ANALYTICAL ASSESSMENT OF THE APPAREL INDUSTRY IN UKRAINE: PROBLEMS AND OPPORTUNITIES

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Abstract: *The article describes the current state and dynamics of business activity of the apparel industry in Ukraine. The quantitative and qualitative indicators of the activity of apparel enterprises in the period 2015-1019 are analyzed. The strengths and weaknesses of the Ukrainian apparel industry have been identified. It is shown that Ukrainian apparel manufacturers can be competitive both in the domestic and international markets. Geographical proximity to Europe and signed Free Trade Agreement with EU giving Ukraine a clear advantage against producers in Central Asia and Far East. However, there are a number of problems facing the apparel industry. Among the main problems are the improvements of the management system of the apparel enterprise. In article was proposed to use outsourcing services as one of the ways to improve the apparel enterprise management system.*

Keywords: *apparel industry, problems, opportunities, management system, outsourcing.*

1 INTRODUCTION

The European apparel industry is becoming increasingly innovative and competitive and it plays a significant role in economic development [1].

According data of the project Skills4SmartTCLF [2] the apparel industry in 2018 realized a turnover of almost EUR 80 billion, with exports reaching almost 27 billion EUR. The European apparel industry is the second biggest exporter, after China, representing 29% of the global market. As per category of exported goods 40% are womenswear and 23% for menswear. The countries with the largest apparel industry in terms of production value are Italy, Germany, France, Spain and Portugal, which together are responsible for 75% of the total EU production value. The sector employs in total over 1.1 million workers across Europe in 130,000 companies, out of which 99% are small or medium-sized companies. The largest countries in terms of apparel industry employment are Romania, Italy, Poland, Bulgaria and Portugal. As per gender balance at the workplace, the apparel industry is dominated by women (81% of all workers).

Looking at the composition of EU-28 household expenditure by consumption purpose by the main 10 COICOP categories based on current price figures (see Figure 1), 4.7% of total or 2.6% of GDP of EU-28 household expenditure was devoted to “clothing and footwear” [3]. The household consumption expenditure on “clothing and footwear” in the European Union in 2018, by country (in million Euros) are shown in Figure 2.

According [4] spending on clothing per capita in the EU is around 700 euros.

Existing competition from China, India and Turkey requires Ukrainian manufacturers have to care about quality and follow current trends as well as meet ever-increasing customer expectations, which should lead to the growth of the economic value of this sector and an increase Ukraine's share of the EU clothing market.

In Ukraine, the TCL industry (TCL is the acronym for the European industrial activity classification (NACE) sectors 13 to 15: Manufacture of textiles, - Manufacture of wearing apparel, - Manufacture of leather and related products) until 1991 provided up to 50% of the needs in textile and clothing products of the former USSR. During the last 18 years, the Ukrainian TCL industry has been in a state of protracted systemic crisis.

The lack of government regulation and the lack of potential investors contribute to deepening negative trends. Hard competition with foreign manufacturers and large volumes of “second-hand” imports into Ukraine, worsen the conditions of operation of domestic enterprises. Attraction of investors, modernization of production, government support and use of new management tools are the decisive factors for ensuring the competitiveness of Ukrainian TCL industry.

The Ukrainian market is dominated by products imported from Turkey, China and Poland. Ukraine ranks third in the world in terms of “second-hand” imports, ahead only of Pakistan and Malaysia [5].

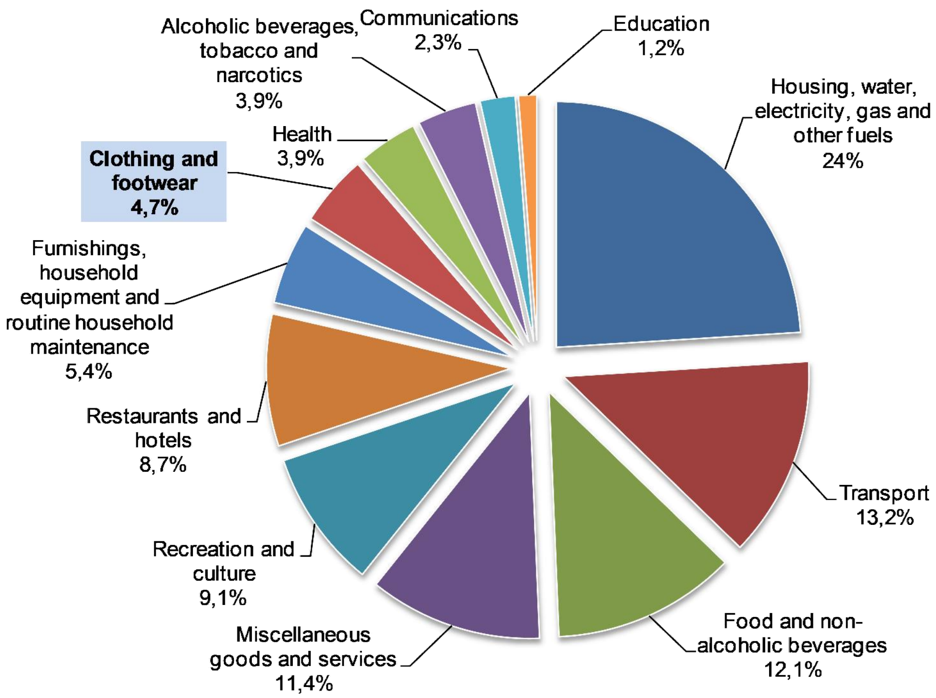

Figure 1 Household expenditure by consumption purpose - COICOP, EU-28, 2018, share of total (Source: Eurostat)

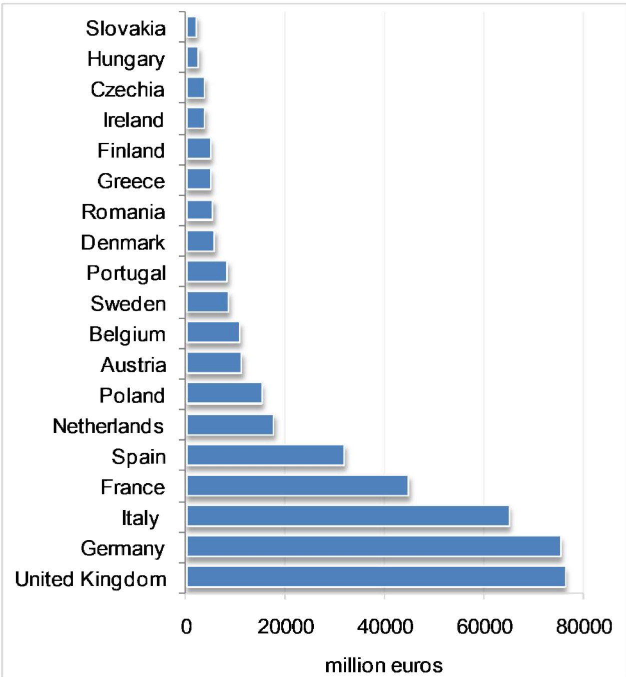

Figure 2 Household consumption expenditure on "clothing and footwear" in the European Union in 2018, by country (Source: Statista)

Today, the Ukrainian TCL industry provides 5% of budget revenues and 2.6% of Ukraine's export potential.

Ukrainian TCL industry is characterized by the following problems that limit its development [6-13]:

– reduction of the domestic market for domestic products;
– saturation of the market with products from Turkey and China, as well as "second-hand";
– lack of government support;
– unfavorable investment climate;
– insufficient innovation activity;
– low competitiveness in price, quality and assortment;

– using tolling schemes;
– issues of taxation and shadow production;
– the lowest salary in the industry;
– narrowing of the raw material base;
– lack of effective business management schemes;
– lack of effective leasing financing for the purchase of equipment;
– low level of equipment and technology modernization.

This study is assessment and determines the problems and prospects of Ukraine apparel industry by analyzing key economic indicators of domestic enterprises.

2 RESEARCH AND RESULTS

Our analysis used dataset from the State Statistics Service of Ukraine (Ukrstat) and data of Ukrainian Association of enterprises of textile, apparel & leather industry. The subject of analysis is the apparel production (Sector C. Manufacturing (C.14.1 - Manufacture of wearing apparel, except fur apparel; C.14.2 - Manufacture of articles of fur; C.14.3 - Manufacture of knitted and crocheted apparel).

According to Ukrstat, at the beginning of 2019, 16 602 TCL industry enterprises were operating. This is 13.19% in the structure of all domestic industrial enterprises. The apparel enterprises make up 70.48% of the total number of TCL industry enterprises, the textile enterprises 16.70%, the enterprises for the production of leather and related products 12.82% (Figure 3).

Figure 3 Dynamics of the number of TCL industry enterprises in Ukraine during 2015-2019 (Source: Own elaboration based on Ukrstat data)

Among 11701 apparel enterprises: 1.96% - medium-sized enterprises, 6.46% - small, 91.58% - micro-enterprises. The dynamics of the number of apparel enterprises has a stable trend. The largest share in the regional structure of the apparel industry enterprises is: Kyiv region 20.16%, Kharkiv region 12.82%, Lviv region 10.83%, Khmelnitsky region 6.53% and Odessa region 5.61%.

These areas are historical centers of origin and development of the apparel industry. Other regions by number of economic entities were distributed in the structure up to 5% (Figure 4).

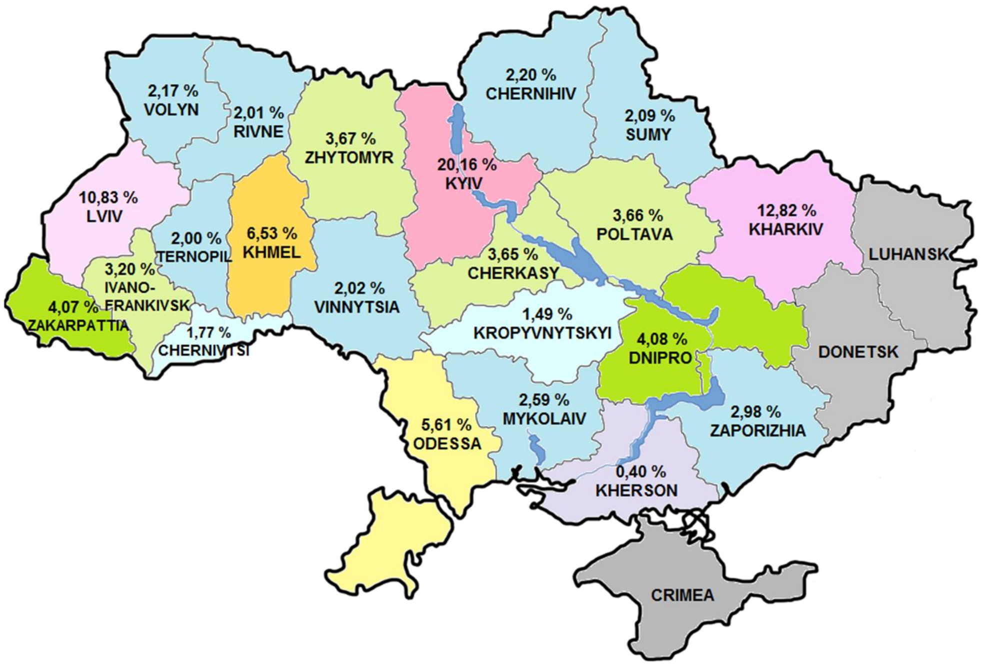

Figure 4 Territorial structure of the enterprises of the apparel industry of Ukraine (without enterprises located in the annexed territory of the Autonomous Republic of Crimea and in the temporarily occupied separate areas of Donetsk and Lugansk regions) (Source: Own elaboration based on Ukrstat data)

The share of the apparel industry in the total volume of industrial production for 2015-2019 has a steady trend (Figure 5a). At the beginning of 2019, the share of the apparel industry increased by 0.15% compared to the same period of 2015. This indicates a gradual increase role of the apparel industry in the industrial complex of Ukraine (Industrial complex of Ukraine consists of 4 sectors: sector B - Mining and quarrying, sector C - Manufacturing, sector D - Electricity, gas, steam and air conditioning supply, sector E - Water supply; sewerage, waste management and remediation activities). A positive growth trend of the apparel industry share is also observed in the total sales of Ukrainian TCL industry (Figure 5b).

The preliminary results are confirmed by the data presented in Figure 6. Figure 6 shows the volumes of sales of apparel products in the respective year on 01.01.

The volume of sold products of the apparel industry is increasing every year. At the beginning of 2019, the volume of sold products amounted to 13629.03 million UAH and compared to 2015 it increased by 8403.83 million UAH (in 2.61 times). The annual growth average is 27.3%. However, the dynamics of production by the nomenclature of goods does not have clearly defined trends and patterns. This is due to fashion trends and consumer demand (Table 1).

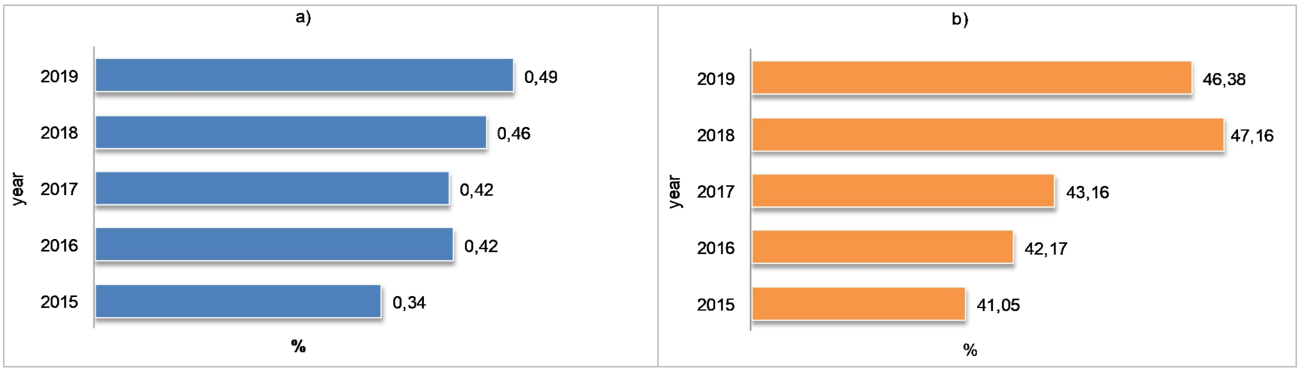

Figure 5 The share of the apparel industry in Ukraine in the total volume of industrial production in 2015-2019: a) industrial enterprises; b) TCL enterprises (Source: Own elaboration based on Ukrstat data)

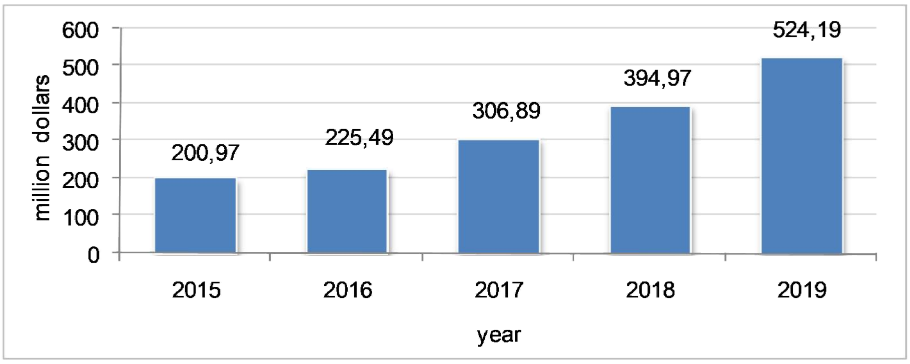

Figure 6 Volume of sold products of the apparel industry of Ukraine in 2015-2019 (Source: Own elaboration based on Ukrstat data)

Table 1 Dynamics of volume production of the main types of garments for the period 2015-2019

Types of garments	Volume production compared to the previous year [%]				
	2015 to 2014	*2016 to 2015*	*2017 to 2016*	*2018 to 2017*	*2019 to 2018*
Coats, raincoats, capes, etc	85.05	87.04	101.93	96.05	93.92
Vests, anoraks, etc	99.69	132.49	120.24	148.91	100.49
Suits and ensembles, etc	81.06	67.19	125.04	101.36	94.77
Coats, jackets, blazers, etc	92.96	115.36	91.58	103.85	93.55
Dresses, ets	100.00	92.59	120.00	103.33	104.87
Skirts, etc	97.95	117.42	94.96	76.98	100.00
Blouses, etc	93.33	85.71	133.33	106.25	93.88
Shirts, ets	85.71	108.33	107.69	107.14	86.67

Source: Own elaboration based on Ukrstat data

Table 2 Dynamics of financial result of apparel enterprises activity after taxation for the period 2015-2019

Enterprises	On 01.01 corresponding year	Enterprises that have received profit		Enterprises that have received loss	
		In % to the total number of enterprises	*Financial result [million UAH]*	*In % to the total number of enterprises*	*Financial result [million UAH]*
Industry*	2015	62.4	59910.7	37.6	238641.6
Apparel industry		69.1	366.4	30.9	424.0
Industry*	2016	72.6	75334.3	27.4	263602.2
Apparel industry		75.9	638.8	24.1	398.7
Industry*	2017	72.5	117202.7	27.5	141927.4
Apparel industry		75.3	609.4	24.7	146.8
Industry*	2018	71.4	195352.2	28.6	139228.2
Apparel industry		71.1	698.1	28.9	188.5
Industry*	2019	72.4	233568.7	27.6	124279.9
Apparel industry		70.9	637.8	29.1	180.3

*Mining and quarrying + manufacturing + electricity, gas, steam and air conditioning supply + water supply; sewerage, waste management and remediation activities (Source: Own elaboration based on Ukrstat data)

In 2015-2019, the largest increase in apparel production was observed in 2017. In 2019, there was a certain reduction in the apparel production. The largest increase in volumes has the production of dresses - in 2019 it increased by 4.87%. The greatest decline in production was observed in production of shirts (in 2019 decreased by 13.33%) and suits, jackets, blazers (decreased by 6.45%).

The positive trend is also confirmed by the dynamics of the financial result of the activity of the apparel industry enterprises after taxation (Table 2).

At the beginning of 2019, the number of employees in the garment industry amounted to 79.9 thousand people (59.85% of those employed in the light industry) (Figure 7). This is significantly higher than in other sectors of Ukrainian TCL industry. During the period under review, the number of employees in the apparel industry has a tendency to increase. This trend is typical for TCL industry in general. Traditionally, TCL industry with high shares of females, not only in services and administration, but also in production activities. This did not change between 2015 and 2019. Today 75% of all persons employed in TCL industry are female.

The salary of workers in the Ukrainian apparel industry increased in 2.6 times during the surveyed period (Figure 8). The salary growth rate is 29.30% annually. The salary of workers in the apparel industry at the beginning of 2019 increased by 10.90% compared to 2018 and exceeded the minimum salary by 1.79 times. The gap in salary of female compared to men is 11%.

Despite the positive trend, monthly salary in apparel industry as well as the TCL industry in general is the lowest in the industrial complex of Ukraine. Thus, the salary of apparel industry worker is less than the average salary in total industry in 1.58 times (in the food industry - 1.34 times; in pharmaceuticals - 2.59 times; in the wood industry - 1.24 times). This leads to an outflow of highly skilled personnel into businesses with stable and competitive salary.

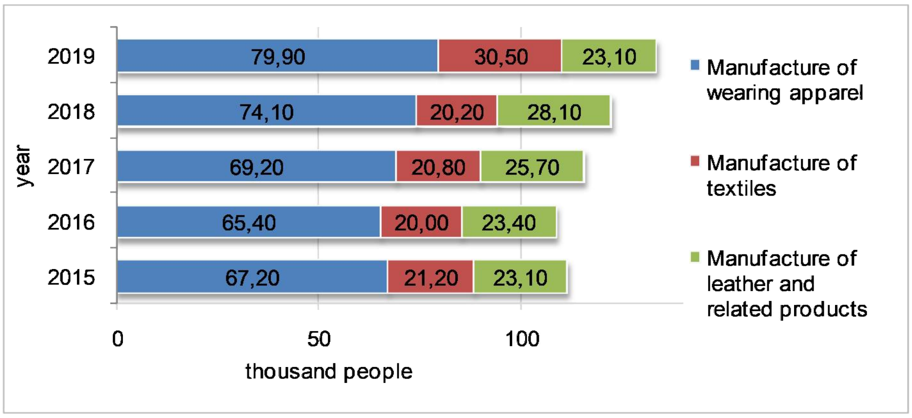

Figure 7 Dynamics of the number of employees in apparel industry in Ukraine for the period 2015-2019 (Source: Own elaboration based on Ukrstat data)

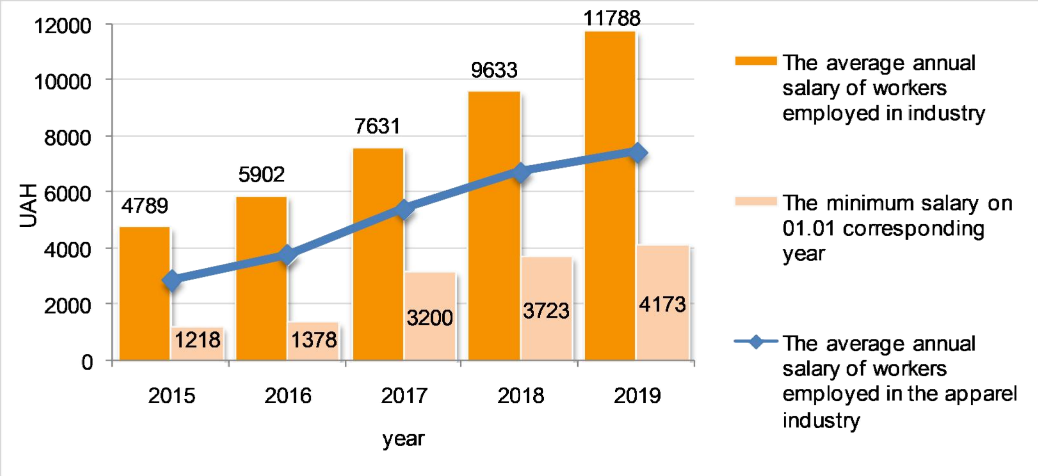

Figure 8 Dynamics of the average annual salary of the Ukrainian apparel industry in 2015-2019 (Source: Own elaboration based on Ukrstat data)

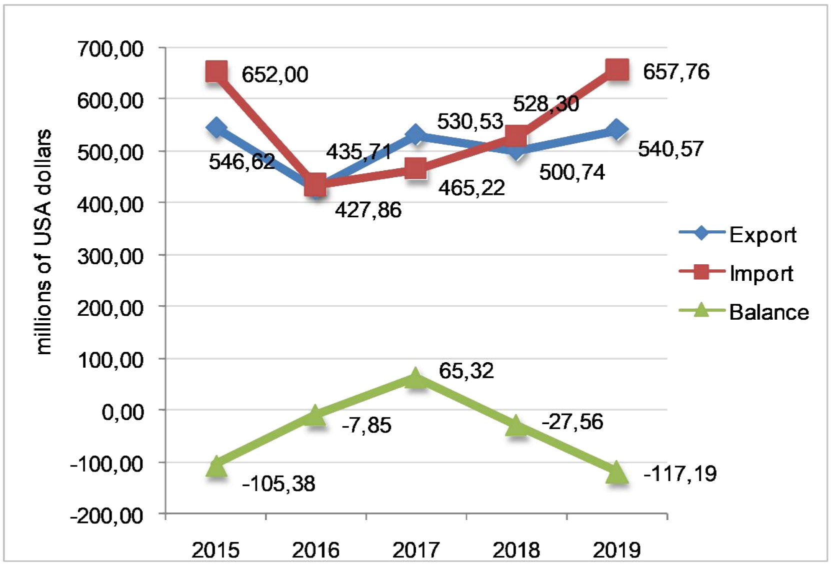

Figure 9 Dynamics of foreign trade in the apparel industry of Ukraine for the period 2015-2019 (Source: Own elaboration based on Ukrstat data)

Ukraine's export-import activity is characterized by a negative balance of foreign trade in the apparel industry. Imports are dominated by exports (Figure 9).

Leaders of imports of goods apparel industry in Ukraine are the countries of Asia (over 85%), China, Turkey, Bangladesh, Cambodia and Vietnam. More than 90% of exports garment industry accounts for the EU (Germany, Poland, Denmark, Belgium, Lithuania and Italy).

One of the important problems in the development of the Ukrainian apparel industry is the import of "second-hand". On 01.01.2019 in Ukraine imported "second-hand" in the amount of 154.97 million $ USA. This is on 50.43 million $ USA more than on 01.01.2015 (Figure 10).

"Second-hand" is popular both poor and a wealthy population. Among the "second hand" can find products of world famous brands of high quality. The cost of these products in branded stores is too expensive for most ordinary Ukrainians. The problem is as follows: "second-hand" are imported as humanitarian aid, and new products are imported as "second-hand". This leads to the loss of the annual budget about 3 billion $ USA. According to the latest data, the volume of "second-hand" imported from the EU amounted to 99.38% (Poland - 37.18%, Germany - 35.09%, Switzerland - 15.37%, other EU countries - less than 3.5%), from other countries - 0.62% [14, 15].

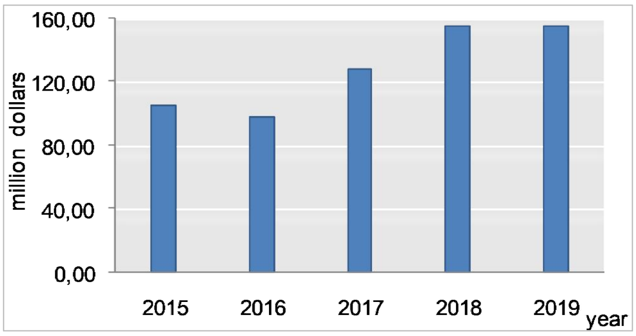

Figure 10 Volume imported to Ukraine clothes and other goods that were used in 2015-2019 (Source: Own elaboration based on Ukrstat data)

One way to improve the efficiency of TCL industry in Ukraine is to attract investment. Direct investment in Ukrainian TCL industry in 2015-2019 is shown in Figure 11.

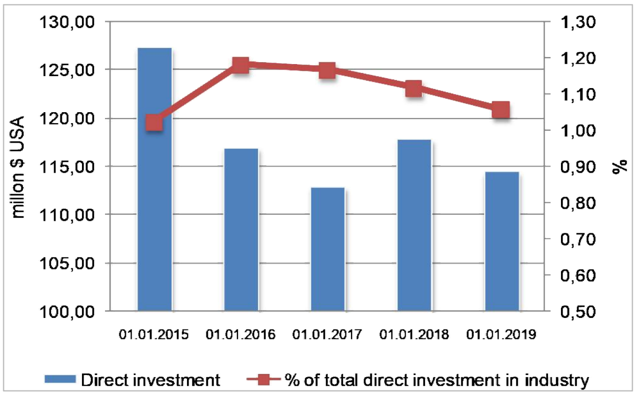

Figure 11 Direct investment in Ukrainian TCL industry in 2015-2019 (Source: Own elaboration based on Ukrstat data)

According to Ukrstat data on 01.01.2019 direct investments in TCL industry account for 1.06% of the total direct investment in the industry. This indicator is characteristic of the apparel industry too. The main investors in Ukrainian TCL industry and apparel including is the EU (Figure 12).

The dynamics of profitability of the operating activity of the garment industry enterprises in 2015-2017 showed a positive trend, but declined from 2018 (Figure 13). Throughout the study period, the level of profitability was positive, and therefore, on average, the apparel industry was profitable.

As shown in Figure13 in the period 2015-2017, the level of profitability of industrial enterprises was low. This is due to the difficult political and economic situation in the country. Sewing companies in this period showed high profitability, this is explained by tolling schemes.

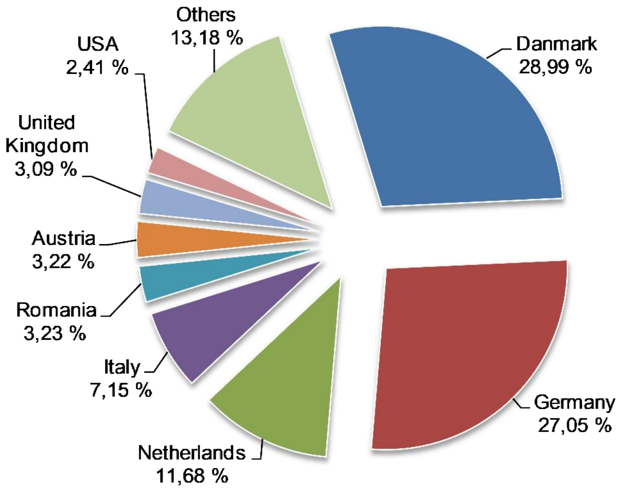

Figure 12 Geographical structure of direct investments in TCL industry of Ukraine on 01.01.2019 (Source: Own elaboration based on Ukrstat data)

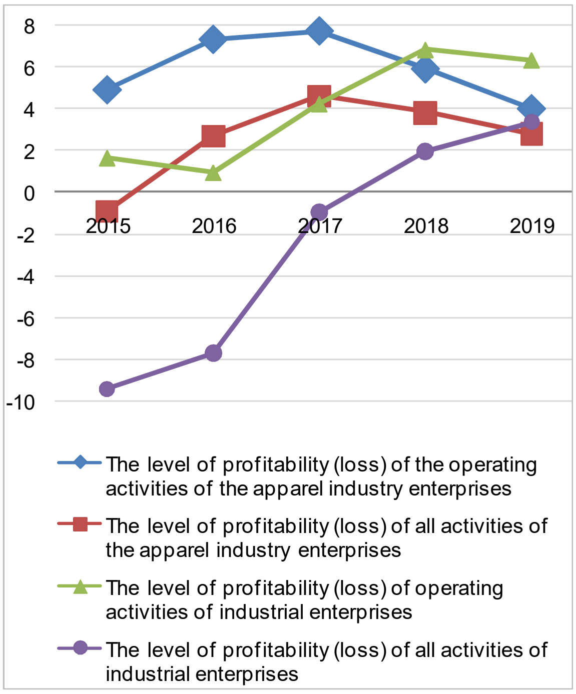

Figure 13 The level of profitability of the operating and all activities of apparel industry enterprises in 2015-2019 [%] (Source: Own elaboration based on Ukrstat data)

3 CONCLUSION

The Ukrainian apparel industry is in a difficult phase of coming out of the crisis. The Ukrainian domestic apparel market is filled with cheap, low quality foreign goods. These goods are displacing domestic products of Ukrainian apparel market. Enterprises cannot operate effectively due to lack of investments and high-tech equipments. The apparel industry needs government support in the form of government programs and improvement of management system of the apparel enterprise.

On our opinion, one of the ways to improve the management system at apparel enterprises is to take advantage of outsourced enterprise management. Outsourcing in the world is recognized as an effective management tool and a key element of business strategy, both small and large enterprises. An example of the successful use of outsourcing is the global brand Marks & Spencer, which produces clothing, footwear and accessories. The company began to make extensive use of outsourcing services in the early 2000s, first outsourcing IT support. It allowed to optimize staff and increase the effectiveness of e-commerce worldwide. Subsequently, they outsourced HR-audit, payroll, inventory, opening new stores and other business processes. Another example of the use of outsourcing in various areas is the Inditex group of companies, the owner of the Zara retail chain. This company also conquered the world market by actively attracting outsourcers on different continents. We do not mean production outsourcing, as almost all well-known European brands use the services of Asia, Turkey and Ukraine, as the cost of labor there is much lower. Outsourcing has also contributed to the rapid development of China, India, the Philippines and Mexico. The global outsourcing market is growing rapidly, and according to forecasts by international experts in 2020 will reach 1.1 trillion $ USA. Analysis of the outsourcing market in Ukraine indicates a rapid pace of its development (18% annually). It is now 10 billion $ USA. The most popular among Ukrainian business owners are: IT outsourcing services, logistics, production process resourcing, marketing and asset security. Ukrainian apparel enterprises have high chances to effectively use outsourcing as a tool for business process management. At the same time, apparel companies can outsource by offering their manufacturing facilities for production apparel to outside companies within and outside the country.

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