

THE IMPACT OF COOPERATION MODELS OF MOLDOVAN COMPANIES ON THE GROWING OF ADDED VALUE

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Abstract. Growing added value is one of the main problems of the fashion (textiles, wearing apparel, leather products and footwear) industry, which currently operates mainly on the basis of providing services for foreign customers. The purpose of the research is to study the specifics of the various models of cooperation of the local enterprises which contributed to the development of the fashion industry of Moldova. The study made it possible to identify three types of cooperation of fashion industry enterprises in the Republic of Moldova: cooperation with foreign partners for export, cooperation of companies inside of the branch, cooperation in the companies for development of cheaper supply channels.

Keywords: *added value, branch cooperation, employers association, export cooperation, competitive advantage, fashion industry, Lohn services, Own Label, Private Label, supply channels, value chain*

Introduction

The fashion industry of the Republic of Moldova is currently one of the key industries of the national economy. This industry counts approx. 540 enterprises, which offer jobs to over 27 600 people, mostly women from rural areas. It is the only industry that is located throughout the country, thus contributing to regional development [9]. The turnover of fashion industry enterprises totaled 5,1 billion lei in 2017 and accounted for over 12% of the country's industrial output. However, the value of sales per employee is still low, and this is explained by the high share of low value-added activities generated by the business model, which is limited due to C&M (cut&make) services for foreign customers. The share of fashion industry in exports was 16.6% in 2017, ranking this industry one of the first places in terms of exports. The average net margin of fashion industry companies ranges between 1.5% in textiles and 10.6% in footwear and leather goods. Although the net margin in profitable companies can be considered satisfactory, the net profit in absolute terms is rather modest due to the excessive weight of C&M services. This generates a moderate average investment rate. It is necessary to mention that micro enterprises are not considered because they practically do not invest.

The purpose of research

Since the declaration of independence of the Republic of Moldova, the fashion industry has undergone a number of changes: the transition from public to private property, from closure of businesses and job reduction to the emergence of new businesses and increased production capacities, from technology and equipment physically and morally used to the most performing ones, from the lack of experience of working with external partners to acquiring the ability to promote and market their own branded production on foreign markets.

The purpose of the research is to study the specificities of the various types of cooperation of the enterprises from the sector that contributed both to the increase of the added value as well as to the development of the local fashion industry at all.

Research results

The study made it possible to identify three types of cooperation of fashion industry enterprises in the Republic of Moldova, which contributed differently to the increase of the added value, as well as the development of the industry:

Cooperation with foreign partners to increase export

The existence of relatively inexpensive industry specific resources at international level, such as human, knowledge, infrastructure, is the important competitive advantage that makes the fashion industry attractive to foreign partners in terms of garment manufacturing operations.

Nowadays, in the world garment industry, several international collaboration practices have been established between European customers and apparel enterprises, service provider, which are already well defined and known as [11]:

C&M (cut&make) - The manufacturer sells cutting and manufacturing services only and temporary imports all materials, which are owned by the customer;

CMT (cut, make, trimming) - The same as C&M except the manufacturer buys some of the accessories like sewing thread, buttons, etc.;

FOB (Full Price, Full Package) - the manufacturer buys all materials according to the customer's specifications and at delivery invoices the full value of the product;

Private Label - The manufacturer designs collections independently or jointly with the customer. The full-value products are delivered under customer's trademark;

Own Label - The manufacturer design collections independently, produce and sale under its own brand.

Each of the listed systems comprises a different number of value chain links and provides a different level of added value. Usually, value chain links that provide high value added belong to European customers, and links with lower value added belong to apparel manufacturers in developing countries, which offer labor at low cost.

The whole chain of value creation in the garment sector consists of the following links: 1 – product concept development, 2 – design 3 – pattern design and grading, 4 – selection of raw materials and accessories, 5 - ordering and purchasing raw materials and accessories, 6 - customs clearing (import of raw materials and accessories), 7 - internal logistics, 8 - storage of raw materials, 9 - manufacturing, 10 - finishing, packaging, 11 - storage of finished product, 12 - customs clearing (export of finished goods), 13 - external logistics, 14 - marketing / promotion, 15 - wholesale trade, 16 - retail trade.

Of the business models established in international practice, the domestic garment industry applies the C&M (cut & make) system, known as the Lohn service, which includes the 6-12 links of the value chain. The reasons why foreign clients choose Moldova are: low production costs (the cost of one minute is the lowest in the region); the flexibility to take small orders; fairly reduced delivery terms; easy access to large markets; extensive experience in the field.

The next system, fashionly more advanced, is the CMT (cut, make, trimming) system, which additionally includes a part of links 4-5 (accessories and packaging) to the 6-12 links.

These two systems of foreign clients' cooperation with domestic garments provide the lowest added value. They are based only on the involvement of the low-skilled labor force, which, due to the low cost of these, provides low wages.

In the FOB (full price) collaboration system, the service provider (garment enterprise) is concerned with the supply of raw materials and accessories, the actual production of the goods and their delivery to the customer. In some cases, the customer indicates where the raw material can be purchased. The given system comprises the 4-12 links of the value chain. This model of cooperation provides a higher level of added value, as the FOB service provider must have, in addition to production skills, knowledge and supply skills, price negotiation capabilities with cloth suppliers, delivery conditions and payment terms. This area involves the need for a more qualified

and better paid staff. All this involves creating a higher added value compared to the C&M or CMT system.

The Private Label system is more advanced than the FOB system. This system additionally involves product development (design and technical documentation), raw material supply, production itself and product delivery to the customer. The given system comprises links 1-13 of the value chain.

The Own Label system is a system where the garment enterprise is involved from the idea of the product to marketing under its own brand. Includes all value chain links and provides the highest added value.

The cooperation practice of Moldovan fashion industry enterprises with foreign clients has demonstrated that the share of Lohn services in total added value is only 9-12%. In the case of the Own Label business model, the brand owner has 64% to 66% of added value, which means that the added value of the Lohn service provider (C&M) is more than 2 times lower than when the product is designed and over 5 times lower than when the product is marketed under its own brand. The cooperation schemes outlined above have arisen due to the rather fierce competition in the global clothing industry on the one hand, and on the other hand because this industry has a very high workmanship which involves high costs. To maintain the desired profitability, trademark owners have begun a process of evacuating value chain links that provide low added value in developing countries. Gradually, the cooperation systems described above have emerged.

The historical evolution of the types of cooperation in the world garment industry is shown in figure 1.

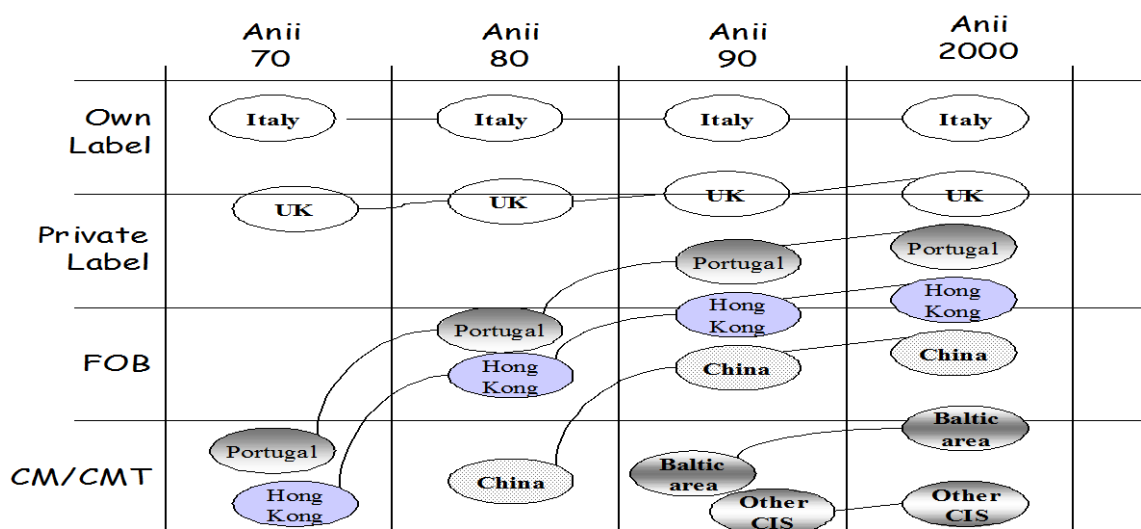


Figure 1. The historical evolution of the types of cooperation in the Portugal and Hong Kong and Baltic area garment industry.

Source: [11]

From the data presented above, we can conclude that the highly developed countries (Italy, Germany, England, Spain, etc.) have a clothing industry based on both the Own Label concept and the Private Label concept. In turn, the concept of Own Label is now increasingly being applied in Portugal, Hong Kong, Baltic countries that started their work in the Lohn system in the 1970s and 1980s and have advanced much. Relevant is China's example, which during the 90's passed from Lohn to the FOB system, then to the Private Label, which provides higher added value. In fact, the Moldovan clothing industry has made great changes over the last 15 years. With the support of the competitiveness projects (CEED, CEED II and MCP) there has been a considerable change in the working patterns of the domestic garments enterprises. If in 2005 only

approx. 5% of the total number of enterprises operated under their Own Label, currently the share of these enterprises exceeds 20% [7].

Among the most sought-after methods of international cooperation can be mentioned the strategic alliances, which present different forms of cooperation between the local garments and the foreign partners while preserving their legal independence.

The advantages of cooperation with foreign partners for the local enterprises are:

- There is no need for large investments from domestic producers
- Free transfer of new technologies
- Getting performance experience
- Creating jobs
- Safe exit opportunities in foreign markets.

Under pressure from the demanding external partners' quality requirements, local enterprises have been forced to innovate more rapidly and create more competitive products. The attractiveness of business and increased demand for Lohn services has contributed to the emergence of many new businesses and job creation, which has also resulted in more intense competitiveness, which has also been beneficial for innovation and quality Autochthon companies produce for renowned brands such as Versace, Armani, Primark, Max Mara, Prada, Dolce & Gabbana, Moncler, Calvin Klein.

Compared to selected near-to-EU countries Moldova is the smallest exporter of apparel to the global market while Turkey, Morocco, Romania and Tunisia are the leading ones. In order to remain as an exporter in the EU market, Moldova must take into account the trends of the European market. CBI summarizes the trends and opportunities in the European fashion market in their recent publication 'Trends: Apparel in Europe' as follows [3, 4]:

1. *Aging population an retiring population has money and is active in leisure time activities.* This promotes many growing niche markets (golf, sailing, hiking, etc.) with quality products. Functionality is often the main means of competition in this market, not price as with Fast Fashion.

2. *Development in shopping experience is important.* Most Europeans have a smart phone or tablet and there are 300 million active social media users. On-line shopping keeps growing. Efficient marketing requires not only an attractive web site, but also participation in social media like Facebook. New technology is implemented in on-line sales, such as virtual product displays and digital fashion shows.

3. *Transparency, traceability and sustainability are demanded by European consumers.* They want to know where the product is made and from where the raw materials originate. There is a plan to request the retailers to display the origin in the garments.

4. *Towards more efficiency means that speed to the market, re-ordering and continuous ordering are requested by European fashion companies.* Virtual prototyping is one technology to cut down design time, near-by supplier network is another one.

5. *Increasing consumption in the developing world opens new markets for European fashion brands.* Design management will continue in Europe, but some of the practical parts of product development will be sifted to the place of manufacturing, such as pattern design, design of 3D images, etc.

All these trends must consider domestic producers and be ready to take orders of this kind. Another important factor is that nowadays job seekers are looking for more sophisticated, value-added services that would allow them to cut costs. For example, Branded Marketers and Branded retailers often expect more services from their suppliers besides just manufacturing. Furthermore, medium size customers don't often possess enough material sourcing and production knowhow to operate on C&M basis.

The Moldovan fashion industry needs to be aware of the trends in the fashion market in Europe, to develop their offering accordingly. According to CBI several European fashion brands are moving parts of their product development activities to the site of manufacturing. Adidas

already engages their sourcing office in Vietnam in 3D developments. This is an opportunity for Moldova providing that Moldovan fashion industry builds capacity for design and product development services.

In accordance with the strategic steps for 2016 – 2017 exposed by Euratex, the aim of the European textile and fashion industry is to focus on two distinctive elements [5]:

1. Global value supply chains (for mass production)
2. Supply chains based on local producers (for high added value production).

Euratex has identified the following trends in the textile and European fashion market:

- Excess production capacity that affects profitability;
- Excessive competition;
- Volatile prices of raw materials;

Greater focus on investment;

- Slowdown in world market growth;
- Rapid changes in the retail sector;
- The impact of government policies.

The mission of Euratex is to promote the competitiveness and sustainable growth of the textile and clothing industry in Europe by promoting the interests of industry vis-à-vis European and international institutions. Now, seven challenges have been identified to ensure international competitiveness and sustainable growth of industry as follows:

- Accelerating innovation and R & D,
- Improving skills and qualifications,
- Enhancement of environmental aspects and excellence,
- Keeping value chains for the textile industry & European apparel,
- Better use of intellectual property rights,
- Facilitating access to third markets,
- Managing structural adjustments.

Multi-channeling, customization and digitization are perceived as basic aspects for web & mobile sales. New business models, production improvement, research and development, and sustainability will be enhanced. Innovations, research and development of collaborative networks will be core factors deriving from the development of technologies.

Branch cooperation

The experience gained by working with foreign companies is successfully applied by some domestic producers to the manufacture of garments under their own brand. Nowadays, there are more than 80 local companies of different sizes producing under their own brand. Unlike Lohn products, which are marketed through distribution networks of foreign partners, for local ones, domestic enterprises have established their own distribution networks (multi-brand shops, own shops, stalls, and internet sales) and they are still looking for the best solutions. Quality and price are strengths of domestic branded products, but competitive advantage is also determined by commercial power, especially on the foreign market. The local market is relatively small to develop a sustainable business with scale effects and experience. The development of exit channels on foreign markets is a reserve to enhance competitive advantage. Some of the indigenous enterprises have already penetrated the Romanian market, Russia, Kazakhstan. To carry out a wide and efficient promotion of the domestic garments products, the umbrella brand “From the Heart – Brands of Moldova” („Din inimă branduri de Moldova”) was launched in 2012. The main aim of flouncing umbrella brand “From the Heart – Brands of Moldova” was to boost the prestige of Moldovan-made textiles and make them more easily recognizable. In so doing, it focused on three main areas. Entrepreneurs were trained to identify, protect and manage their intellectual property (IP) assets. They also learned how to develop, commercialize and promote their brands, and how to increase sales and investment and become more competitive. A second focus was on building awareness among Moldovan consumers about the desirability and value of homegrown brands. And the third, and perhaps most challenging, area involved

encouraging manufacturers to adopt production schemes that enabled them to produce their own high-value brands [8].

In 2006 the Fashion Industry Employers Association (APIUS) was founded. At present, the Association has over 100 members: clothing and footwear manufacturers for women, men and children, and fashion accessories manufacturers.

The association aims [2]:

- promoting fair competition in fashion industry at local and international level,
- developing collaboration within the Moldovan fashion industry business community
- encouraging investment in the field,
- improving business skills in the sector,
- working with state bodies to improve the prospects of the fashion industry.

The role of the branch cooperation is to unite the efforts of the companies in the sector to promote the image "From the heart of Moldovan brands" both on the domestic and foreign markets. Recently, the partnership agreement between the APIUS and the European Fashion Council was signed. The European Fashion Council is a non-governmental organization that brings together 26 members countries and is authorized to represent the European Union in fashion and fashion design worldwide. Membership status and cooperation with this important European structure opens new opportunities to promote Moldovan brands internationally by participating companies at various business events, collections presentations, meetings with different professionals and buyers, inclusion in professional databases, participation in business missions and lobbying, etc.

Up-to-date information is needed regarding external market development, technology innovations, research projects and fashion trends. APIUS and MIEPO and The Technical University need to take an active role in networking with relevant international organizations, such as [6]:

- EURATEX is the European organization for national Textile and Apparel associations providing various kinds of information for its members. It organizes events and supports research and development.

- The European Technology Platform for the Future of Textiles and Clothing is a meeting place organized by EURATEX, where technical and marketing development projects are launched.

- AUTEX is an organization of Textile Universities in Europe. It organizes conferences and promotes research project funding.

- PROMOSTYL, INTERCOLOR and similar fashion trend studios provide forecast of future fashion. This information could be distributed to the Moldovan industry, for example by ZIPHOUSE.

As an example of development for the fashion industry of Moldova can serve Portugal, which was very active in connecting to international networks in the 90s when their fashion industry started to upgrade from traditional C&M to Own Label. Today Portugal exports leather goods and footwear for US\$ 2.3 billion and apparel for US\$ 3.2 billion under Private Label or Own Label [7].

Cooperation in the development of cheaper supply channels

Another source of competitive advantage and value added is influencing supply market conditions on the prices and quality of resources required as well as strengthening the bargaining power of companies with suppliers of raw materials and accessories. This advantage could be leveraged by new supply models by implementing branch-level cooperation.

Conclusions

The use of the opportunity to cooperate with foreign partners and the synergy effect of branch cooperation has allowed domestic enterprises to resist crisis conditions, to develop technologically and to gradually shift from service to Lohn to the marketing of branded products on foreign markets, which provides them with higher added value. However, Moldova is the smallest clothing exporter compared to competitors in the EU. In order to remain as an exporter in the EU market, Moldova must take into account the trends of the European market.

Updating information on developments in foreign markets, technological innovations, research projects and fashion trends is absolutely necessary. APIUS must play an active role in international cooperation with relevant organizations.

In addition to the above mentioned, garment enterprises in their path to competitive advantage still have to solve a number of major impediments to the development of the fashion industry such as:

- Continuously increasing added value
- Increase the export quota under your own brand
- Implementing Innovations
- Increasing productivity and efficiency.

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