



Creating Sustainable Apparel Value Chains

Preface to the Japanese Edition

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Dr. Maximilian Martin

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Preface

Fashion can be a means of self-expression, a distraction, a luxury—or a way to make a living. Japan’s JPY 16 trillion apparel, accessory and footwear market is one of the most important in the world. The country’s fashion market has several unique features when compared to other advanced consumer markets in Europe and North America. These dimensions include a particular sensitivity to international trend cycles and the ability of fashion magazines to strongly influence purchasing, as well as exceptional customer loyalty to prestigious foreign fashion brands; a point I had the privilege to witness over the course of several visits to Japan. But the demographics of consumer power are perhaps more relevant at this stage of industry development: the most advanced fashion consumer markets have the largest customer segment in the 40-year old age group, but the market size for people in their 20s is biggest in Japan because most live with their parents, which frees up disposable income for fashion consumption. With stable prices, solid demand and a moderate growth forecast for the rest of the decade, the business opportunities are exciting.

But there is an important twist that is calling into question how the industry creates value. The 2013 collapse of Rana Plaza in Bangladesh, killing 1,134 workers was a watershed moment for the global fashion industry, with repercussions for Japan, let alone throughout Asia. The accident brought the dire working and safety conditions in Bangladesh’s textile and garment industry to global public attention. Far from being an exception, though, similar conditions plague many other producer countries as well.

As a result, I am especially pleased to share “Creating Sustainable Apparel Value Chains” with you: the report offers a way forward to achieve the sustainable transformation of the global garment and textile industry that is now needed. Upgrading global supply chains to improve both working and environmental conditions *as well as* increasing productivity to stay competitive need not be a tradeoff. Achieving both goals is actually possible. In addition to a number of country spotlights, the report emphasizes four key levers that industry players must act upon in order to convert the shortcomings of the garment industry into opportunities for industry-wide impact.

First, tackling working conditions in emerging market sourcing locations with a much higher level of ambition is a precondition to breaking out of the prevailing unproductive cycle of suboptimal factory productivity, high absenteeism and high staff turnover. Women constitute the overwhelming majority of workers that power the world’s multitrillion-dollar textiles, apparel and luxury goods industry on which fashion depends. In fact, 80 percent of the workforce in most developing countries producing apparel for export is comprised of women. Improving working conditions also translates into important development dividends.

Second, lean manufacturing is a crucial ingredient for unlocking productivity. Achieving greater total resource productivity and transparency across the supply chain via front-of-pipe process design, lean manufacturing and energy efficient infrastructure can lower the use of chemicals by up to 20 percent, energy by up

to 40 percent, and water by up to 50 percent. Japanese companies are widely admired pioneers of kaizen, the continuous improvement of manufacturing, engineering and management processes. The opportunity is to now apply exactly this kind of thinking diligently along the textile and garment supply chain.

Third, building sustainable supply chains will require upgrades in the factory infrastructure on a broad front. Given the high cost of local capital in emerging markets, (impact) investments can provide the resources to finance infrastructure upgrades.

Finally, replicating and scaling the best practices of frontrunner producers that are addressing manufacturing issues are the easiest way forward. The rationale for this lever is clear: sustainable production and sourcing are not an otherworldly vision but will soon become a necessity to compete, as it has already in other industries. The need to upgrade supply chains will only become more stringent as consumer demand shifts. Government policies in leading consumer markets are increasingly demanding producers to assume responsibility for issues such as forced labor and environmental pollution in their supply chains. The good news is that pockets of best practices exist, and some are discussed in this report—the key is to now mainstream them.

Japanese imports of apparel increased sharply in 2013. Imports from China alone, where Japan sourced more than 85 percent of garments, grew by 22.7 percent. Under the “China plus one” policy recommended by the Japan Textile Federation, importers are now rapidly diversifying into other South Asian locations. Imports from Indonesia and Bangladesh have been increasing, and double-digit growth in imports has been registered from Cambodia,

Vietnam, Thailand and Myanmar. South Asian countries will collectively supply more than 30 percent of total garment imports to Japan within a few years—further accentuating the need for sustainable supply chains.

Moving on sustainable supply chains is the right thing to do, but it is also a forward-looking business strategy. To compete, industry leaders are well advised to heed changing demand patterns and the advent of sustainable supply chains. Younger consumers in particular—sometimes referred to as “Generation Y”—are looking much more closely than their parents at the origin of the garments they buy. Next to continuous innovation in materials, this convergence will soon be one of the key drivers of value for the Japanese fashion industry. This development will create the opportunity for the industry to both benefit from the expanding fashion consumption of the growing middle classes in emerging markets, and to simultaneously have a positive impact regarding the lives workers and other stakeholders.

I hope this report can be useful as the stakeholders in the Japanese fashion industry work toward greater sustainability, adapting the instruments and pathways to fully respond to the specific characteristics of the Japanese economy, society and capital markets. Since 1542, Japan and Europe have been directly connected through trade, one component of the truly global economy of today. If we are practical, visionary and share best practices, truly sustainable apparel supply chains can become a reality faster than some of the skeptics among us may think.

Dr. Maximilian Martin
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Contact

E-mail: research@impacteconomy.com
Telephone: +41 21 697 07 00

