

Drapers

The fashion business



CHINA SPECIAL

An in-depth look at retail and manufacturing in the country, and how you can cash in on the boom in Chinese visitors to the UK



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A strong working relationship

Finding a factory to make your clothes is only half the battle – you've got to work with them too. Drapers visited two Chinese factories manufacturing for some of the UK's biggest names to find out how they operate

Words Katherine Rushton

Creative Division is one of about 10,000 garment factories in Zhongshan, a sprawling settlement in China's southerly Guangdong province. This type of industry has extended its reach over recent years, thanks to the area's proximity to Hong Kong and an insatiable global demand for cheap clothing.

Some of those factories employ more than 1,000 workers, bussed in from all over the area and working to the efficient hum of state-of-the-art machinery; others are little more than workshops staffed by family members including children, often working hand-operated sewing machines to make up the shortfall for larger enterprises that are struggling to fulfil orders.

The first definition is most apt for Creative Division. While not A grade, it is efficiently run and produces goods – mostly knitwear and embellished jerseywear – for retailers such as Next, Boden and French Connection in the UK and QVC in the US. Marks & Spencer used to be another major customer, but Creative Division lost out in one of the high street giant's exercises to consolidate its production base.

Two of Creative Division's key selling points are the quality of its embroidery and beadwork, and its efficient sampling facility – it has all the tech-

nology needed to dye fabric on site and can dispatch samples faster than many of its counterparts. But, like many Chinese garment factories, it has struggled to maintain profit levels as its clients have tried to offset the spiralling costs of cotton and other raw materials by squeezing margins. "Customers are in a position that they can offer their price, and it's either OK or it's not," says Creative Division managing director Simon Lau.

Improving conditions

Creative Division cannot respond by slashing pay – quite the opposite. Every Chinese manufacturer, regardless of sector, has felt the impact of the Foxconn suicides (see p21) and government-imposed wage increases in excess of 8%.

Towns near the coast, like Zhongshan, have also been hit by the tax incentives offered to new factories by China's interior provinces to encourage them to set up business there. Factory workers no longer need to travel thousands of miles to find work – they can get equivalent jobs near their families or, better still, set up on their own.

When it comes to staff retention, Creative Division fares better than most, but it still lost a significant number of its 500 staff when they failed

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Simon Lau,
managing director,
Creative Division

to return after the Chinese New Year. Its management team has tried to combat this by increasing workers' basic monthly salary from 920 yuan a month (£86.65) to 1,500 yuan (£141.29) and improving conditions. Air conditioning has been installed in the dormitories where 80% of its (mostly female) workforce reside – four to a room or two in the case of senior managers – and the staff canteen, as well as the food served, have been improved. Senior management are pleasant and passionate about the business and, although production lines are never particularly sociable, workers in other areas chat happily while they work.

Creative Division has also hired supervisors to oversee the quality of work on each production line, installed electronic meters to keep a running tally of garments produced and the percentage approved, and changed the staffing structure so production lines can flip easily from major orders to small volumes, enabling just-in-time fulfilment. "It's very good for business because it means we can improve turnover on a day-by-day basis, but it is not very efficient," says co-founder Kent Tcheung.

Typically, a line of 12 workers going at full speed produces about 600 garments a day, but even these produc-





tivity levels concern Lau. He wants to improve Creative Division's profit margin by focusing on very high-quality, trend-led product, with detailing that justifies the higher labour costs he is facing. "If we are to stay competitive, we have to do more fashion stuff. We do not have all the skills and management for top, top fashion but we want to upgrade," he says.

Matthew Chiang, Creative Division's director and frontman, agrees: "Workers are not familiar with the trends because they do not have the time or the money to travel around, so we have to pass on the message and that takes time."

Creative Division has the likes of All Saints, Burberry and MaxMara in its sights. It clearly has the skills – its product is impressive – but, on an industrial scale, perhaps not reliably so. "Our biggest obstacle is management," says Lau. Cheung agrees, but thinks Chinese garment factories are also struggling to shake off the country's reputation as the factory of the world. "The US is more interested in quality but they always give me the impression that they think China is cheap. The US always puts goods made in China to the bottom of the shelf," he says. "But I think the quality of what we do is actually very good. We don't think China means

cheap. We don't want to be a manufacturer. We want to be an inventor."

As with every manufacturing centre in China, the area is riddled with potential pitfalls for retailers and brands. Driving into Zhongshan, I pass a small shop with some adults and two children outside sewing jeans. The children look to be about four years old. At first it conjures up a sense of happy families more than it does exploitation, but the scene would no doubt anger human rights campaigners. If a large factory cannot fill orders, it is this sort of workshop they often turn to in order to make up the shortfall.

Keeping secrets

Zhongshan's main drag is also lined with stock houses, selling mixed factory seconds to market traders and other retailers by the kilo. Premium denim is available at knock-down prices to those who don't mind a dodgy seam and are prepared to rummage hard. Most factories remove the labels as a courtesy to their customers, and many have a policy of only selling on mid-market seconds, but it is hard to police.

Creative Division is also held back by its clients' reluctance to reveal their suppliers. *Drapers* contacted a slew of major retailers to gain access to their Chinese factories but was unable to



Raising standards: the improved working conditions at Creative Division help keep staff both happy and capable of the attention to detail for which they are known



« secure access to any, even on an anonymous basis. UK companies with good sources sure as hell don't want to share them.

Some 750 miles away, in the industrial city of Suzhou, near Shanghai, garment manufacturer Marconi appears to be having no trouble in attracting new business. Its customers include luxury brand Burberry, premium retailers All Saints, Adolfo Dominguez and Cos, high street giants Marks & Spencer and H&M, and a host of premium Japanese denim brands, all contributing to an annual turnover of \$80m (£49m). Owner Allan Ching invested \$5.3m (£3.2m) into building and equipping the facility in 2001 – and it shows.

Creative Division is pleasant and well equipped with newly refurbished showrooms, even if its mint green building is a bit worn around the edges. But Marconi is airy and slick on a wholly different scale. Humming with shiny new technology, the uniform output of its long production lines testifies to the fact it is handling giant orders. Perhaps the most impressive thing, however, is the fact that Marconi – unlike almost any other factory in China – has a near-100% staff retention rate after Chinese New Year.

Full of enthusiasm

Of its 1,000 or so workers, about 70% sleep on site, working a six-day week for between 2,000 yuan (£188.71) and 2,500 yuan (£235.81) a month. The staff canteen is excellent (your correspondent can testify to that) and merchandiser Apple Shen, who shows *Drapers* around, is bubbling with enthusiasm about an annual *The X Factor*-style competition for staff, where Ching awards prizes for the best performances. At the end of some production lines are banners proclaiming "excellent production line" – those who win the accolade receive an extra 200 yuan (£18.87) in their annual pay packet. It's textbook stuff, really.

But Marconi also faces problems, namely production capacity. It is already going at full speed, producing some 100,000 garments a month, but frequently has to turn down business or runs into problems because of issues such as late deliveries from other suppliers. "If the fabric takes two months

to arrive, we are left with about 15 days to produce the garments," explains Shen. "For a dress it is easy, but for a down-filled jacket that is really difficult."

According to well-placed sources, at least two major UK retailers were badly burned last autumn when the Chinese factories making their goods received bigger, more lucrative orders from US clients and UK orders were, effectively, bumped. Shen says Marconi would never behave in this way, but advises brands and retailers to place orders early and make as few changes as possible in order to hit delivery deadlines. "If a customer wants goods before Christmas Eve, they need to book capacity by the summer," she says.

Looking to the future

Predictably, customers placing the biggest orders – whose garments are easiest to make or sufficiently premium to yield decent margins – take priority, alongside major new customers with whom Marconi is keen to do business. "If it is a brand we have never made for – for example M&S – we will keep capacity for them because they bring new business,"

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Apple Shen,
merchandiser, Marconi

explains Shen. Generally, orders from UK companies are seen as a bit on the small side, "but the price is very good". The UK accounts for about 30% of Marconi's turnover; the rest of Europe accounts for an additional 10% and Japan 25%, with the remainder of business coming from the US. However, Shen goes on to explain that the proportion from Japan is growing rapidly in the wake of the Japanese earthquake and tsunami earlier this year, which closed a number of Japanese producers, and the proportion from the US is shrinking.

Marconi's next step is to set up a second Chinese factory and develop its own eponymous brand. While it looks at stepping up capacity, at the other end of the scale Creative Division in Zhongshan is busy taking tips about how to fill the capacity it already has. It was generous in pointing *Drapers* to its rival in the first place and is eager to import some of its management techniques. UK brands and retailers struggling to find reliable new production centres would do well to work with the likes of Creative Division to take them from reliable to top class. ●



Willing workers: by recognising good work and staging competitions, Marconi maintains a high staff retention rate