvest.³ In late 2010, cotton prices reached record highs due to flooding in Pakistan, droughts in the U.S., India, and China, supply-related export limits in India, and panic buying worldwide. Uncertain when cotton prices would return to more normal levels, designers, brands, and retailers began shifting away from cotton fabrics to alternative fibers, and to lower cotton content in popular cotton blends. After reaching a peak of USD 2.27 per pound in March 2011, however, cotton prices have fallen by roughly one-third, to USD 1.56 per pound for July fiber.⁴ Buyers often direct different fabric types (knits vs. wovens; heavy-weights, top weights, or bottom weights; synthetics vs. natural fibers or blends) to different factories for quality and efficiency purposes. Georgian factories have a demonstrated ability to work on differing fabric constructions, weights, and fiber contents.

Changes in fiber selection for wearing apparel, therefore, should have little effect on the factories in Georgia; however, the ability of some Georgian factories to work on complex garments of multiple fabric types is thus advantageous in today's environment of rapidly shifting fabrics and style mixes.

CHANGES IN CONSUMER BEHAVIOR

Two contrasting trends are underway in consumer behavior related to wearing apparel worldwide. At the luxury end of the market, Boston Consulting Group has noted a significant shift to *value purchasing* with consumers wanting quality, brand heritage, and longevity vs. the status and logos they wanted in years past (China has been a notable exception with continuing strong popularity of recognizable logos among the *nouveau riche*). More expectedly, similar trends toward value purchasing have been noted at the aspirational and mid-priced segments as well. These changes are directly attributable to the global economic recession and are expected to remain important for the near-term (1 to 3 years), if not longer. Some predict these may become semi-permanent behavior.

At the affordable end of the fashion segmentation, where speed-to-market (initiated by Spanish-based global retailer Zara) has reigned supreme in recent years, the Swedish-based retailer H&M has led a strong trend of downward pressure on retail prices of wearing apparel, particularly in the high volume teen and young adult fashion market. In the U.S., for example, H&M has advertised full price dresses for as little as USD 19.95, in recent months. Despite all-time highs in fiber prices, particularly cotton, H&M continues to offer new merchandise at under USD 20, full price retail, in New York City in May 2011.

These changes make it increasingly important for Georgia's apparel manufacturers to select very strategically those target markets and segmentation that offer greatest opportunities for sustained orders and reasonable profit.

EFFECTS OF CHANGES IN CAPITAL MARKETS ON GLOBAL APPAREL MANUFACTURING

A less talked about effect of the credit problems of recent years is an anticipated reduction in product availability at retail. Some experts in the apparel sector expect to see this take shape in fall 2011.

³ Josephs, Leslie. "Cotton's Temporary Trimming," *Commodities Corner*. (21 May 2011). Retrieved from <http://online.barrons.com/article/SB5000142405297020386980>.

⁴ *Ibid.*

Apparel manufacturing is a low margin business and even those companies turning a profit year after year may face cash constraints when asked to produce large orders, particularly if the factories themselves procure the fabrics and trim (vs. customers providing the raw materials for factories to simply transform). Most apparel factories receive payment on accounts receivables 30 to 60 days or more after delivery of finished goods. Those factories financing raw materials purchases incur costs and make payments 60 days or more before garment production begins. Even those CMT factories not purchasing raw materials incur labor costs and overhead well in advance of receiving their payment.

The vast majority of physical assets in the apparel sector are easily portable sewing equipment, considered to be movable assets and hence not accepted as commercial loan collateral in many countries. As a result, a system of factoring developed decades ago, in which financial intermediaries pay factories a percentage of the value of the factory's invoices in advance of customers' expected payment. This system provides much-needed working capital to cover such expenses as labor and overhead. In return, factories keep a percentage of the invoice, and a fee for service; they also follow the business closely to make sure the goods are produced and delivered on time so final payment will be made. Though declining in use, financing working capital through factoring is common within the industry. Some highly credit-worthy factories may use an annual commercial line of credit instead. Whatever the method, financing working capital is an integral part of the global apparel trade. As financing for the apparel supply chain has contracted worldwide with the economic jitters of the past few years, apparel manufacturers face a decline in critical working capital needed to keep the product pipeline filled.⁵

Only those countries such as Brazil whose strong and largely self-contained domestic economies have been somewhat insulated from the global financial crises of recent years enjoy little negative impact from these trends. *Depending on local firms' individual financial positions, this tightening of credit markets may impact factories in Georgia just as it is expected to affect factories everywhere else around the globe.*

SUMMARY OF GLOBAL TRENDS

The apparel sector in Georgia, like its counterparts around the world, faces greater challenges today due to the recent global industry trends discussed above. Changes in production countries of choice, consumer behavior, raw materials prices, and capital markets are challenging the industry in a scope and scale not seen since the Second World War. However, important opportunities exist within those challenges, for Georgian firms to take production market share previously held by the Asian apparel powerhouses, particularly for those retail markets such as Europe and growing economies in the Former Soviet Union that lie relatively close in proximity to Georgia.

GEORGIA'S COMPETITIVE POSITION RELATIVE TO GLOBAL AND REGIONAL APPAREL PRODUCERS

During a nine-day period in April 2011, six apparel factories were visited in Tbilisi and West Georgia. Two are Georgian-owned; one is a Georgian joint venture (German partner); and

⁵ Presentation by Tom Nastos, Owner, Endurance, LLC, and Adjunct Instructor, Fashion Institute of Technology, April 2011.

the remainder are owned by Turkish companies taking advantage of Georgia's relatively lower labor costs.

COUNTRY SCORECARD

After product, the key factors most brands and retailers consider when selecting a country for apparel production include a critical mass of quality-producing, socially compliant factories; skilled labor and competitive costs; reliable and cost-effective power and logistics; and a positive business-enabling environment. A 10-factor score card that one U.S. apparel and footwear company owner reports using to evaluate countries for possible sourcing is listed in the table below.⁶ Factors can be loosely categorized as cost-related, logistics, and business enabling environment. For his further consideration, a country must have more favorable than unfavorable scores across the 10 factors. It should be noted that this scorecard is just to assess the attractiveness of the country, not individual factory/ies within the country.

COUNTRY SCORECARD	
AREA	FACTOR
Cost	<ul style="list-style-type: none"> • Trade agreements • Exchange rates • Financial structure
Logistics	<ul style="list-style-type: none"> • Export industrial zones • Apparel infrastructure (local or nearby yarn, fabric, trim suppliers) • Quality factories (socially compliant, adhering to labor laws, environmental factors)
Business Enabling Environment	<ul style="list-style-type: none"> • Political environment • Corruption/crime • Cultural differences

PRODUCTS

Factories in Georgia are currently producing a range of wearing apparel for the moderate to mid-tier domestic and export markets. Several factories produce both woven garments and knit apparel (cut and sewn, not knit-to-shape). Garments include low-skilled athletic wear (e.g., track shorts, soccer shirts for the Puma brand); affordable and mid-market women's ready-to-wear (for U.K. and European-based retailers and brands including Marks and Spencer, Zara, and others); high-quality men's and women's dress shirts (for the U.K. brand Hawes & Curtis); suits and highly constructed winter coats (for the German brand Lebek); jeans and T-shirts for buyer/s in Ukraine; and work wear (police uniforms, gas station attendants' uniforms, and the like) for the domestic Georgian market under local contracts and government tenders.

⁶ Presentation by Tom Nastos, Owner, Endurance, LLC; and Adjunct Instructor, Fashion Institute of Technology, April 2011.

In addition to good quality, apparel produced in Georgia enjoys duty-free entry in neighboring countries and the European Union under diverse bilateral free trade agreements and/or GSP+. These benefits can be of keen interest to foreign investors outside the region seeking to expand their existing markets with new or greater penetration of Eurasia and the CIS, as evidenced by Brazilian and South Korean foreign direct investment interest in Haiti for its duty-free apparel access to the U.S. market under U.S.–Haiti bilateral HOPE and HELP legislation.

QUALITY

Quality of workmanship (sometimes referred to as “quality of needle”) was generally good to very good, even on highly complex constructed apparel, such as winter coats and police uniforms composed of three very different fabric and construction types within the same garment (wovens and knits, differing weights; hidden and exposed zippers; in-seam, patch, flap, and welt pockets; draw cords; button holes; topstitching). Such garments require a variety of machine types and machine settings, plus a variety of relatively high-level skills and experience. They also require greater attention to production scheduling to avoid costly inefficiencies and downtime. This compares very favorably to apparel-producing plants in most-developing countries whose factories struggle to produce basic commodity T-shirts, polo shirts, hospital scrubs, inexpensive athletic wear, and low-construction garments.

Complexity of construction and quality of needle in the factories visited is substantially better than that found in most developing countries, making it competitive in quality for more sophisticated regional and global apparel markets.

DESIGN CAPABILITIES AND INTEGRATION WITH LOCAL MANUFACTURERS

With Georgia’s history of promoting the arts, there is a tremendous appreciation for fine art and design. Not surprisingly, there are well-trained apparel designers in Georgia. At least two have been formally trained in Paris (at either Institut Français de la Mode or ESMOD, both very well-respected French fashion design and marketing schools); they currently produce couture apparel. One of the two, Nino Chubinshvili, also has a ready-to-wear line she sells in one designer-owned store and a second multi-brand boutique in Tbilisi. Design and production quality are excellent, but quantities are very low. A third designer is reportedly collaborating with IMERI, SA, the Georgian-German joint venture. A fourth, who has been trained in Georgia and Turkey and has work experience from Italy as well, is currently working as a technical designer for one local factory. She is skilled in preparing *tech packs*, the product/production specification packages that factories follow in replicating customers’ styles. (China is well known for its capacity to compile tech packs for its customers, and this is one factor frequently cited by international brands and retailers as a reason why they have repeatedly chosen Chinese factories over those in many other countries around the world.)

Additionally, it is reported that there are other well-trained Georgian fashion designers in Tbilisi; however they were not met in the course of the April 2011 trip. Further such collaborations could be beneficial to both the designers and factories and could potentially enhance the attractiveness of Georgia’s industry to outside retailers and brands.

Though it is uncertain how many factories in Georgia have in-house technical design, this service can easily be outsourced on a fee-paid basis to those factories that do have such capacity, transforming a profit center to a cost center in the contracted firms while lifting the overall competitiveness of the Georgian industry in a very meaningful way. *Having highly sought-after, in-house or local technical design capability gives factories in Georgia an*

important competitive advantage over many factories in developing countries and emerging markets.

EQUIPMENT

Although some factories visited had a mismatched variety of old Chinese machines and equipment of unrecognized brands (possibly from Eastern Europe), most factories visited had a predominant mix of Japanese Juki brand sewing equipment, considered by many to be the global industry standard. In addition to standard single-needle, double-needle, cover stitch, and overlock machines, some factories have sophisticated specialty equipment as well.

None of the factories visited utilized automated spreading and cutting, but some factories had Gerber brand grading and marker-making systems and plotters (large format digital printers) that automatically create additional garment sizes from a master pattern and computer-generate the market or layout for pattern pieces, to maximize fabric utilization and minimize fabric waste. As fabric is generally the highest cost input of mass-market wearing apparel, minimizing fabric waste is an important aspect of cost control and directly impacts a factory's ability to attract orders and turn a profit. According to executives at the Gerber company, computerized marker-making can reduce waste in a typical wovens factory by up to 15%, a significant cost savings in such a low-margin industry. Like technical design, those factories having automated grading and marker-making capabilities can easily and profitably offer such services to other local factories on a fee-for-service basis, improving overall industry profitability and again transforming a cost center to a profit center for the contracted factory.

SOCIAL COMPLIANCE

In 1997, the popular U.S. brand and retailer Nike was caught in an unfortunate incident with its contract factories in Pakistan employing young boys at inappropriately low wages to produce soccer balls sold worldwide for considerable profit.⁷ Press coverage catalyzed a massive consumer boycott and protests at flagship stores, creating a public relations nightmare that could have bankrupted many other brands. Facing an industry history of deadly workplace tragedies, including the Triangle Shirtwaist Factory fire in New York City, fires, sexual abuse, enslavement, and other workplace abuses in countries as diverse as Bangladesh, Guatemala, the Philippines, and the U.S., brands and retailers in the U.S., U.K., and Europe commenced campaigns to assess workplace conditions and certify those factories they found to be compliant. Social compliance standards have been expanded to include fair and timely wages, protection from harassment, enforcement of good safety practices, freedom of assembly, and more recently, good environmental standards. The Worldwide Responsible Accredited Production (WRAP), Clean Clothes Campaign, and similar industry-wide certification programs, and/or brand- or company-specific social compliance codes of conduct have become the norm with international brands and retailers. Today, social compliance is not a competitive advantage, but a must-have ticket to entry for would-be vendors. While brands and retailers conduct their own certification audits (both scheduled and surprise), many firms also engage third-party firms, such as SGS, Intertek, and/or Bureau Veritas to audit and certify factories on their behalf.

⁷ Spar, Debora L., and Lane T. LaMure, "The Power of Activism – Assessing the Impact of NGOs on Global Business." Retrieved from www.people.fas.harvard.edu.

It is unknown how many of the factories in Georgia have been certified either by their customers or by third-party firms on behalf of customers. With one exception, the factories visited generally had good physical workplace conditions in line with international standards; one three-story factory has chipped, uneven cement floors and significant cracks in the exterior and interior walls. It appears however, according to the cutters queried, that only one factory visited provides chain gloves for fabric cutters using electric saws that lack finger guards; in the one factory where cutters had chain gloves, most cutters reportedly preferred not to wear them and management did not appear to make it a mandatory condition of continued employment. Chain gloves are a standard safety tool in global manufacturing for preventing amputation in the event the cutter's hand or saw slips while in operation. See the figure to the right



As an informal proxy indicator of non-safety aspects (e.g., wages, harassment, right to assembly, etc.) of social compliance, much can be gleaned from the overall mood and demeanor of factory workers on the job and openness of factory owners and production managers to foreigner visits. In both cases, the factories visited in April 2011 had a good atmosphere in the workplace.

LABOR

Limited current, worldwide apparel industry wage data are publicly available without purchasing expensive labor reports. However, according to Jassin O'Rourke, Bangladesh was the lowest cost apparel manufacturing country in 2008; at that time, labor costs including social charges and bonuses were USD 0.22 per hour.⁸ It is believed that today Georgia enjoys a competitive wage advantage over at least some apparel-producing countries in the Eurasia region, in particular, Turkey, that has a highly regarded but increasingly expensive apparel industry. See the table below.

Of great concern to sourcing executives among global brands and retailers, wages in China have been climbing substantially in the past 2 to 3 years; non-wage benefits have also increased, greatly impacting cost of goods produced there. According to a 2011 Boston Consulting Group report, Chinese wages have been rising roughly 17% per year, with net manufacturing costs expected to meet costs in the U.S. around the year 2015.⁹ Coupled with declining labor pools in apparel-producing regions, tightened credit markets, increasing financial and political uncertainty, decreased available production capacity, and high fuel costs that make transport expensive, many international brands and retailers are actively shifting at least some production out of China in an effort to manage costs and control risk. This shift provides an important opportunity for apparel manufacturers in other countries; while other Asian countries such as Cambodia, Vietnam, Bangladesh, and India are attracting some of the outflow, their capacity is limited and increased transport costs favor

⁸ "Labor Cost Comparison in US\$ per hour – Apparel Manufacturing Labor Costs in 2008." (23 May 2008). Retrieved from <http://www.emergingtextiles.com/?q=art&s=080523-apparel-labor-cost&r=free>.

⁹ Boston Consulting Group, "Rising Labor Costs in China may Cause Manufacturers to Return to U.S. (13 May 2011). Retrieved from <http://www.plantengineering.com/single-article/rising-labor-costs-in-china-may-cause-manufacturers-to-return-to-us/648179741.html>

cost-competitive, quality producers closer to major destination markets, such as Europe and the U.S. This may provide an unprecedented opportunity for Georgian factories to successfully target buyers in Eurasia and the CIS.

APPAREL MANUFACTURING LABOR COSTS IN 2008	
COUNTRY	LABOR COST: USD/Hour
Bangladesh	0.22
Cambodia	0.33
Pakistan	0.37
Vietnam	0.38
Sri Lanka	0.43
Indonesia	0.44
India	0.51
Haiti	0.49–0.55
China III (Inland)	0.55–0.80
Egypt	0.83
China II (Coastal 2)	0.86–0.94
Nicaragua	0.97–1.03
Jordan	1.01
Russia	1.01
Philippines	1.07
China I (Coastal 1)	1.08
Malaysia	1.18
Thailand	1.29–1.36
Colombia	1.42
Bulgaria	1.53
Guatemala	1.65
Tunisia	1.68
Dominican Republic	1.55–1.95

APPAREL MANUFACTURING LABOR COSTS IN 2008	
COUNTRY	LABOR COST: USD/Hour
South Africa	1.75
Honduras	1.72–1.82
Peru	1.78
El Salvador	1.79
Lithuania	1.97
Morocco	1.97
Turkey	2.44
Mexico	2.54
Poland	2.55
Brazil	2.57
Costa Rica	3.35
Slovakia	3.44
Slovenia	3.55
Romania	4.03
Latvia	4.23
Hungary	4.45
Source: Jassin – O'Rourke Group, LLC	
Emerging Textiles.com	

It should be noted, however, that favorable wage differentials and geographic proximity to market alone are not sufficient for competitive labor costs. Hand-in-hand with labor rates, production efficiency is critical to the competitiveness of one country or factory vs. another. In this regard, factories visited in Georgia currently lack the requisite efficiency to be highly competitive at present vis-à-vis producers in Asia, Turkey, and some other regions. The Georgian factories visited in April 2011 lack the audible “hum” of truly efficient sewing factories; furthermore Turkish factory owners and managers queried estimated efficiency levels of 40% to 65% in their Georgian factories as compared 70% to 85% in their factories

in Turkey. The differential may well be a holdover of Soviet manufacturing practices compared to free-market standards of efficiency.¹⁰ Whatever the root, efficiency at both the individual worker and overall factory levels needs to be improved for Georgia to be strongly competitive on a global or regional scale. This can be accomplished through a combination of awareness-building at the executive and managerial levels, good training/retraining of key workers, and firm-level technical assistance for the implementation of lean manufacturing and related practices, some of which takes only limited time to deliver quantifiable results.

LOGISTICS

With its shared border with Turkey, reasonable highway network, rail system, Batumi and Poti Black Sea ports, and frequent commercial air service, factories in Georgia appear well-positioned to import raw materials and export finished products by road, rail, ship, and/or air from either Tbilisi or the Adjara Region of Western Georgia. See the map of Georgia, below.¹¹

Although the power was out at one Georgian-owned factory in Tbilisi at the time of the April 2011 visit, other factory managers reported a reliable power supply. International and domestic telecommunications and Internet connections, though sometimes slow, appeared generally good enough for international trade.

DOMESTIC BRANDS

Local markets are nearly always the easiest to supply; they are generally less time-sensitive, and often show a preference for domestic brands out of national or cultural pride (though this does not appear to be the case yet in Georgia). The domestic market enjoys the easiest logistics, faces no export documentation procedures, and is the most forgiving of moderate production delays and occasional quality errors. A domestic industry that supplies its own local market also provides a greater opportunity to develop local labor skills and feeder industries (such as raw materials, embellishment, packaging, transport) critical to maximizing value-addition and building a globally competitive apparel industry.



Although there are at least two domestic women's designer ready-to-wear brands, Georgia lacks domestic mass-market apparel brands. One factory owner, two local fashion designers, and one retail entrepreneur each voiced, unprompted, a desire to start their own domestic brand/s, but none had yet figured out how to do so cost-effectively and sustainably.

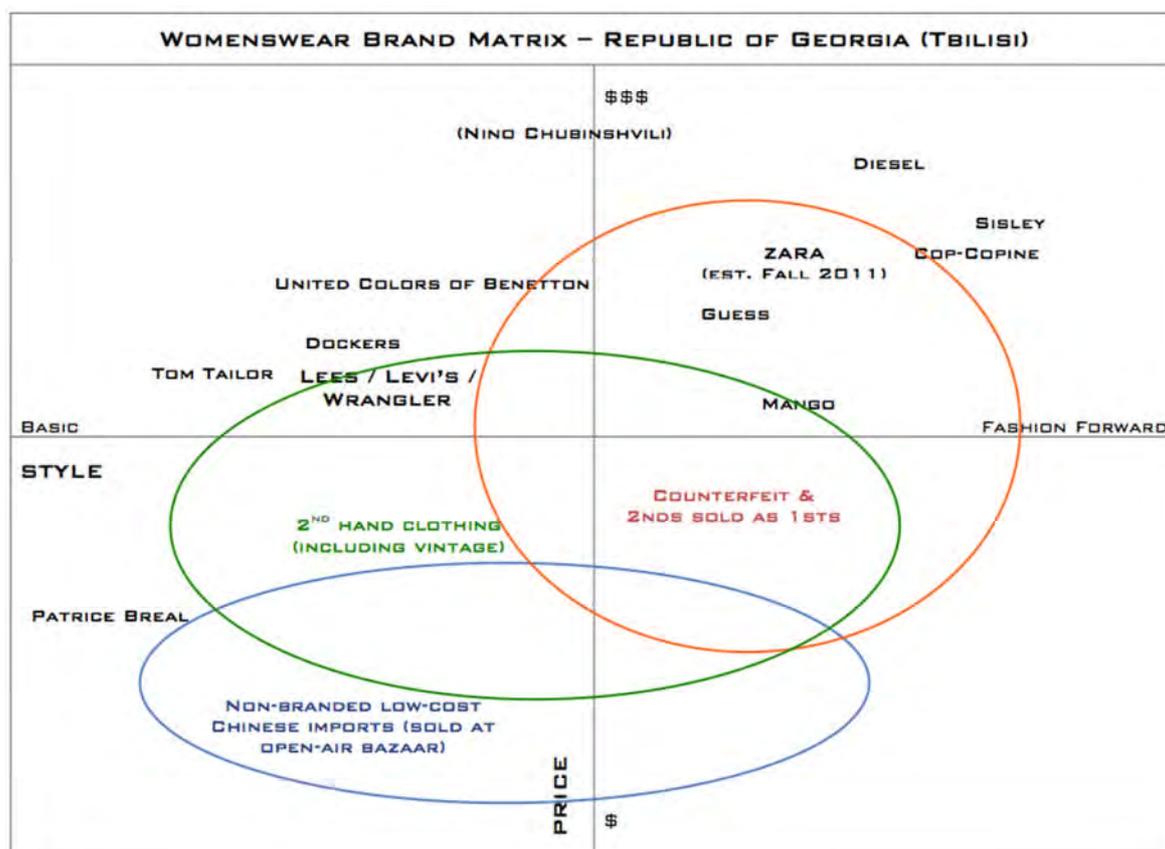
¹⁰ A German machinery technician once reported to the author that production managers in Soviet factories routinely asked that new equipment not be set to run at full speed so that each year they could simply increase the speed somewhat to show production and efficiency improvements, rather than addressing worker or plant layout inefficiencies.

¹¹ The World Factbook (April 2011); retrieved from www.cia.gov

Establishing and maintaining one or more domestic mass-market brand(s) would be challenging. One estimate of the mass-market Georgian domestic, mid-tier, women's wear market (moderate to upper income women, 18–34 for fashion apparel and office wear) is 100,000 consumers.¹² Further complicating the potential for successful domestic brands, Georgian women queried in April 2011 cited negative impressions of Georgian-made apparel ranging from mild skepticism to strong disdain for locally-produced goods. In fact, even EPI staff that visited local apparel factories in April 2011 were pleasantly surprised by the high quality of the garments being produced.

In the absence of a sufficient assortment of affordable branded apparel, middle income and affluent Georgian consumers are increasingly turning to online shopping to buy foreign apparel. Popular e-commerce vendors cited by Georgian women queried in April 2011 include U.S. retailers Amazon, Nordstrom, and the Victoria Secret lingerie, swimwear, and casual apparel brand. Adding to the challenge of developing local fashion brands, Georgian professional women and university students interviewed or surveyed in April 2011 cite a strong preference for individuality in their clothing. Their sense of individuality makes developing successful local mass-market brands with any economy of scale a challenge. However, as a good proxy indicator of Georgian retail womenswear market value, large international brands and retailers such as Benetton, Diesel, Guess, Mango, and others have found the market potential attractive enough to enter with either company-owned or franchise stores; reportedly Zara is also slated to enter the market in Fall 2011. A brand matrix of the Tbilisi retail environment can be found below.

¹² This figure was derived by taking the total population of Georgia, factoring gender and age distribution, urban vs. rural distribution, removing the percent living near or below poverty, and making an assumption that not all women in the segment would be interested in purchasing mass market apparel on an annually.



Currently, the local retail market in Tbilisi remains fragmented, underdeveloped, and filled almost entirely by foreign brands, affording an important but very rapidly closing window of opportunity to develop domestic fashion brands as a segue or support to greater apparel export.

Developing domestic mass-market brands before the market is saturated by international brands would be beneficial to the further development of a strong and competitive export apparel industry; however, the window of opportunity will close soon. As Zara and other well-capitalized and aggressive international brands and retailers arrive, Georgia’s apparel industry should take heed while domestic retail “white space”¹³ or voids remain.

SWOT SUMMARY	
CATEGORY	FACTOR
STRENGTHS	<ul style="list-style-type: none"> • High fashion interest among sophisticated, well-educated, and largely homogenous local market • History of high quality, mass-market garment production & current production for major international mass-market brands & retailers • Local fashion & technical design talent

¹³ Voids in the retail market place, whether by category of merchandise, price point, or style.

SWOT SUMMARY	
CATEGORY	FACTOR
	<ul style="list-style-type: none"> • Underutilized cut & sew factory production capacity • Free Trade Agreements with neighbors & GSP+ duty-free import status for European Union
WEAKNESSES	<ul style="list-style-type: none"> • Inconsistent vocational training for production personnel • Negligible domestic textile production • Very small domestic apparel market with low-average purchasing power • Absence of domestic mass market apparel brands • Poor local image of quality for domestic products / local prejudice against domestically produced apparel • Individualized fashion preference among most profitable Georgian consumer segments
OPPORTUNITIES	<ul style="list-style-type: none"> • Global shift of production out of China by international brands & retailers • Underdeveloped / emerging domestic market • Greater export under GSP+ with EU, FTAs with neighbors; underdeveloped retail markets in Armenia & Azerbaijan • Important available “white space” for affordable fashion apparel brands
THREATS	<ul style="list-style-type: none"> • Global retailer Zara’s market entry – expected Fall 2011 • Growing online shopping by middle-income & affluent Georgians

While all free-market apparel manufacturers worldwide compete with factories in China, Cambodia, Vietnam, and Bangladesh, factories in Georgia also compete head-on with producers in Turkey, Eastern Europe and the CIS, North Africa, and the Middle East. In particular, a comparative analysis should be done for Moldova, Bulgaria, Romania, and the Ukraine. Though Armenia produces some apparel, factories visited in 2008 were significantly less sophisticated and competitive than those visited in Georgia, and no indications have been found to dismiss Armenia as a market. It would be wise to check the current state of Armenia’s industry. Armenia could be an attractive, though small, export market for Georgian apparel firms.

C. RECOMMENDATIONS

TRAINING REQUIREMENTS FOR CURRENT & FUTURE WORKERS AND MANAGERS

Semiskilled, skilled, technical, and managerial employees are needed for a strong and competitive apparel industry. Most important are the sewing machine operators, sewing machine mechanics, quality inspectors and auditors, industrial engineers, and technical designers. Local training institutions and programs that develop individuals for these jobs are important.

Four vocational colleges were visited in Western Georgia. Each had a program to train young people for sewing work in the apparel factories. The program at each center was designed to meet Georgian certification standards regarding the number of months allocated to each of several topics. However, the facilities, training equipment, and quality of instruction varied widely from one center to another. At the best center visited, students were trained on industrial equipment, and samples on display were of reasonable quality. Another center had only inexpensive home sewing equipment, the students were being taught home sewing techniques, and the quality of samples completed by students in their seventh month (out of twelve) was not suited to factory employment. Based on the very short observations during the April 2011 visit, students exiting this center will need to be retrained with industrial sewing methods; in some cases, they will need to unlearn or overcome home sewing techniques or habits developed in their initial vocational training. At a third center, the director said they lack any equipment to train sewing machine operators.

To strengthen competitiveness and further grow the Georgian apparel industry, professional training is needed at four levels: industrial sewing machine operators, industrial sewing machine mechanics, quality assurance/quality control personnel, and supervisors/middle managers. While the vocational colleges visited have sewing training programs, it is very important to upgrade and strengthen the quality of training and equipment. To serve the industry, equipment should be industrial grade, not home sewing equipment, and it should be consistent with the predominant brands and machines types found in the factories. A training of trainers' model that teaches proper industrial sewing techniques, plus good adult training methods would provide the greatest and most cost-effective results.

INDUSTRIAL SEWING MACHINE OPERATORS

Skilled operators are the backbone of any apparel factory. Properly training industrial sewing machine operators in core competencies involves transferring knowledge and skills on machine operation, adjustment, and minor maintenance; sewing techniques; efficient placement and handling of work; and practice on industrial machines. Ideally students are cross-trained on a combination of the most common industrial machine types (e.g., single needle, double needle, cover stitch, overlock, and/or others) to facilitate job placement and enhance flexibility within the factory production line. In proper training, work methods are emphasized over speed. It is not necessary to build full speed in students before their graduation from the training program, and depending upon program length, it may not even be possible. It is very important, however, that students learn proper methods for handling fabrics and executing basic sewing operations, and that they learn good work attitudes and behavior. With a strong foundation in these areas, sewing operators will quickly build their speed and efficiency in the factories while maintaining quality.

Plant and/or production managers in several of the factories visited also emphasized a strong need for training on the qualities of a good employee (e.g., reporting to work on time, not conversing with neighbors in the production line, and other important work habits); this sort of training has been incorporated into model training programs for the apparel industry elsewhere.

INDUSTRIAL SEWING MACHINE MECHANICS

Qualified industrial machine mechanics are of equal importance to well-trained industrial sewing machine operators. As more computerized machines are used in the Georgian factories, the level of knowledge and skill required to maintain and repair machines will climb.

QUALITY ASSURANCE / QUALITY CONTROL PERSONNEL

Quality inspections are a critical component of producing garments for international brands and retailers and also for Georgia's increasingly sophisticated domestic market. As a result, competent quality control inspectors and auditors will be increasingly in demand. Comprehensive professional training in quality control is an important complement to training of industrial sewing machine operators and industrial sewing machine mechanics.

MANAGERS AND SUPERVISORS

While training production workers is essential to good quality and production efficiency, periodic continuing education programs for factory owners, plant and production managers, plant engineers, and front-line supervisors helps drive improved competitiveness, increased production and efficiency, improved quality, reduced waste, improved or maintained social compliance, adoption of new technologies, and the like. A well-crafted menu of professional seminars and training workshops would help improve and maintain Georgia's competitiveness in the global apparel industry.

LONG-TERM VISION AND GOALS FOR GEORGIA

Georgia can develop a strong and competitive apparel industry that supplies Europe and the CIS with moderate to better women's and men's wearing apparel within two to five years. To do so, good improvements in efficiency will be needed, coupled with continued stability in labor and power costs and transport. Reasonable goals for the industry would be to:

- Expand exports to the European Union, the CIS, and neighboring countries, taking full advantage of Georgia's preferential trade status and existing relationships;
- Build attractiveness to buyers and investors through 1) strategic workforce development, 2) development of greater value-added service capabilities, 3) crafting a reputation as a quality-producing country, and 4) effective international marketing of the industry to brands, retailers, and investors; and
- Develop three to five mass-market womenswear and/or menswear clothing brands for domestic consumption and export, in order to vertically integrate the industry; diversify market risk; build a greater platform for the overall development of Georgia's apparel sector and feeder industries; and retain greater value chain profits domestically.

INDUSTRY DEVELOPMENT

While Georgia has a relatively good foundation in its current apparel industry, it needs strengthening and further development in key areas to become highly competitive in today's global marketplace and to drive much-needed job growth for the country. Based on the limited initial rapid assessment of six CMT factories and four vocational education programs in Georgia in April 2011, the industry needs, in recommended order of priority:

- Detailed firm-level efficiency, training, product, technology, and social compliance assessments;
- Detailed market research on key current and potential export markets in Eurasia and the CIS, such as Germany, Ukraine, Turkey, Armenia, Poland, Czech Republic, Hungary, and Azerbaijan, as well as Georgia's domestic market, to identify market size by segment, specific tariff differential advantages, market voids, wholesale and retail distribution channels, and price sensitivity and style preferences. This will help inform and refine other industry recommendations based on highest potential markets for the Georgian firms;
- Professional continuing education workshop to share information about global industry trends, global industry competitiveness, international quality assurance/quality control and social compliance requirements, quality control testing, and lean manufacturing;
- Firm-level technical assistance to address efficiency shortfalls;
- Comprehensive upgrading and equipping of vocational training programs for improved training results and better alignment with industry needs;
- Development and implementation of a cohesive industry- and firm-level marketing strategy and plan (including business linkages) targeted to a) international brands and retailers and b) foreign investors;
- Development and implementation of a country-wide quality improvement and awareness building campaign designed to change the quality image of Georgian-made wearing apparel, drawing on similar experiences from Japan, South Korea, and Taiwan; and
- Development of relatively easy and affordable supply chain linkages and value-added services such as design (technical and fashion), pattern making, product quality lab testing, labels, and packaging.

MARKETING AND SALES CAPACITY

Building awareness of Georgia's apparel sector, its competitive advantages, quality of construction, and production capabilities is the key to growing the sector. To grow export sales, marketing efforts should be focused on building awareness and trial among international buyers through expanded and repeated participation in trade shows in Istanbul, Europe, and possibly Moscow. For both cost efficiencies and risk management, international brands and retailers generally seek producer countries with an industry rather than a single company. It is therefore important to market both the sector and the individual apparel companies within the sector. Other regions and countries have been successful in recent years in attracting greater attention and orders by creating country pavilions with well-integrated marketing and advertising efforts at key trade shows. In doing so they have generally negotiated more favorable trade show booth fees and promotional support as well.

It is also important that Georgia's apparel sector participate repeatedly in the same trade show or shows. This builds both familiarity and confidence in the country, the sector as a whole, and the individual firms. This is particularly important for countries such as Georgia that may be less familiar to buyers as an important apparel producer. Repeated presence at the same show becomes a proxy indicator of the company's business success and financial stability when hard supporting data may be difficult to access.

Some countries have offered paid buyer trips to entice key buyers and sourcing agents to visit the country and its factories. While such trips can be expensive with no guarantee of a return in terms of new buyers or new orders, it can be the key to convincing buyers to consider sourcing apparel in a country they had previously not considered.

With the importance today of Internet searches as a business tool, it is also important for Georgia's apparel companies to have a professional website that is up to date and easily found in web searches. For international markets, the website should be in English, and depending upon the individual firm's target market, perhaps also in German, Russian, and/or a national language.

For both international and domestic market growth, it will be important to undertake market research to identify those geographic markets and segments that have the greatest potential and best fit with the capabilities of the factories in Georgia. Countries to consider include Germany, Ukraine, Russia, Turkey, Armenia, and Azerbaijan. International research should include:

- Market size by market segment and socioeconomic status or discretionary income,
- Local and domestic brands by size and segment,
- Channels of distribution, and
- Current producer countries serving the market.

For those interested in creating a brand for the domestic market, research should include the same research points as for international markets, but it must also include detailed research on current market entrants and consumer behavior. Specifically, it should capture:

- Current market entrants:
 - Style
 - Pricing strategies and price points
 - Retail strategies
 - Advertising and promotion
- Detailed consumer research on:
 - Apparel purchasing habits
 - Annual clothing budgets
 - Online purchasing behavior
 - Opinions of Georgian products through focus groups and individual interviews

Finally, prior to developing a detailed marketing and sales plan for Georgia's apparel sector, it will be very important to conduct detailed company assessments of each firm in order to craft a strategy that best fits the sector and firms within.

INVESTMENT PROMOTION

Foreign direct investment (FDI) can be one of the fastest ways to exponentially grow a competitive apparel industry. Investors in countries such as South Korea and Brazil utilize this strategy to expand their own access to key markets such as the U.S. and Europe; typically they seek countries having favorable long-term trade preference agreements with key markets as their destination for investment. In the past, Sub-Saharan African countries enjoying duty free entry for apparel into the U.S. under the Africa Growth and Opportunities Act (AGOA) have benefited from major investment by China and other countries. More recently, South Korea and Brazil viewed Haiti as a prime destination for FDI based on its HOPE II and HELP benefits that afford duty-free entry into the U.S. for wearing apparel manufactured in the impoverished Caribbean nation. With Georgia's GSP+ status for the European Union and its free trade agreements with countries in the CIS, Georgia could be a good candidate for FDI from external investors in South Korea, Turkey, Brazil, and/or China. However, outsiders considering investment in Haiti's apparel sector first asked about availability of factory space and/or land, quality, and output of sewing machine operator training programs, and government incentives for FDI.

RECOMMENDED ACTION PLAN

Although Georgia's apparel sector has several important strengths, it must grow in sophistication to be truly competitive in today's global marketplace. A multipronged approach that addresses sector needs across production, marketing, and value chain development is required to build the prosperity of the sector and the individual firms within.

The actions recommended include training workshops aimed at the sector as a whole, and its related stakeholders. However, real success will only be achieved with comprehensive firm-level assistance as well. Because the existing Georgian-owned garment factories differ in their export readiness (as determined by a combination of production and managerial capacity and discipline), it is recommended to commence firm-level assistance with the five lead firms having the greatest level of export readiness and the greatest demonstrated drive and success to date. Most of those actions are recommended below.

For greater cost effectiveness and management ease, most international brands and retailers concentrate their procurement or garment sourcing in a handful of countries. As a result, they seek those countries that have several viable factories capable of producing according to the buyers' product, quality, and service needs. As a result, it is important to continue firm-level assistance beyond the first tier of lead firms, but in a staggered approach over the life of the EPI Georgia project. Assisting second tier companies in years two and three with a second wave of firm-level assistance will further develop the sector as a whole, making Georgia as a country a more attractive place for international brands and retailers to source their garments.

Furthermore, it is recommended to front load activities to the extent possible, in order to grow export capacity in a balanced fashion across production and marketing. Because effecting significant value chain development such as development of textile (fabric) production and finishing requires greater capital investment and longer lead times, it is advisable to also begin efforts to attract investment and support local initiatives to expand and extend the value chain.

The following are the actions recommended to foster the growth and long-term sustainability of Georgia's apparel sector.

Market Access. Reliance on only export markets or only a domestic market for locally produced wearing apparel is a high-risk proposition in any country. Furthermore, having a good domestic market for locally produced apparel serves to foster the growth and development of local apparel producers by affording them a more forgiving market (pricing, quality, and delivery) and enabling less export ready firms to build their experience in preparation for the export market. It also enhances the opportunities for creation and growth of input suppliers (raw materials, ancillary services, such as design, marketing, transport) in the value chain that in turn makes the country a far more attractive place for international sourcing.

Given changes underway at this time in China, and the rapidly developing local retail apparel market, Georgia has very important and timely opportunities in both the export and domestic markets needed to build a truly competitive textile and apparel industry. It is therefore recommended that EPI undertake activities to foster development and success in both.

Following the industry assessment undertaken in April 2011, firm level assessments are important to identify the specific and unique or common needs of each of the major (top 10 to 15) apparel factories in Georgia. These assessments should then drive decisions on initial firm-level assistance to the lead firms. A presentation on global trends in the apparel industry will set the stage for Georgian firms to understand their place within the global marketplace, the opportunities these changes present to Georgia, and the steps the firms must take to exploit their opportunities and enhance their competitiveness. Because of the prevalence of inexpensive Chinese imports in Georgia and elsewhere, Georgian firms must be globally competitive even on their own turf.

Market studies are recommended for Georgia (local market), neighboring countries (Armenia, Azerbaijan, and Turkey), but also for selected CIS and European countries such as Germany, Ukraine, and one or two more such as Poland or others that represent countries to which Georgian apparel factories currently export (Germany and Ukraine) or to which there may be good export potential for a variety of market, trade agreement, and logistical reasons. Such studies will help to guide and refine project and firm efforts to build domestic and export sales volume and value. It is recommended that EPI utilize the services of local consultants or firms for the domestic and regional studies (Georgia, Armenia, Azerbaijan, and Turkey), perhaps with some early guidance by an international expert. It is recommended, however, to utilize the services of an international consultant for the European and Ukrainian studies because of the greater complexity, distribution channels, and greater presence of international brands and retailers that may be less familiar to local consultants less experienced in free market economies and well-developed retail systems. Presenting the results of these studies at an industry-wide seminar ensures wide knowledge transfer.

The combined industry assessment, individual assessments, and market studies provide the necessary backbone for Georgia's apparel firms to develop detailed and comprehensive marketing plans. While all the owners and general managers interviewed for this industry assessment have some idea of their company goals, none have a clearly articulated, comprehensive, written marketing plan to inform and guide their marketing and capacity-related decisions. Such a document, though never expected to be followed to the letter, is an important management exercise and tool to greatly increase a company's chance of business success. Firm-level technical assistance to guide companies in their

development and drafting of a comprehensive marketing plan would be of immeasurable help.

Though most first-tier Georgian apparel firms have a website and/or marketing brochures, these do not yet match the sophistication and polish of such marketing and sales materials used by their competitors around the world. While simplicity is often preferable in marketing materials and websites targeting the trade (vs. retail), they need to be in error-free English (Georgian and other languages are helpful as well, but the language of international business today is English), with editing by a native English speaker familiar with the industry and its specific terminology being extremely important. They also need to be designed and written in a way that addresses the potential buyer's informational needs. Drafting a simple company profile in English is a minimum, with assistance in the design and development of website content and search engine optimization (ensuring that the website appears in searches) is important for those firms willing and able to maintain such a site.

Because even the most experienced Georgian apparel firms have limited experience in export under today's global trade environment, an export workshop on export structure and practices should be delivered to the industry as a whole, including its related stakeholders, early in the project's initial roster of activities. It is advised to utilize an international apparel expert experienced in export, international sales, trade shows, and logistics to deliver this seminar. Following this with a study tour (led by the same consultant) to an international sourcing trade show, visits to international quality testing labs, and a retail study tour in Turkey, Europe, or possibly the CIS would be very enlightening and beneficial to the lead firms in building their knowledge and capacity to close international sales.

Product and Service Enhancement. International brands and retailers seek three important attributes beyond price in their decisions to contract in a particular country and with a particular factory for the production of the wearing apparel they need: 1) consistent product quality in exact accordance with the brand or retailer's product specifications, 2) strict adherence to international standards for social compliance (safety, fair and equitable treatment of workers, environmental impact, and the like), and 3) competitive levels of factory productivity (process and worker). The Georgian apparel firms all have some improvement to make in all three areas, with even the lead firms needing to make strong improvement in at least two of the three areas. Because factories are already meeting international buyers and word spreads quickly within the sourcing community, it is important that EPI provide firm-level assistance across all areas (quality, social compliance, and productivity) concurrently and early within their sector activities.

An initial introductory workshop on export quality, standard industry quality test methods, social compliance standards, and third-party social compliance auditing is important to build awareness and knowledge of the industry and key stakeholders on these make-or-break topics.

Few local factories have sufficient in-house quality inspection and auditing capacity, even among Georgia's lead firms. Firm-level assistance for in-factory training of quality inspectors and quality auditors is necessary for most of the lead firms to attract orders from international brands and retailers.

Turkish factory managers have estimated the productivity of Georgian workers at 40% to 65% based on global apparel production standards. This is a very serious impediment to Georgian firms attracting and retaining international orders. Firm-level assistance in efficiency measurement (breaking down individual sewing operations, plus time and motion studies) and skills upgrading (more efficient methods of executing each sewing operation)

are necessary to drive the significant productivity improvements required for real competitiveness of the sector.

Infrastructure Improvement. While Georgia has good opportunities with its existing apparel firms, the lack of raw materials production and processing, particularly fabric manufacture, dyeing, and finishing, is a serious competitive shortfall. Attracting large foreign direct investment is critical to expansion and extension of Georgia's value chain.

Integral to developing a successful approach to attracting investors is a current and comprehensive knowledge of the investment incentives Georgia's competitors offer. EPI is advised to undertake an analysis of industry incentives offered by Turkey, CIS countries, Eastern and Central Europe, and those other countries (e.g., East Africa, West Africa) that are also seeking to attract foreign direct investment to enhance their competitiveness in the European apparel market.

Following the analysis of competitors' investment incentives, it is recommended that EPI develop an English language investment opportunities guide showcasing the a) industry opportunities and advantages Georgia affords, including duty-free access to the European Union and the CIS, quality, geographic proximity to key markets for speed to market, ease of buyers' oversight, travel, and reduced transport costs; b) investment incentives the Government of Georgia will provide; and c) short profiles of several sample investment opportunities ranging from those costs under USD 500,000 to multimillion dollar projects.

Though it is recommended to use a local consultant for the competitive investment incentives research and analysis, it is recommended that an international expert with deep knowledge of textile manufacturing be engaged to assist the local consultant with identifying and presenting the investment opportunities.

In addition, while Turkey appears to be a good target for investment in Georgia's apparel industry, it is recommended to promote Georgia as a good opportunity to potential investors farther abroad. In particular, it is recommended to research and develop a road map for promoting Georgia's apparel sector as an excellent destination for foreign investment to potential investors in South Korea, Brazil, China, and Taiwan, based on their demonstrated interest in recent years in textile and apparel investment in Africa and the Caribbean.

Workforce Enhancement. As the Georgian firms become more successful in attracting foreign buyers and securing export orders, they will face a need for more skilled workers, particularly industrial sewing machine operators, industrial sewing machine mechanics, and quality inspectors. While Georgia has a network of state vocational colleges, several of which have or propose to have training programs to train sewers, they lack industrial equipment and, in some cases, training instructors knowledgeable in the demands of today's global industry for quality and productivity. Having good vocational training programs for the industry also becomes an important selling point for attracting foreign investment to the industry.

EPI is advised to provide equipment and technical assistance to the three or four vocational colleges showing the greatest potential and drive to serve the workforce development needs of the Georgian firms. It must be reinforced that while such assistance must fit within the guidelines of the Ministry of Education, selection of any equipment procured and design and development of any training of trainers must be driven by the current and future needs of a globally competitive industry.

Certification and Standards Attainment. In today's marketplace, most international brands and retailers require any factories supplying their goods to be certified according to one or

more internal or international certifications. Due to several very high-profile exposés on labor abuses in the apparel industry around the globe, international brands and retailers require that even subcontractors producing for their direct contractors or their company-owned factories meet such in-house or international certifications. More commonly required certifications include BSCI and/or WRAP for social compliance and ISO for systems. Some require qualification or certification according to in-house standards but often utilize the services of third-party auditors, such as SGS, Intertek, or Bureau Veritas, to conduct factory audits.

Because of the importance such certification carries in a factory attaining orders (export or subcontracts to a local factory producing for export) and the importance having internationally certified factories plays in attracting international buyers to a country as a whole, EPI is advised to provide a training workshop on the most common international certifications for the industry and firm-level technical assistance to conduct self-audits in preparation to apply for certification.

Business Management Improvement. The level of experience and sophistication of management skills varies widely among the Georgian apparel firms, and the individual management improvement needs vary from one firm to another. It is recommended that EPI utilize the firm-level assessments and dialogue with the company owners to identify specific areas in which the project could provide targeted firm-level technical assistance.

For those companies wishing to attract foreign investors, EPI is well-placed to provide technical and marketing assistance for the development of specific investment proposal packages, including technical and financial details and projections required for a serious investor to begin contemplation of a tangible opportunity. The services of international specialists in the industry are recommended for this.

Value Chain Linkages and Partnership. Although some factories and local fashion designers are already working in collaboration, it is advised that EPI map the existing value chain linkages among factories, designers, raw materials suppliers (fabric, thread, and trim), packaging (tags, bags, labels, and cartons), services (advertising, marketing, transport and logistics, customs brokers), etc. A local consultant would be ideal for this.

This map will then serve to guide the project staff to identify the highest potential activities to undertake to create and foster value chain linkages and partnerships.

RECOMMENDATIONS FOR MONITORING & EVALUATION

For both motivational purposes and donor reporting, it is important to undertake detailed monitoring and evaluation of assistance activities undertaken and firms partaking in donor-funded assistance. As a baseline, 2010 domestic sales and 2010 export sales should be collected, in both units and Georgian Lari (with U.S. dollar equivalent or U.S. dollar exchange rate noted), by individual factory. Ideally, export figures should be broken down by country of destination. The number of customers should also be recorded by factory. Year-over-year changes in these metrics will be important indicators of assistance effectiveness. In addition, it is important to record participants (individual and firm) in all project assistance activities, such as workshops, trainings, and technical assistance, to document number of firms and individuals assisted. Furthermore, activity-specific metrics should be used, such as reduction in trainees' learning curve time, increases in efficiency, improvements in quality, reductions in fabric waste, and more.

CONCLUSIONS

Based on the April 2011 visits, extensive knowledge of the global apparel industry, and extensive secondary research, Georgia's apparel industry has very good potential, but needs a comprehensive and integrated program of assistance to realize its full potential for job creation, profitability, sustainability, and to be an important engine for Georgia's economic growth. That program of assistance should be comprised of detailed firm-level assessments, market studies (export and domestic), the development of a multilevel training program addressing needs at the production and managerial levels, and firm-level technical assistance in production and marketing.

The global apparel industry is in a state of change, producing both challenges and opportunities for garment factories in Georgia. Those that can improve efficiency while maintaining or improving quality, meet international standards for social compliance, and market themselves well to international brands and retailers have a good chance of attracting new customers and expanding orders for mid-tier and better mass market clothing in Eurasia and the CIS. With high transport costs and Georgia's attractive GSP+ and FTA benefits for the European Union, neighbors, and the CIS, the country has a good opportunity to attract FDI from investors in countries, such as Turkey, South Korea, China, and Brazil that are seeking to expand their own shares of those large and lucrative markets. A comprehensive program of market assessments, training, and targeted firm-level technical assistance will be the key to Georgia's realization of its potential in the global apparel trade.

D. ADDITIONAL INFORMATION

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