ETSA Workwear Group
8 October 2009, Brussels

Structural Changes in the Workwear Market: Chances and Challenges for Textil Service Companies

European Textile Service Association

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Expo+Consulting Associates
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Workwear is defined as apparel bought by enterprises/institutions which is given to their employees to perform their work

- **Workwear**
  - **Protective Clothing**
    - **PPE**
    - **Object Protecting Clothing**
  - **Workwear (general purpose)**
  - **Corporate wear**
    - **Business wear**
    - **Corporate casuals**
    - **Uniform**

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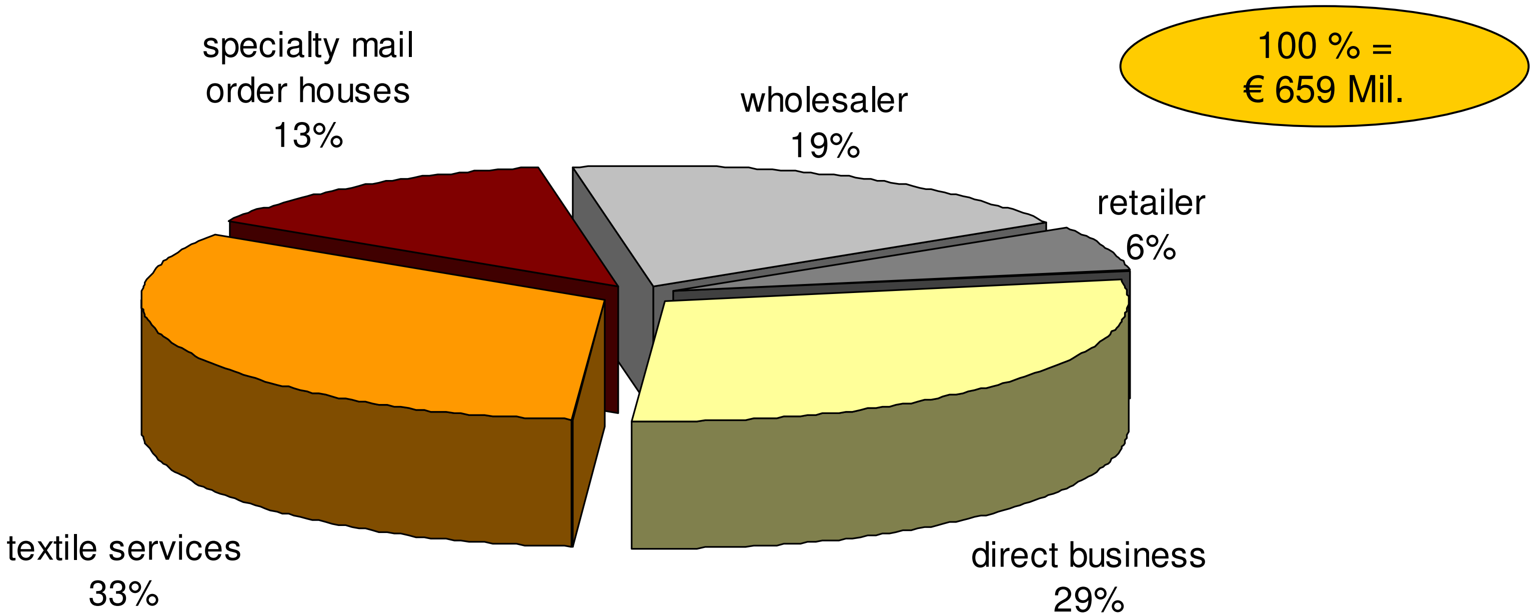
Distribution channels for particular categories of workwear have different importance

	Textile Services	Wholesale	Retail	Specialty Mail order	Direct Business
Workwear					
Business wear					
Corporate casuals					
Uniforms					
PPE					

strong   medium   low

Textile Service is in Germany the most important distribution channel for work wear (without footwear)

Market shares of distribution channels in Germany 2007



Basis: BBE 2008

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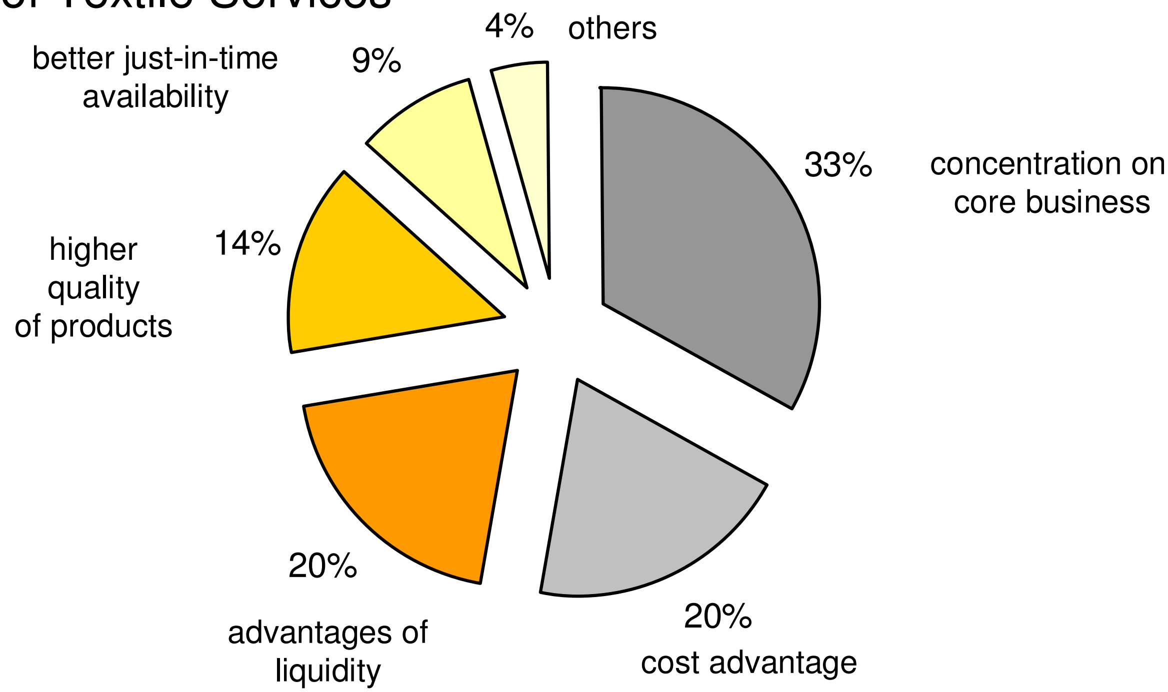
Focussing on core business is seen as most important advantage of textile leasing for customers.

Advantages of Textile Services



Basis: Böttger 2007

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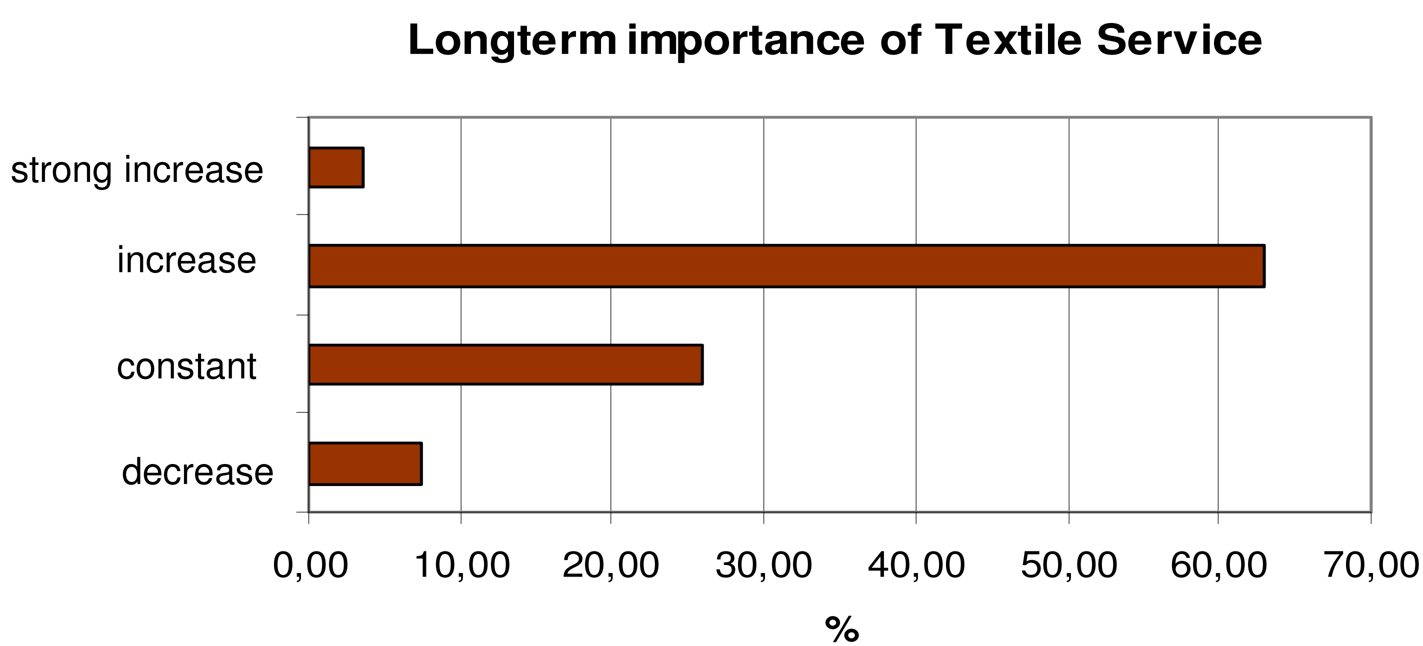
According to a recently completed survey of over 60 managers in the workwear industry and textile services, the relevance of textile services will increase in the coming years



Basis: Böttger 2009

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Workwear in Textile Service achieved in 2007 approx. 44 % of whole Textile Service volume in Europe

Basis: ETSA, estimates

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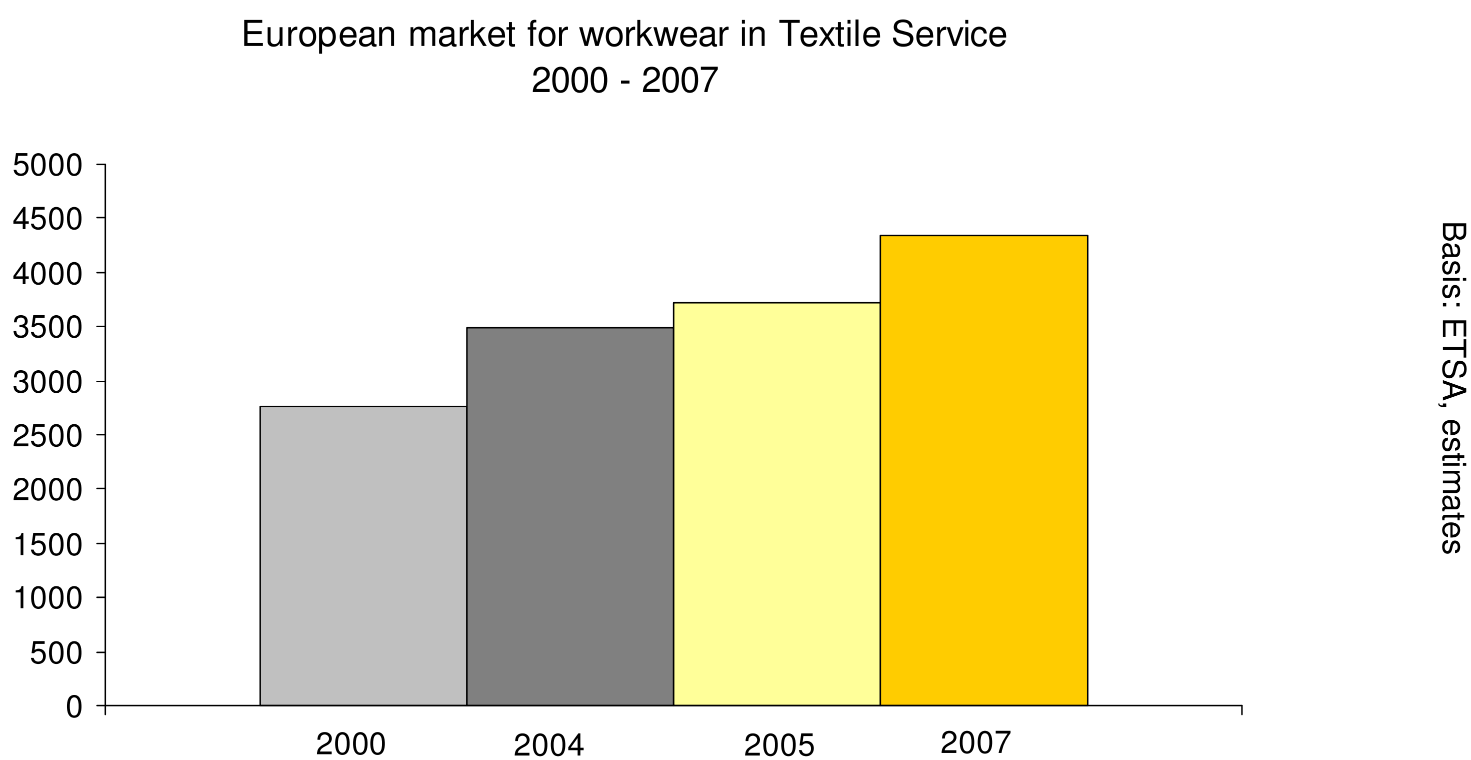
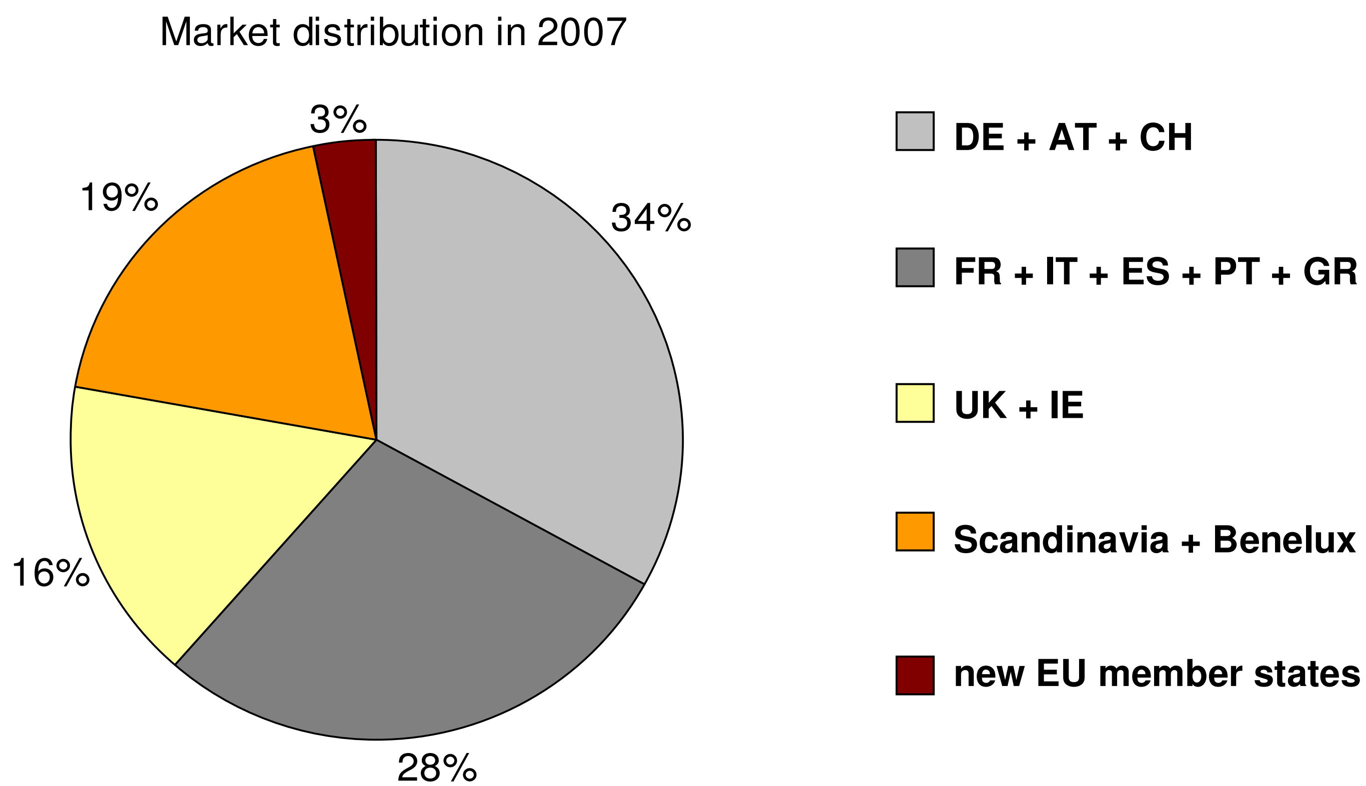
The European market for workwear in Textile Services has continuously increased. It reached in 2007 approx. € 4.3 bn



The German speaking region has the largest market share



Basis: ETSA, estimates

3. Change of Demand in Workwear
SB 3-1 Dynamic Factors of Demand

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Dynamic factors are working on two levels: primary market and textile service

Dynamics workwear

- level of employment
- structure of employment
- customer requirements
- regulations, standards

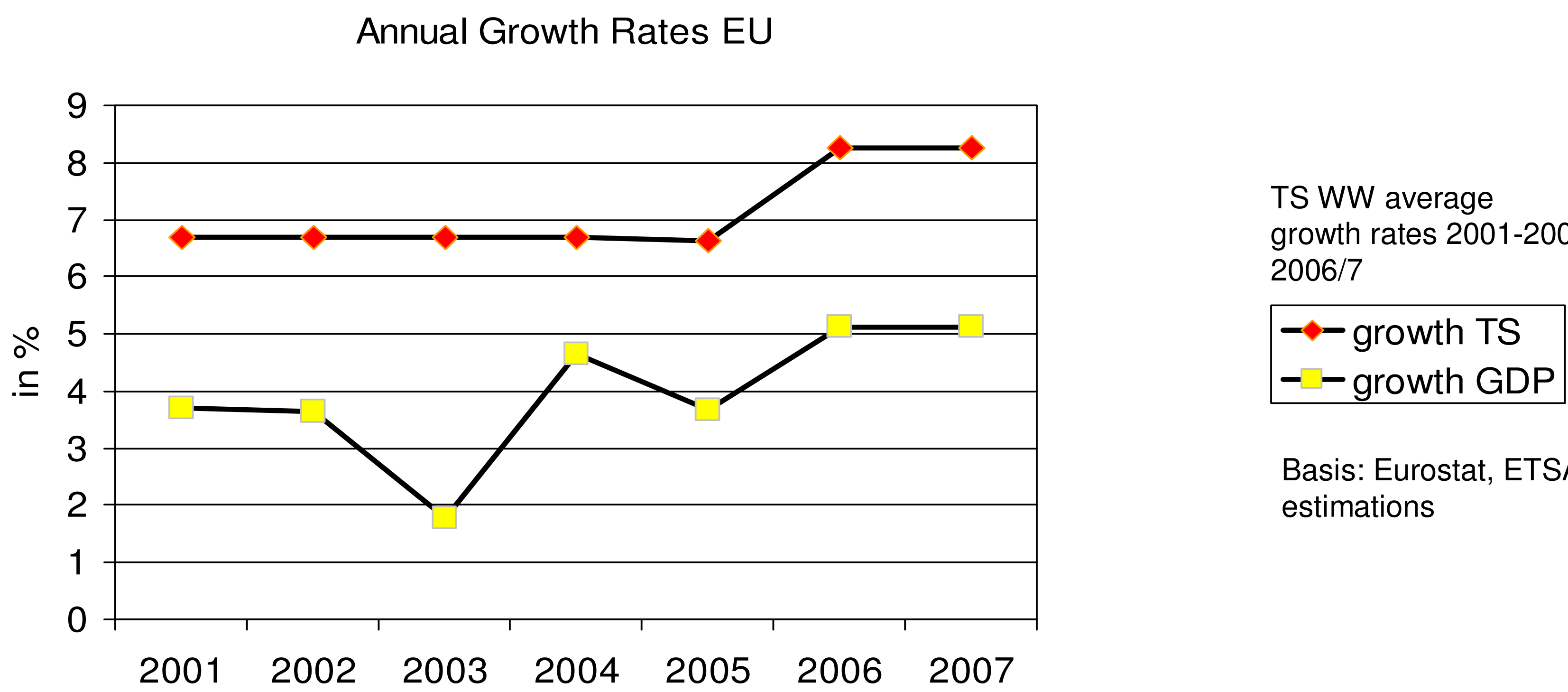
MARKET WORKWEAR

Dynamics textile service

- focus on core business
- quality standards
- financial advantages
- just in time

WORKWEAR IN TEXTILE SERVICE

Growth cycles are one of the most important factors for workwear demand. Growth of workwear in Textile Service has been ahead of GDP-growth in Europe (EU 15)



TS WW average growth rates 2001-2004; 2006/7

Basis: Eurostat, ETSA, estimations

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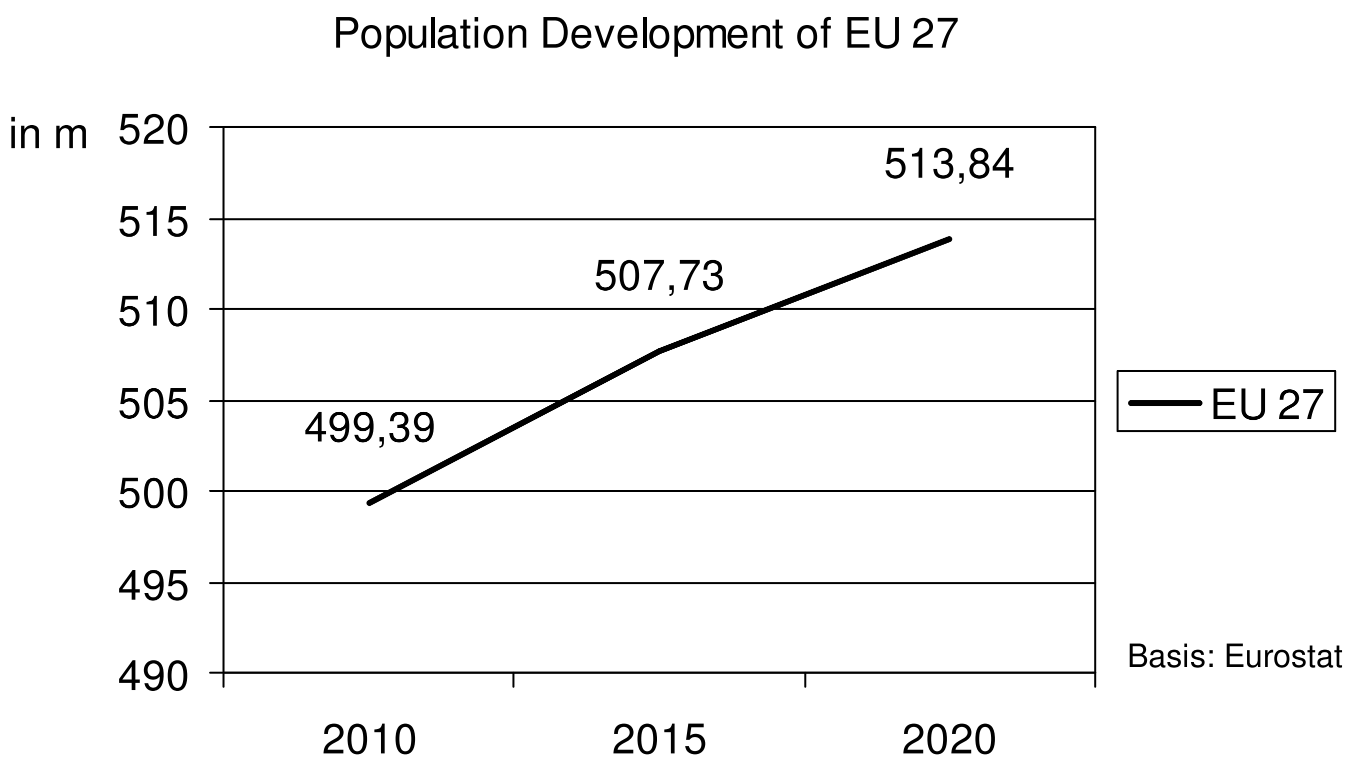
Population in EU will increase continuously in the longterm



Basis: Eurostat

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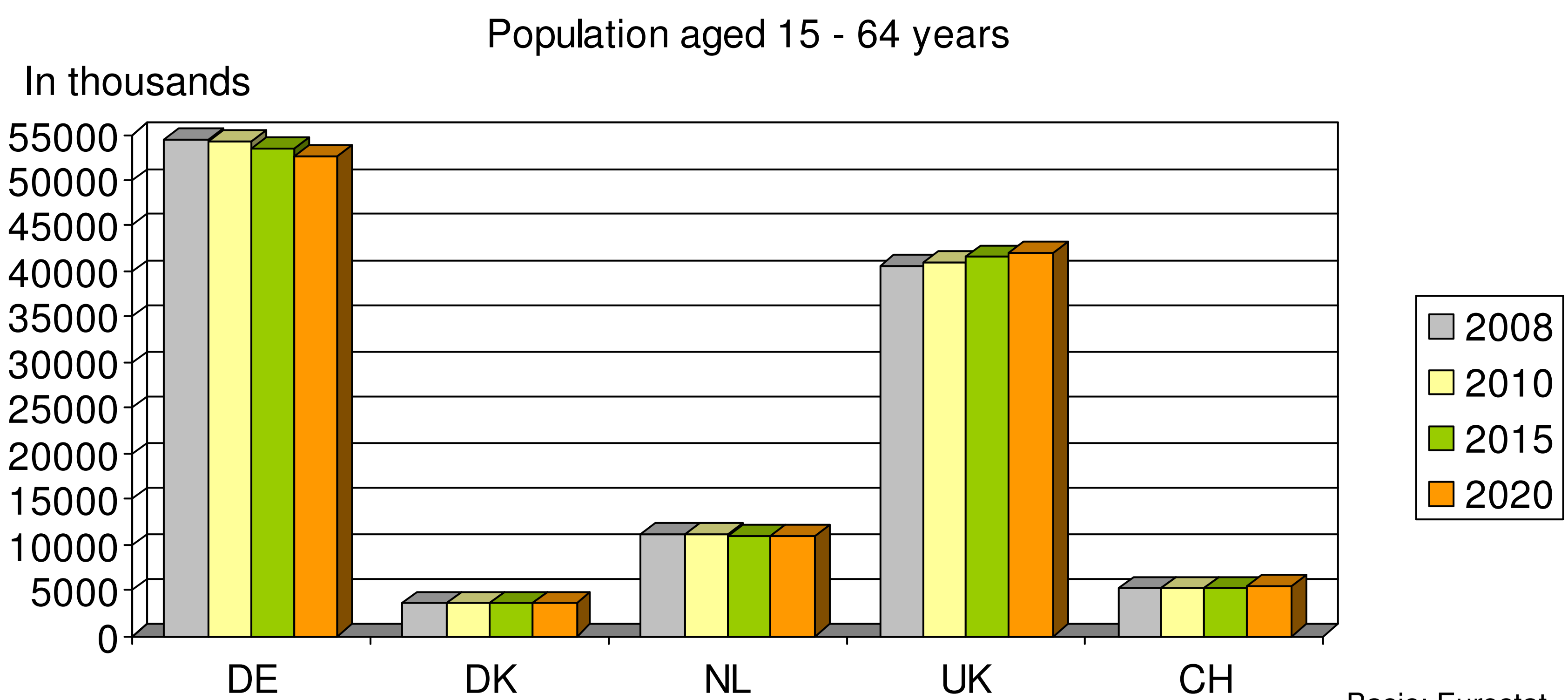
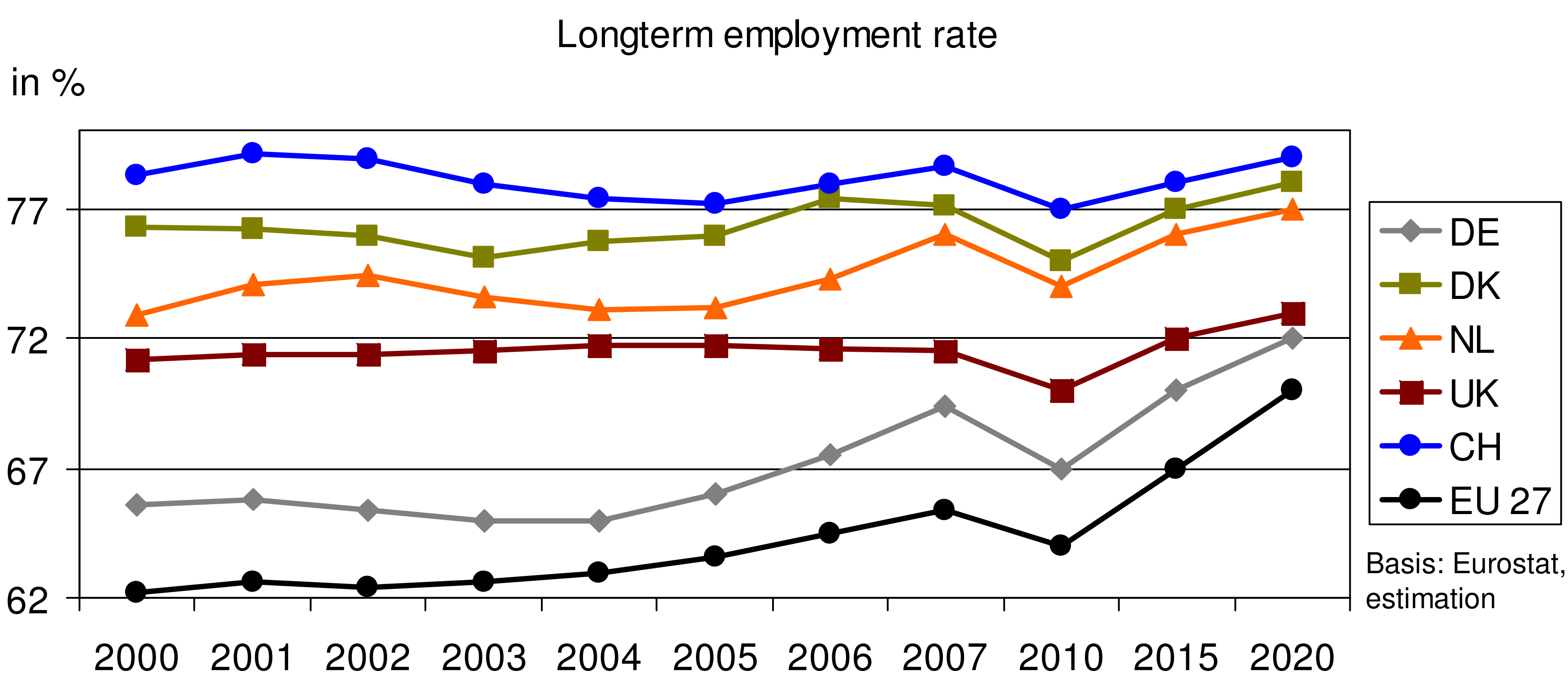
Employment potential increases in UK and CH.
It decreases in DE, DK and NL



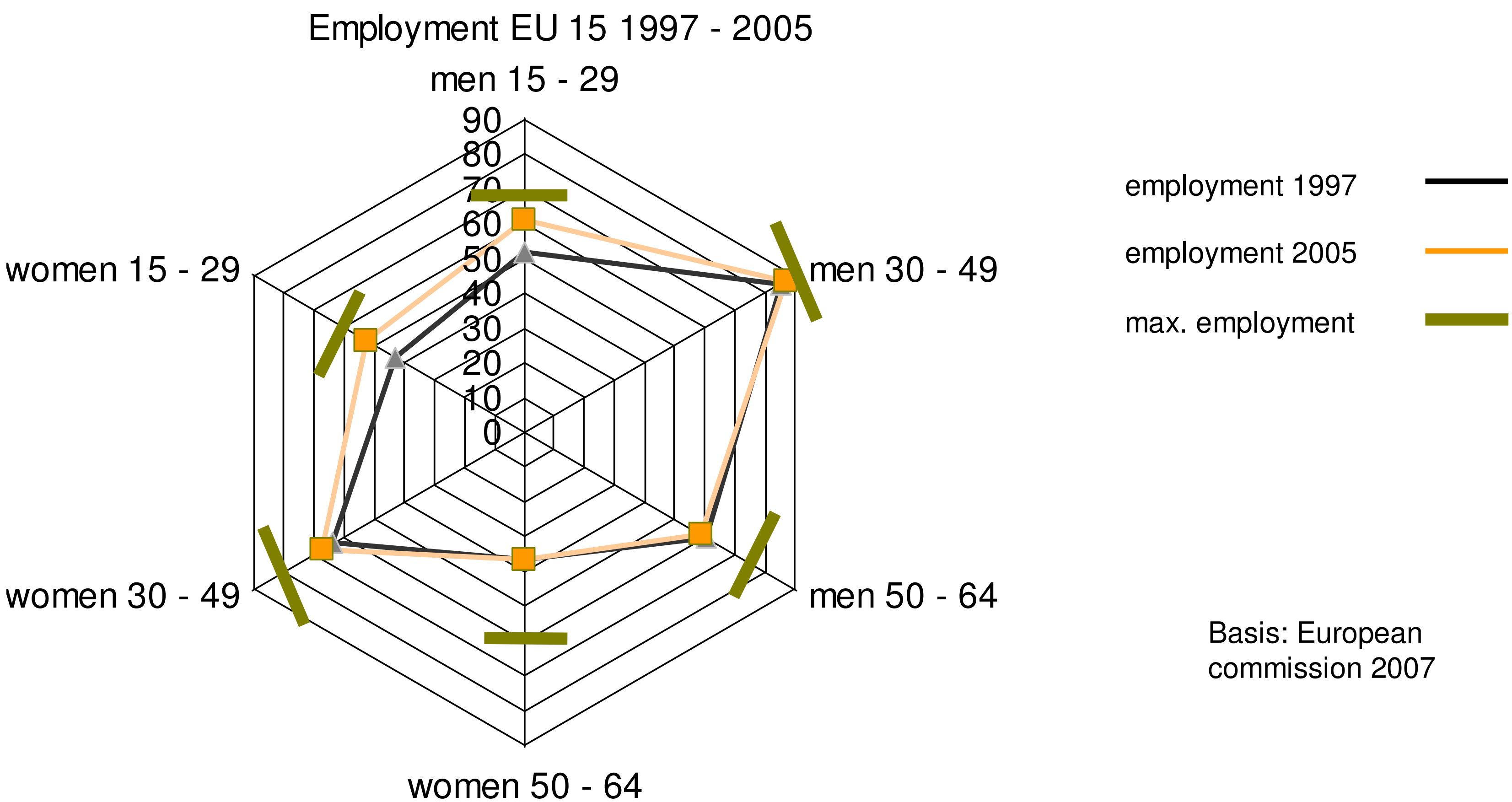
Basis: Eurostat

Structural employment rate will increase in the longterm.
Politics of EU target on 70 % in each member country.



Basis: Eurostat, estimation

Biggest employment reserves in EU to be found in the age group 50 – 64 years, women and men



Basis: European commission 2007

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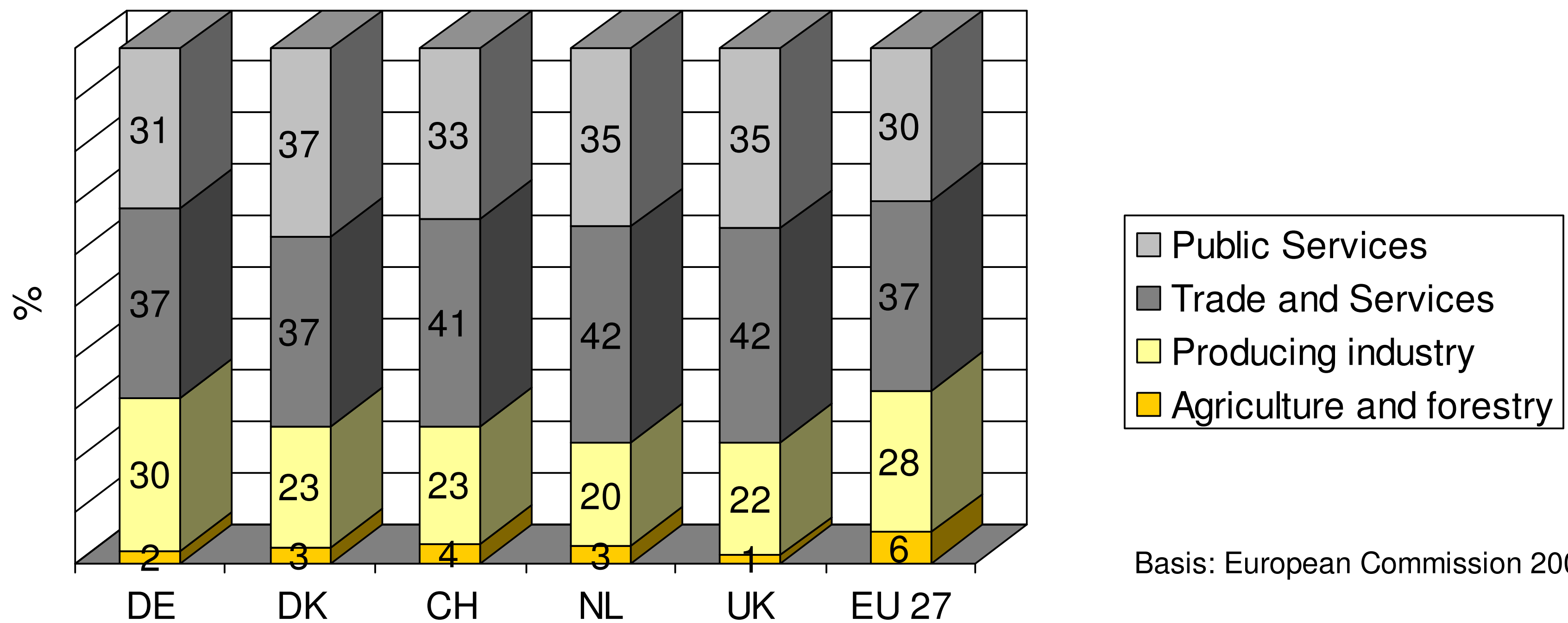
The share of workers in production in the EU 27 has been 28 %.
Most of the West European countries have a share below 25 %.



Basis: European Commission 2007

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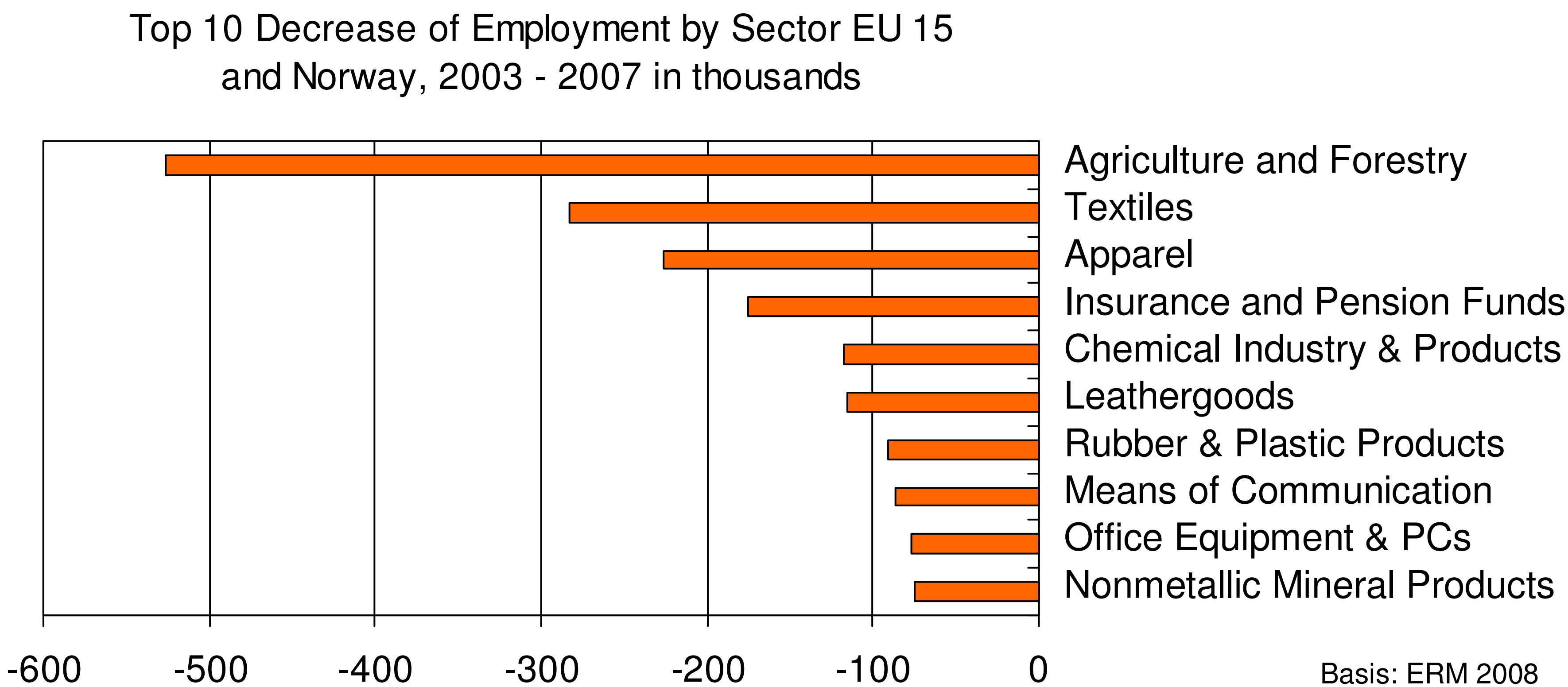
The sectors with the strongest decrease of employment 2003 - 2007 are not typically using Textile Services

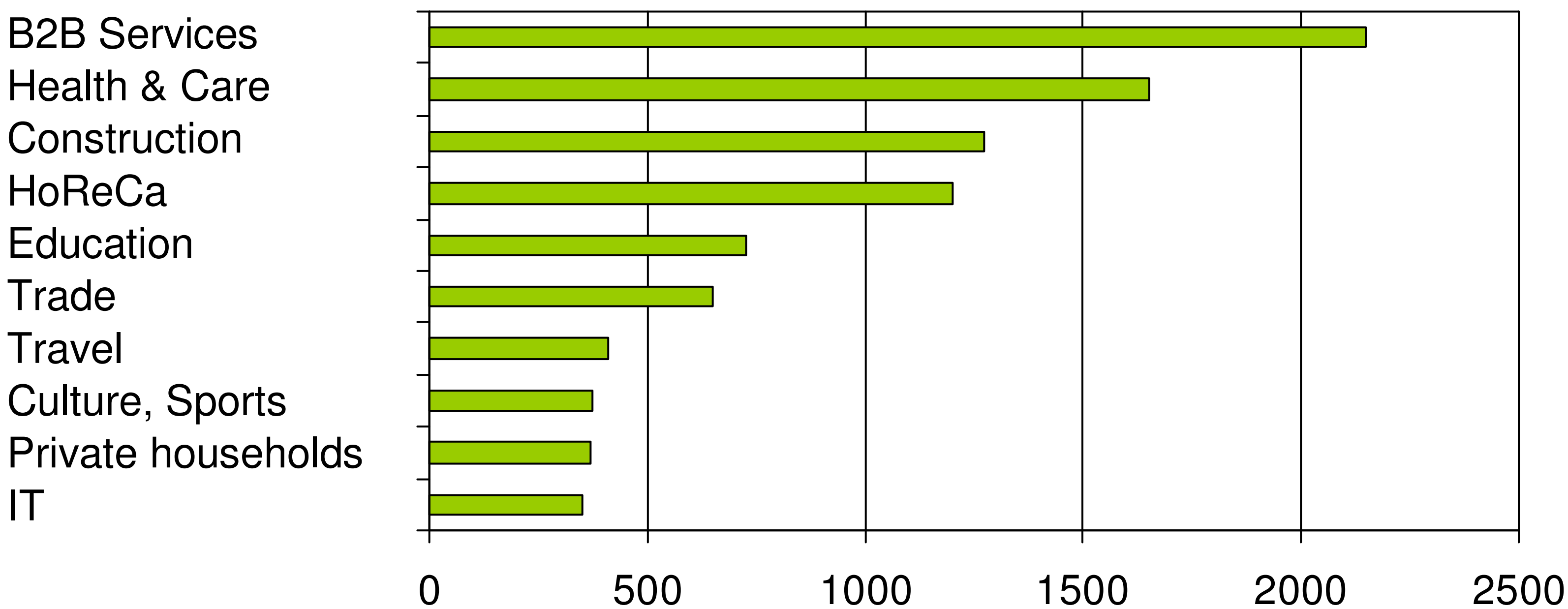


Basis: ERM 2008

3. Change of Demand in Workwear
3-9 Increase of Employment by Sector EU

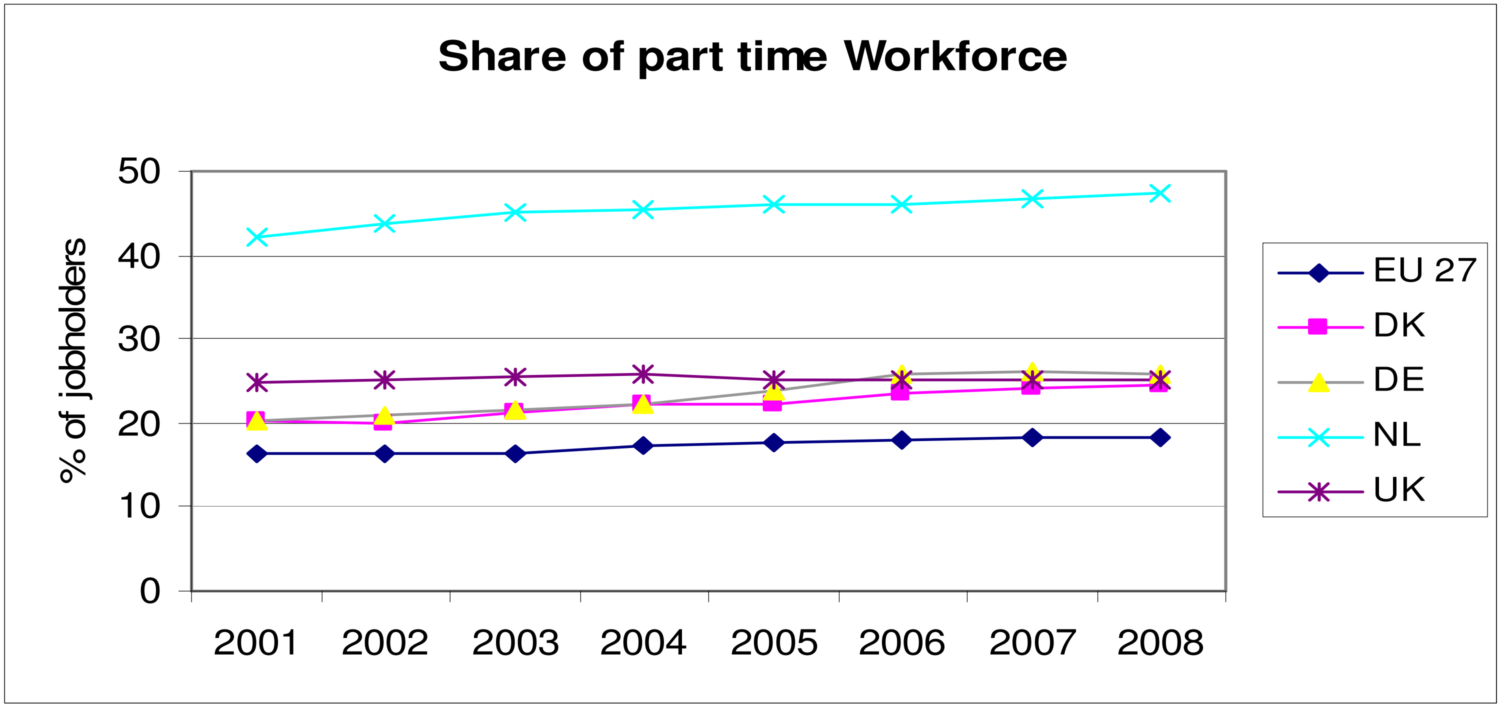
Sectors, that contribute significantly to the increase of employment are strong customers of Textile Services

Top 10 Increase of Employment by Sector EU 15 and Norway, 2003 - 2007 in thousands



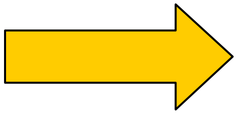
Basis: ERM 2008

The share of part time employment increased in some countries. To integrate more women and senior workforce, part time employment needs to rise.



Basis: European Commission 2009

Trend: The full time male worker in industrial production will be replaced by the part time female in services



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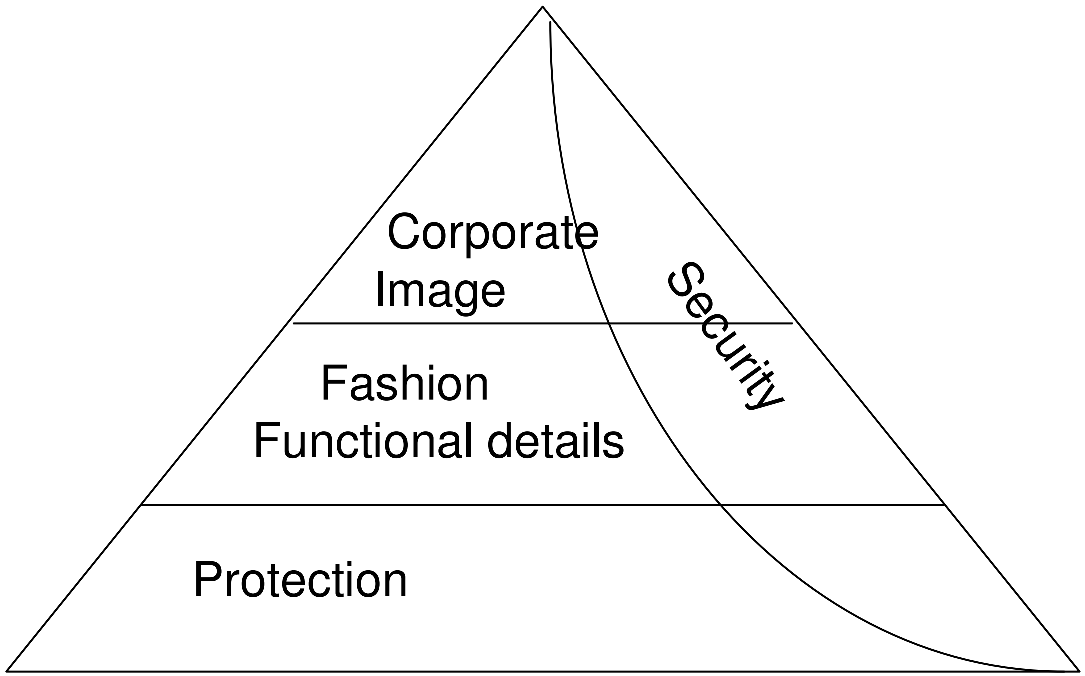
Workwear will be increasingly perceived as „superior“ product – Increasing wealth of societies is reflected in workwear
(technically: income elasticity is larger than 1)



3. Change of Demand in Workwear
3-12 Development Standard Collections

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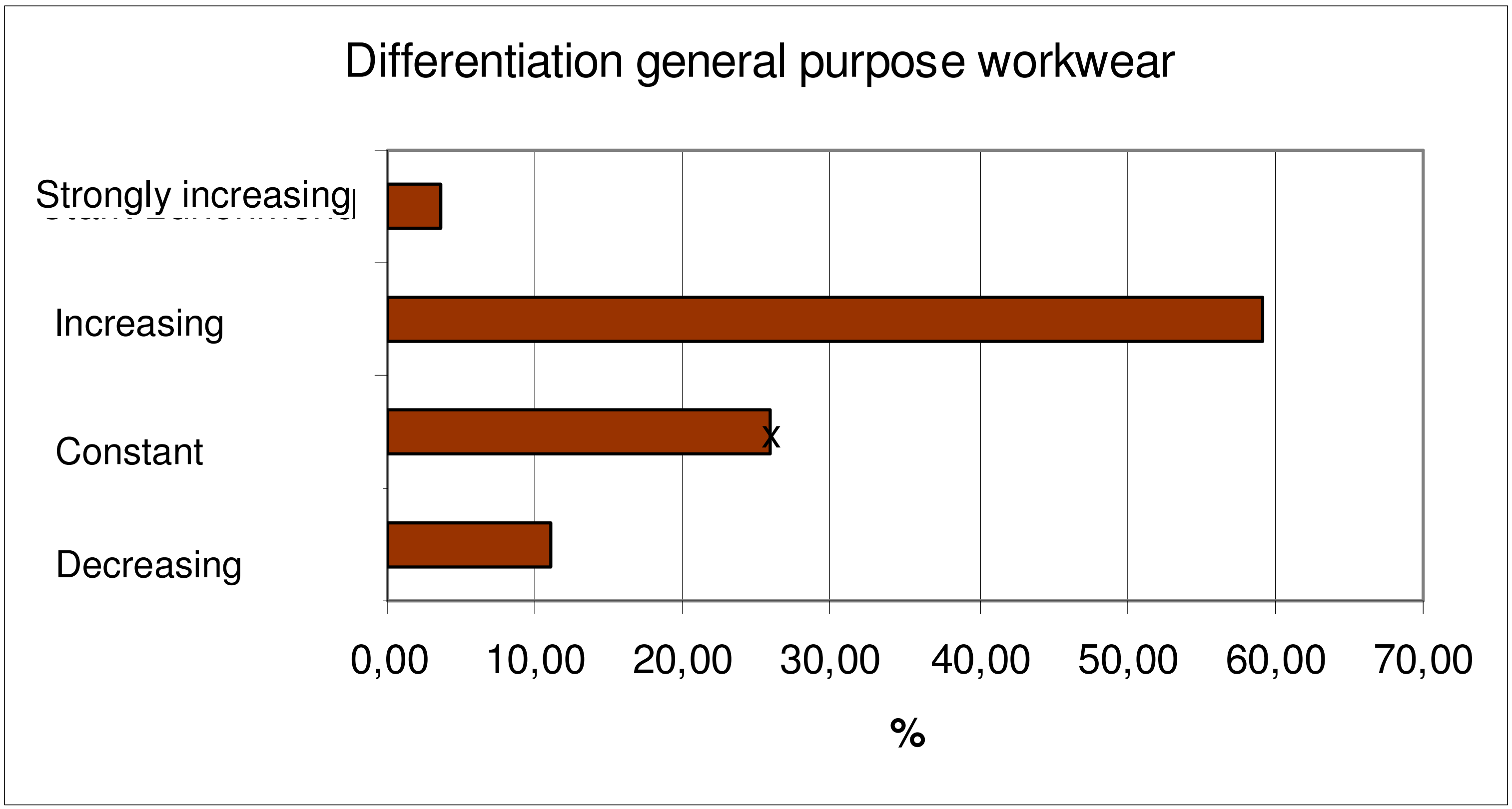
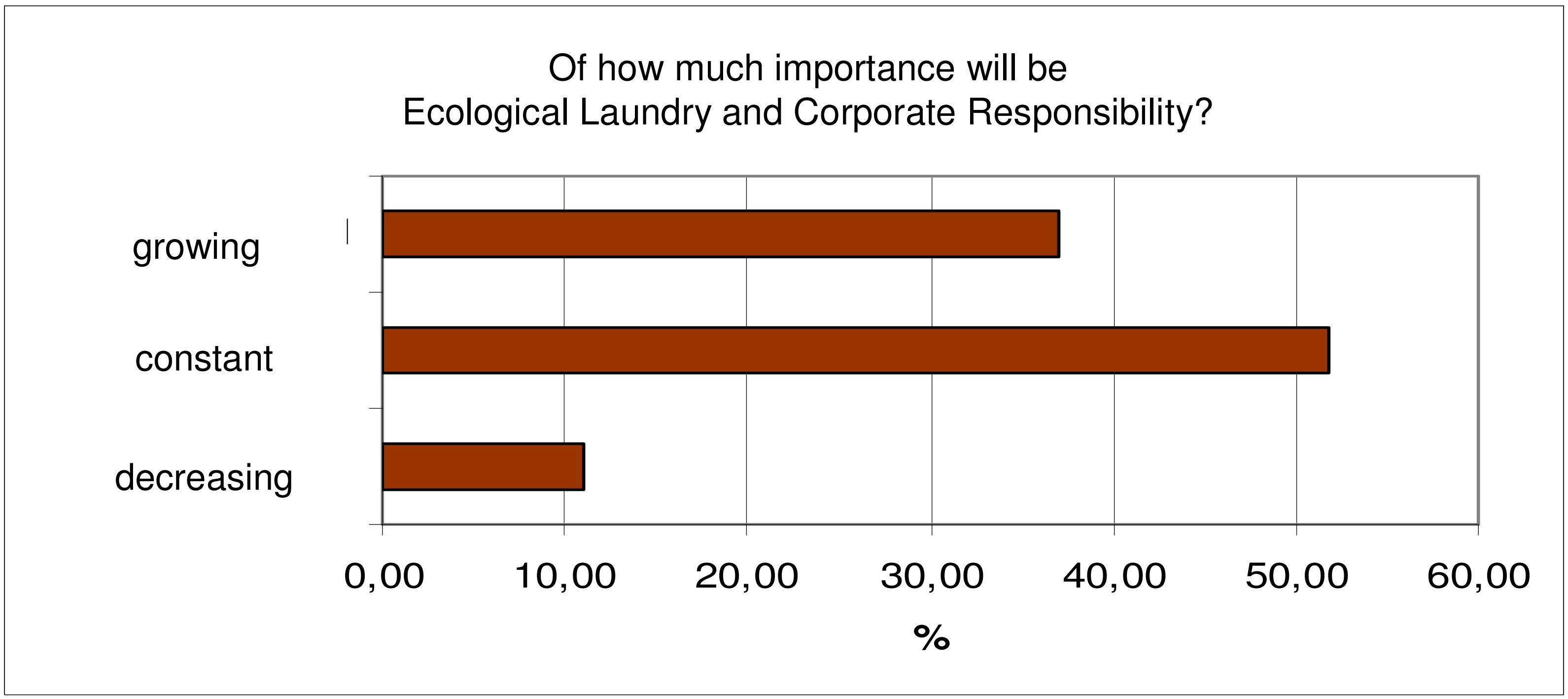
The growing need of differentiation in products and ranges underlines the importance of fashion and function in workwear



Basis: Böttger 2009

An ethically „responsible“ production is becoming an important matter for the Textile Service



Basis: Böttger 2009

3-14 Success Factors in the Textile Service Market

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There is a limited set of crucial success factors for the demand of workwear in Textile Services.

Ranking of these factors differ by classes of customers

- Style (fit, design, colour)
- Functional performance
- Washing performance
- Reliable delivery (complete, in time)
- Availability (order minimum, re-order)
- Customization
- Price and Opportunity costs

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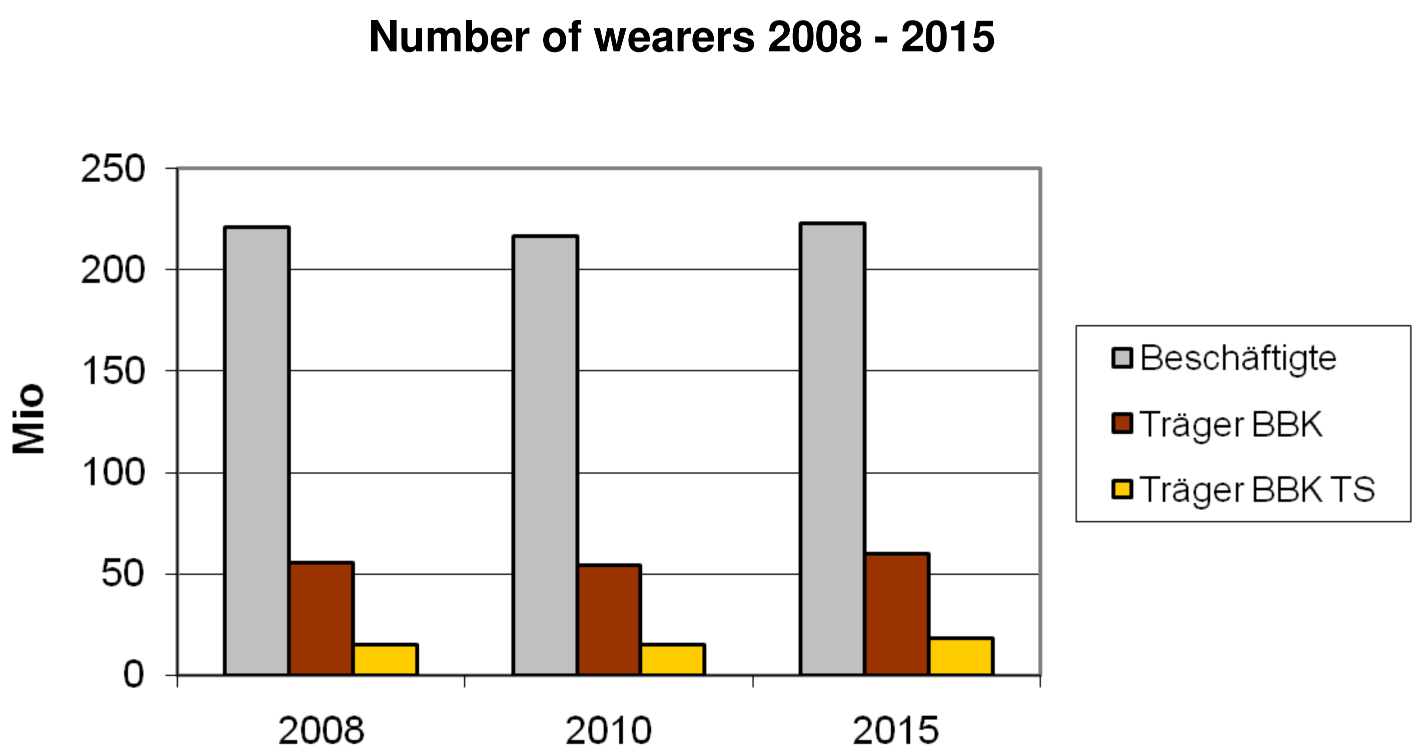
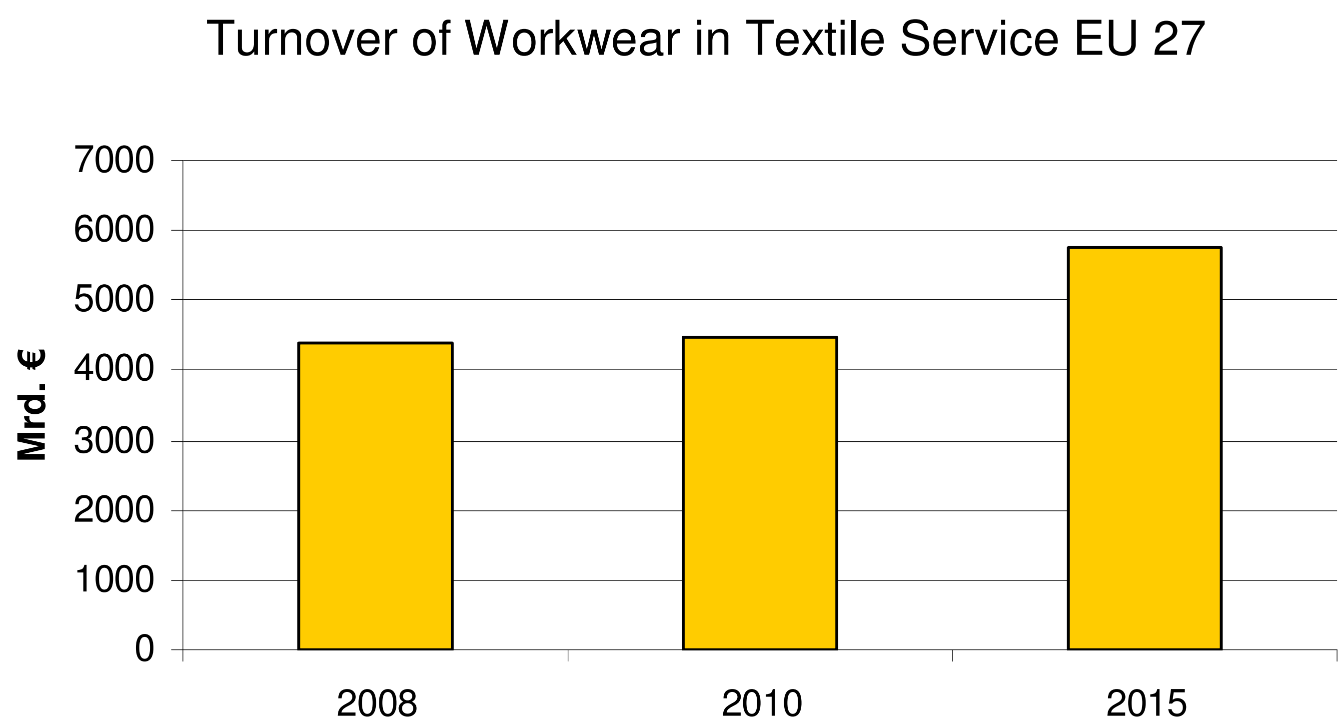
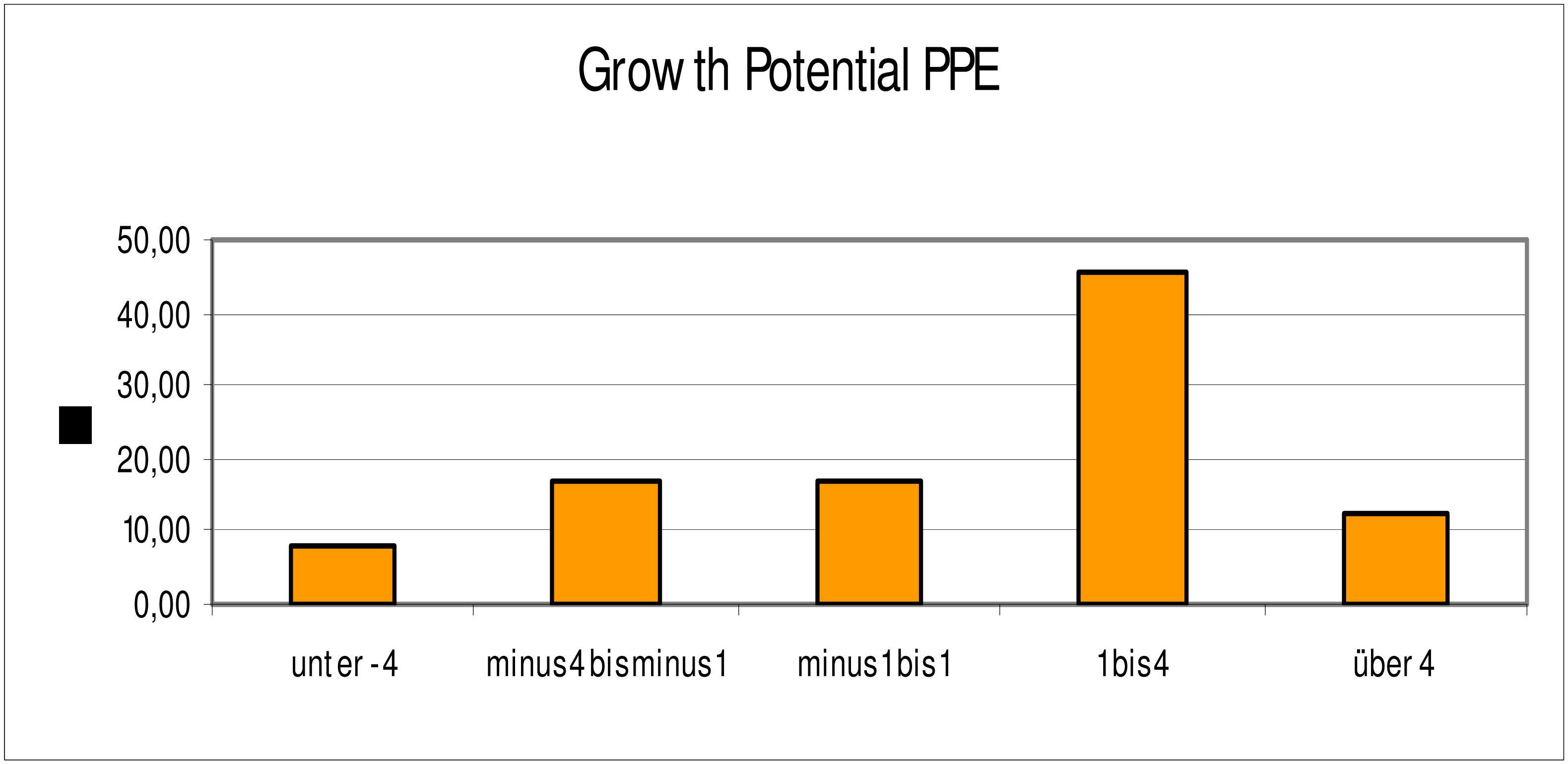
The number of wearers will increaqse from 55 Mn. (2008) to 60 Mn. (2015)



Turnover will increase from 4,4 bil. € in 2008 to approx. 5,8 bil. € 2015



It is believed that PPE has a good growth potential in the years to come



Basis: Böttger 2009

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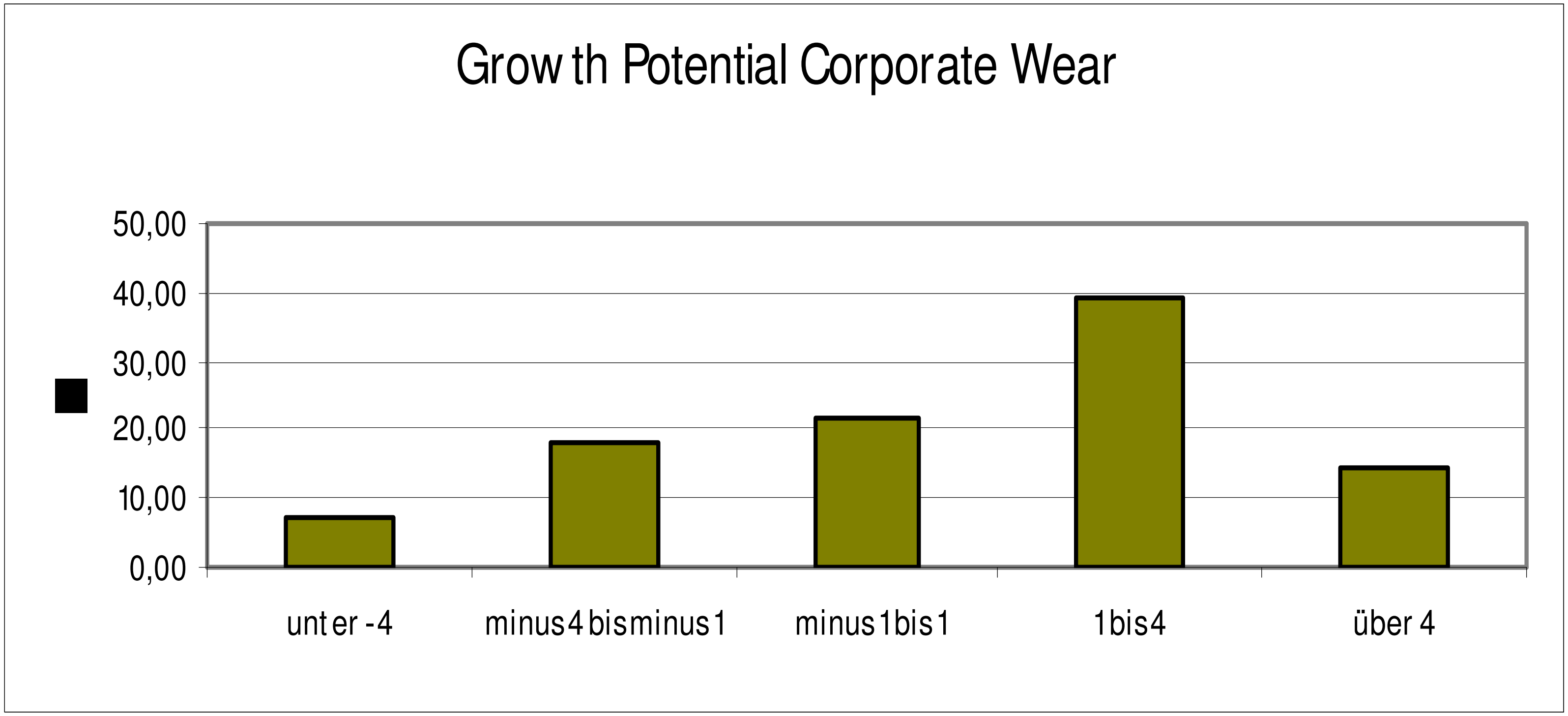
Corporate Wear too, shall have a favourable development



Basis: Böttger 2009

SB 4.3.2-1 Überblick Nachfragepotential

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Viele Geschäftsfelder weisen ein steigendes Nachfragepotential auf

Branche / Produktgruppe	Produzierendes Gewerbe	Handwerk	Hotels Restaurants Catering	Health & Care	Einzel-handel	Sonstige	Gesamt trend
Schutzanzüge Overalls	↘						↘
Schutzjacken Jacken	↗ →	→					↗ →
Hosen	↗ →	↗ →	↗	↗			↗ →
Latzhosen	↘	→					→ ↘
Schürzen			↗		↗		↗
Kittel Kasacks	↘	↘	↘	→	→		→ ↘
Hemden Polos	↘	→	↗	↗	↗	↗	↗
Business-bekleidung			↗			↗	↗
Gesamt	→ ↘	↗ → ↘	↗	↗	↗	↗	↗

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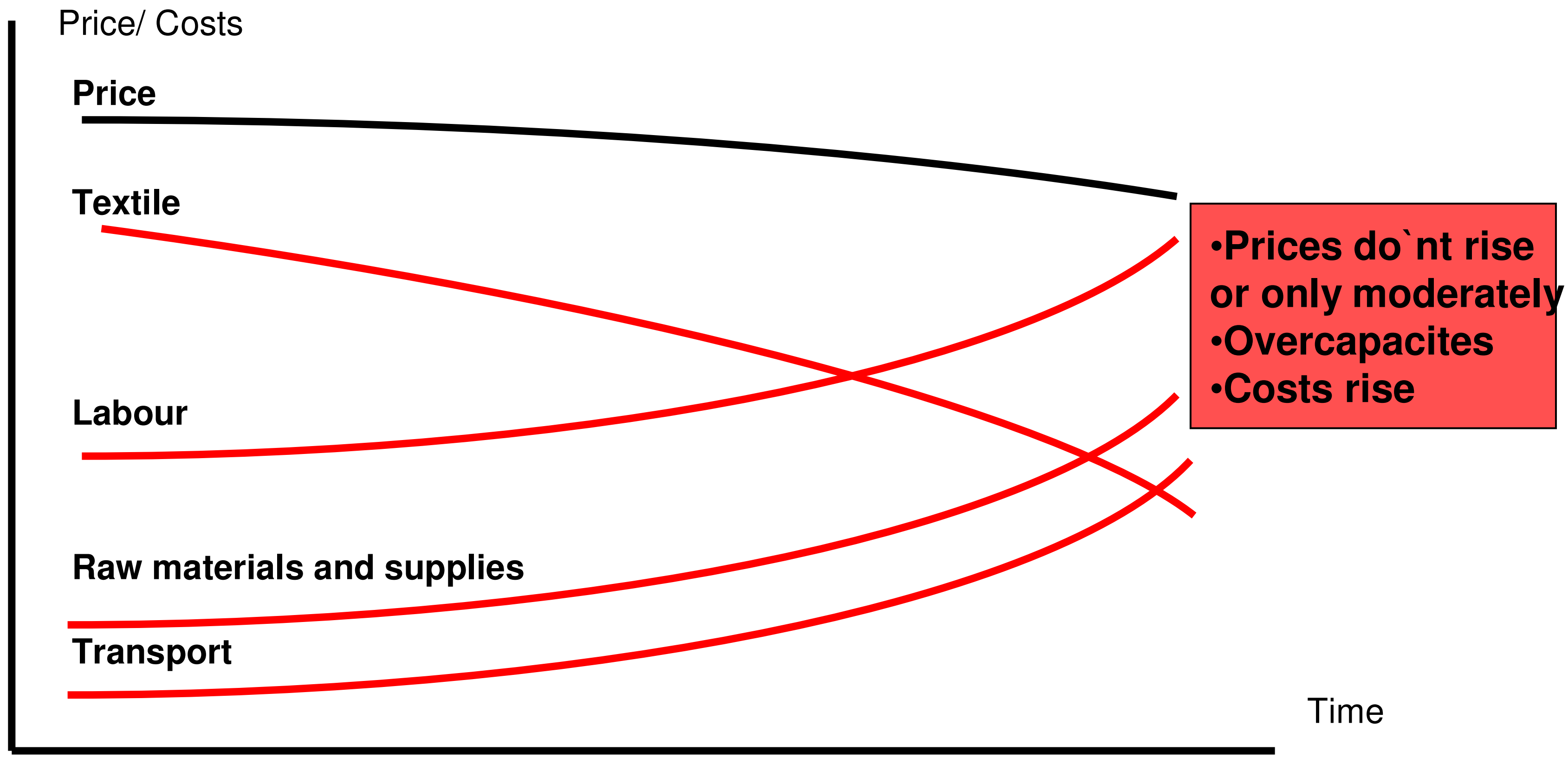
The fundamental problem:
the margin is continuously structurally threatened



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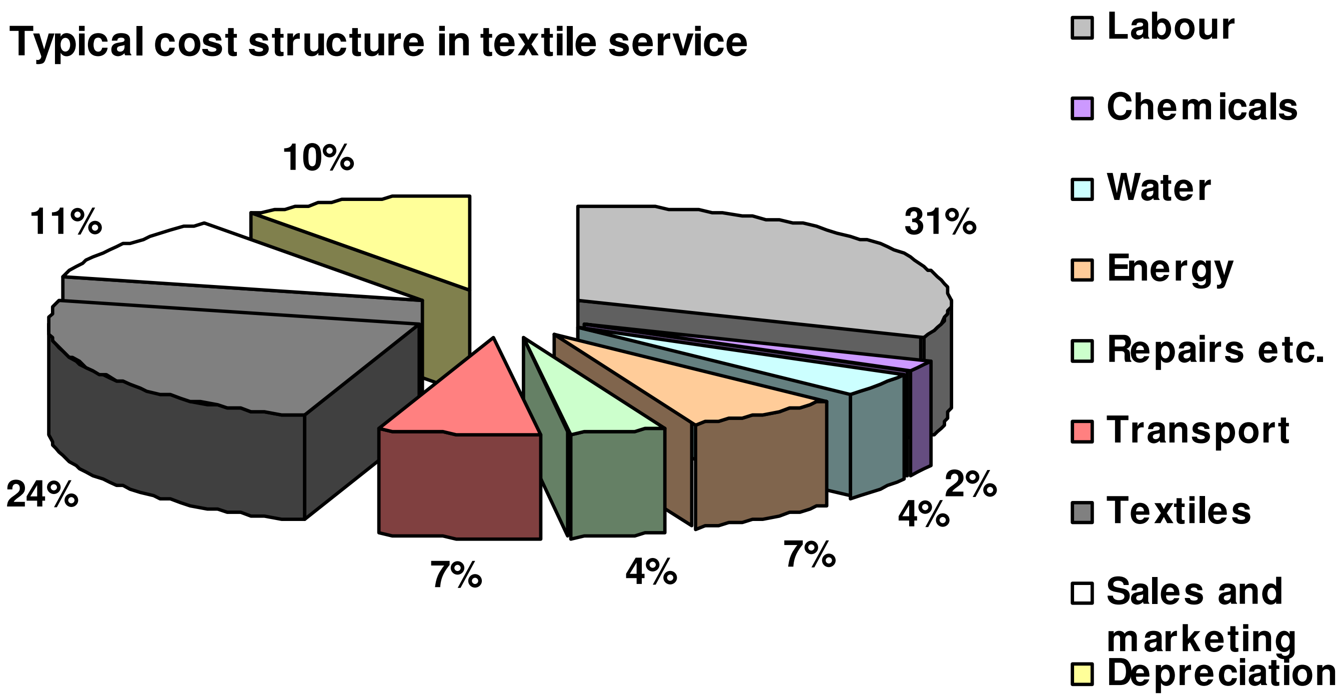
In crisis: short term cost control should start with the large categories



Basis: Ecolab 2008

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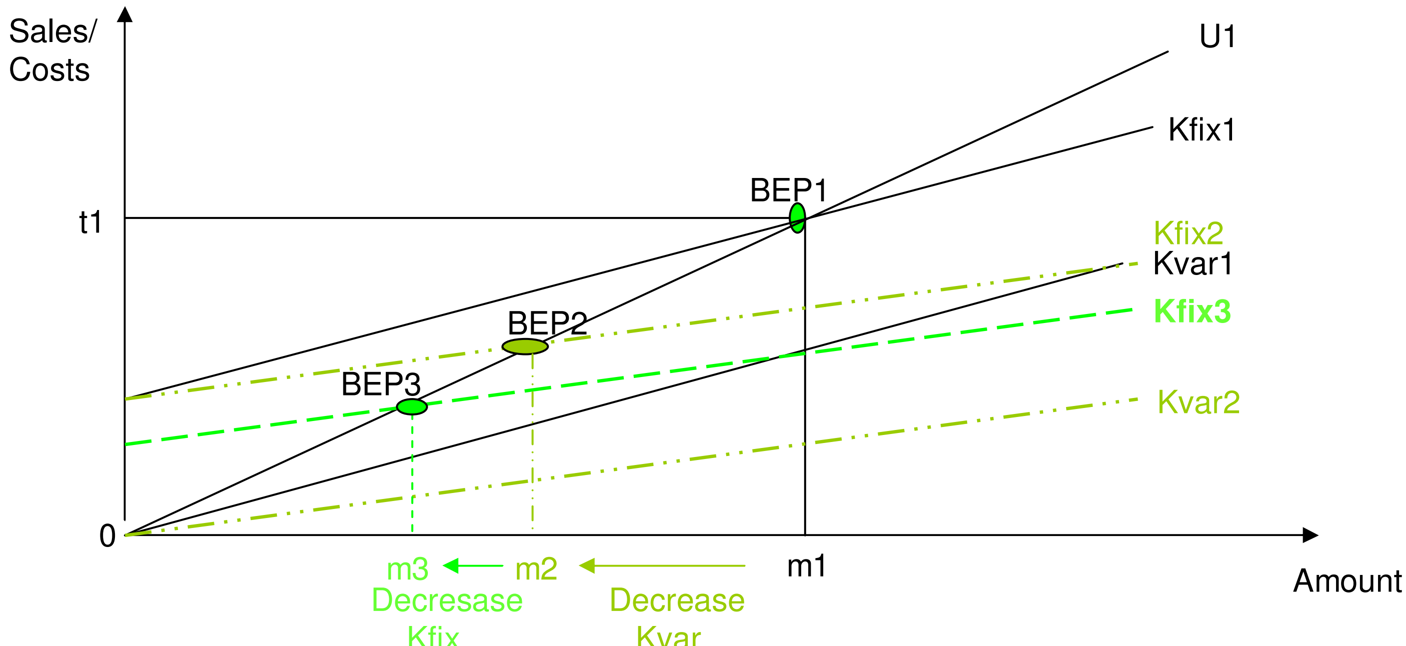
Improve contributions and lower break-even in short and midterm

Break-even Management at constant Sales/Costs



BEP = Break Even Point

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Reducing cost of materials shows optimizing potentials in variable and fixed costs

Analysis		Optimization
Textiles	ABC - Analysis	•Bundeling of demands •Reducing No. of c-parts •Modification of the value-added chain •Adjustement to system suppliers
	Sourcing / Supply period	•Changing order terms •Optimizing lot sizes •Optimizing stock keeping •Involving suppliers in the product engineering •Improving advance planning

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Controlling the supplier structure offers potential for optimization in variable and fixed costs

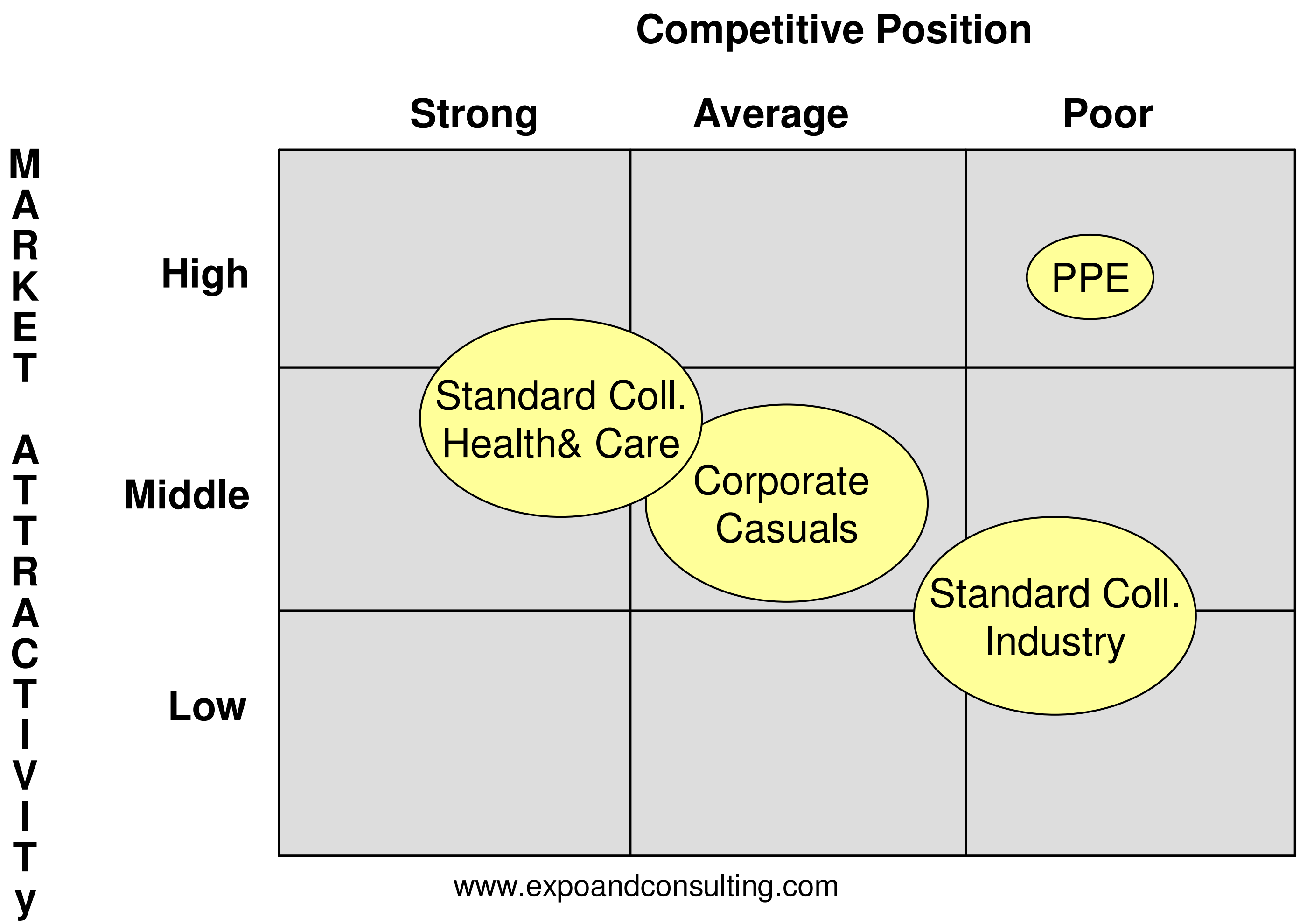
Analysis		Optimization
Suppliers	ABC - Analysis	•Cutback of c -suppliers •Price and terms negotiation with A-B suppliers (price scale, payment terms…)
	Purchasing and Sourcing policies	•Modify purchase structure (East-West) •Modify real net output ratio •Consignment stock •Transparency of replacement/sourcing time (overall logistics) •Range planning

Throughout the crisis, after implementing operative actions you need to follow up and guide with strategical measures
Aim: Improving quality of mid - longterm profits

Operational Actions	
Cost reduction	Sales increase

Strategical Actions
•SBU – Optimization •Product line concept •Technical portfolio •Organisational structure •Structure of value chain

How does your strategical position look like?



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How profitable are your business areas?

Excerpt from strategic cost estimate	SBA A			SBA B		
	Parameters	€/change	% of price	Parameters	€/change	% of price
Price / change		0.75	100.00		0.50	100.00
Purchase price	€ 8.50			€ 5.00		
Facilities	€ 1.00			€ 1.00		
Set	3			6		
Change per set	1			5		
Depreciation weeks	104			104		
Depreciation		0.27	36.54		0.069	13.85
Interest rate	6%			6%		
Interest charges		0.02	2.19		0.004	0.83
Costs of finance		0.29	38.73		0.073	14.68
Production costs per unit	€ 0.30	€ 0.23	30.20	€ 0.30	€ 0.27	54.36
Transport costs per unit	€ 0.14	€ 0.10	13.50	€ 0.14	€ 0.12	24.30
Wash rate	75%			90%		
Total direct costs		€ 0.33	43.70		€ 0.39	78.66
Total costs		€ 0.62	82.43		€ 0.47	93.34
Profit margin		€ 0.13	17.57		€ 0.03	6.66

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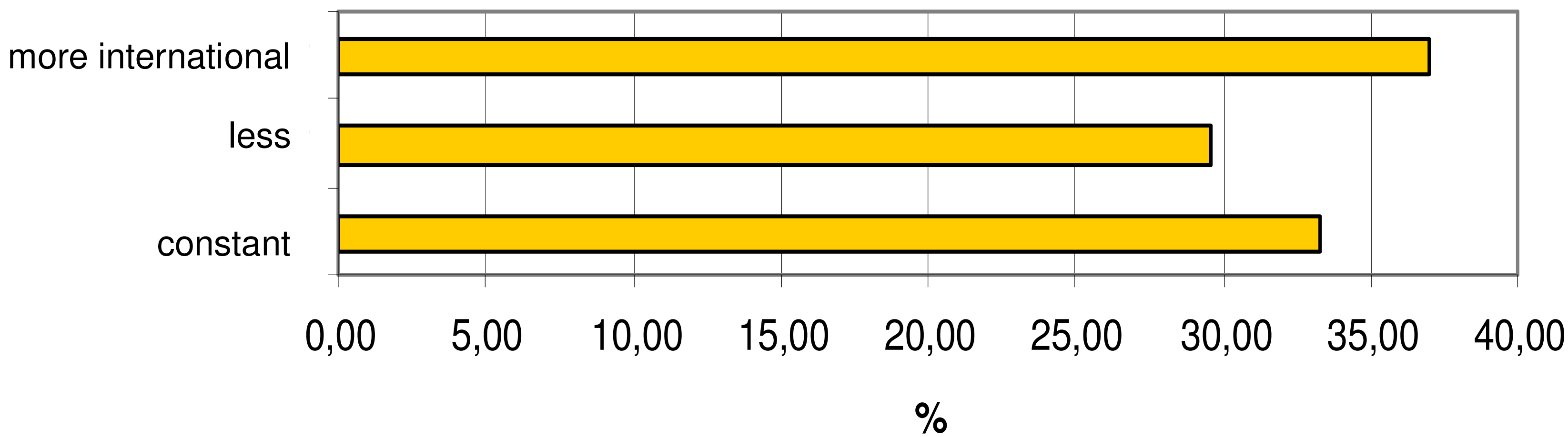
The process of concentration offers lots of strategical chances within the categories: development of business areas, cost reduction and longterm stabilization of the company

How does the provider struture develop in Textile Services?



Source: Böttger 2009

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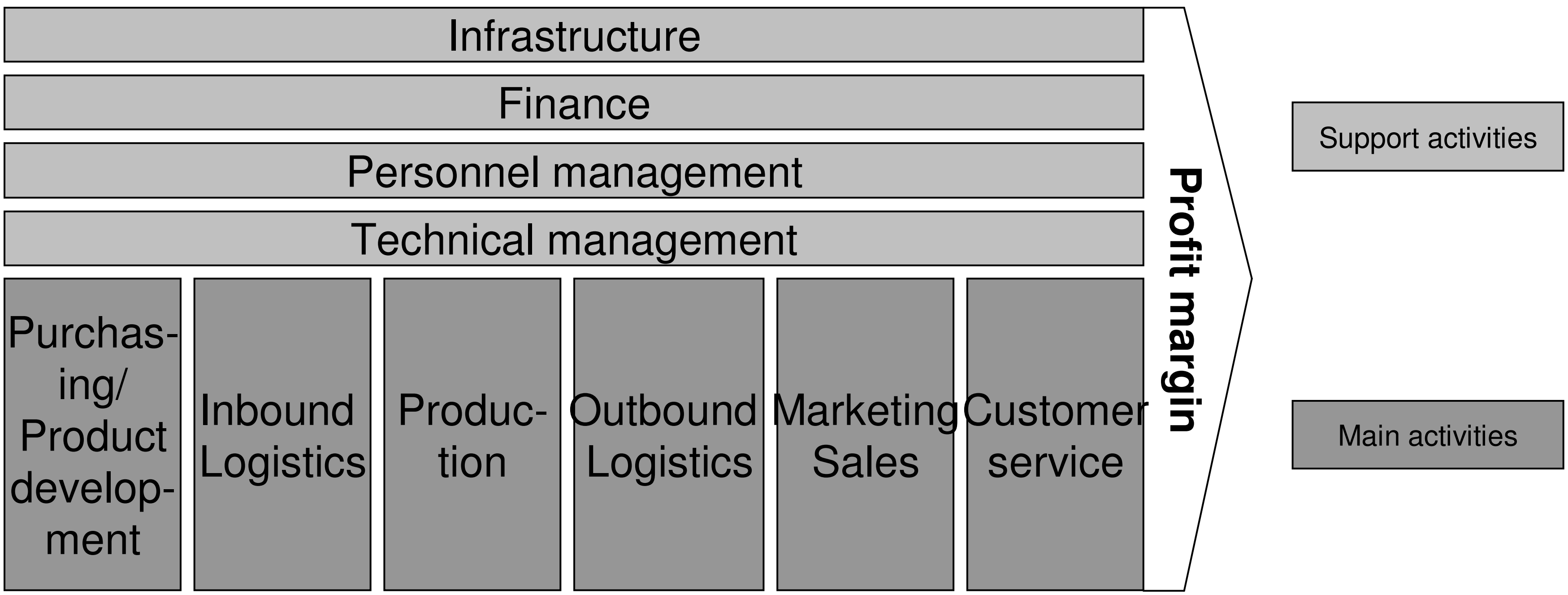
Competition is driving constantly. Even if strategy and cost structures are competitive, efficiency needs to be improved constantly



Basis: Porter (1991)

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5. Summary

1. Workwear is defined as apparel handed by the employer to the employees to perform their work.
2. The textile service is one of the leading distribution-channels for workwear, in some countries the most important one. Its prominence will further grow, due to the packaged offer of consultancy, financing, sourcing and supplying clean workwear.
3. The cyclical dynamics,will negatively influence the workwear market and the textile services throughout the next months.
5. Seen through demografics, mid and longterm, the economical growth impulse has to be hard worked for, politically and socially .
6. The structural change from the Industrial to a Service Economy alters the attraction of the different workwear markets.
7. The requirements upon workwear grow in regard of function, fashion and image-transfer.
8. Short to midterm, it will be necessary to focus on cost management - the shortest way to influence results.
9. Mid to longterm, scrutinized analysis is required to „own“ sustainable segments of the workwear market and profit.
10. The presently volatile markets will encourage concentration: In many cases, this creates new possibilities to emerge and to reposition oneself strategically.
11. The pressure of competition forces a permanent increase in efficiency through all functional areas of the companies.

Thank You for Your attention.

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