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Creative Industries Research
global perspectives

The Danish Fashion Industry Annual Mapping 2005

**Copenhagen Business School
May 2005**

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Preface

The present report is part of a series of mappings of Danish creative industries. It has been conducted by staff of the international research network, the Danish Research Unit for Industrial Dynamics, (www.druid.dk), as part of the activities of *IMAGINE.. Creative Industries Research* at the Copenhagen Business School (www.cbs.dk/Imagine).

In order to assess the future potential as well as problems of the industries, a series of workshops was held in November 2004 with key representatives from the creative industries covered. We wish to thank all those, who gave generously of their time when preparing this report. Special thanks go to Bettina Bakdal, Designer, By Bakdal; Pia C. Christensen, Furrier; and Mads Nørgaard, Director and Designer, Mads Nørgaard Copenhagen. Numerous issues were discussed including, among others, market opportunities, new technologies, and significant current barriers to growth. Special emphasis was placed on identifying bottlenecks related to finance and capital markets, education and skill endowments, labour market dynamics, organizational arrangements and inter-firm interactions.

The first version of the report was drafted by Malene Møllerup, Copenhagen Business School, during the autumn of 2004 and finalized for publication by Julie Vig Albertsen, who has done sterling work as project leader for the entire mapping project. Moreover, the project owes much to Tine Aage, the Danish Research Unit for Industrial Dynamics (DRUID) and Department of Industrial Economics and Strategy, Copenhagen Business School, who has put an effort into ensuring the solidity of the present report. Together with similar mappings of a variety of Danish creative industries and summaries of the workshops held, the report constitutes part of the underpinning for the associated policy memo and for subsequent work within *IMAGINE..*

Peter Maskell

Professor, M.Sc., Ph.D. Dr.Merc.

Director, Danish Research Unit on Industrial Dynamics (DRUID)

Copenhagen Business School, May 2005

Executive summary

- The fashion industry consists broadly of textile suppliers, clothing production companies, clothing wholesalers and retailers. This report focuses on clothing production companies.
- In Denmark turnover decreased from EUR 655.5 billion in 2000 to EUR 494.4 billion in 2003. However, in the same period exports increased from EUR 1,866 million to EUR 1,980 million, indicating growth potential in foreign markets.
- Employment in production decreased from 6,758 employees in 1996 to 3,136 in 2003, while employment in wholesale production increased significantly during the same period.
- A key strategy pursued by production companies since the 80s has been to outsource parts of the production. This has had dramatic effects on industry structure. A general consequence has been a shift away from traditional production activities towards more creative activities such as design, marketing and sales.
- The major motivation behind outsourcing strategies has been cost minimization. However, as price competition intensifies, companies increasingly push design and branding (i.e. “the clothing experience”) as parameters for staying competitive.
- The types of innovation used in the clothing industry are determined by the competitive conditions, which is why price-driven innovation and user-driven innovation are central. Most companies pursue both, but with one overriding innovation strategy in either the price competitive market or the design competitive market.
- The educational system is especially supportive of the design function through focused programmes. Marketing, sales and exports are approached through more general educational programmes that could benefit from more focus, even though there have been attempts to establish programmes integrating creative aspects with business competencies in order to create a more skilled workforce for the industry.
- The knowledge relations in the industry are highly interrelated and of great importance as the processes are distributed around the world. The ability to manage the international process is crucial for effective logistics and a strong competitive profile.

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1 The Danish fashion industry

This paper sets out to identify strengths and weaknesses of the Danish fashion industry, focusing in particular on the core made up of clothing companies and their supportive sectors. Clothing is a part of the Danish clothing and textile industry, which has become the fourth largest export industry in Denmark, with clothing accounting for two-thirds of total exports. This is a result of the boost that the Danish fashion and clothing industry has experienced over the last couple of years as Danish styles gain international recognition. First, companies like Bestseller and Brandtex operate as the major players on both Danish and international markets, and newcomers like Munthe together with Simonsen, Bruuns Bazar, Rützou and DAY Birger et Mikkelsen are all increasing their presence¹. Second, Copenhagen has succeeded in establishing an internationally recognized fashion week. Copenhagen International Fashion Fair has now grown to become the biggest fashion fair in Europe, and the other fair, CPH Vision, has become a vibrant environment for the latest trends in streetwear and avant-garde design. Finally, the industry has successfully achieved a restructuring by outsourcing labour-intensive parts of production to low-wage countries and by drastically reducing the workforce involved in the industry since the late 80s, while maintaining the same level of turnover and increasing exports.

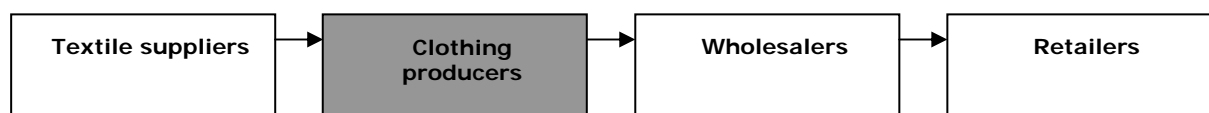
Despite this overall success and high expectations for the future, there are also several challenges to be met in order to ensure increasing success for the Danish fashion industry. The outsourcing of production has in general brought about a change in the skills required in Danish clothing companies from production skills to knowledge skills. The industry has so far successfully managed this transition, but will face high demands in the future if it is to maintain its competitive edge. The future will hinge upon the industry's ability to innovate, and to further redefine its activities in order to increase economic performance and to create more jobs. More strategic and targeted educational programmes could be part of the solution as well as an improvement of the knowledge networks within the industry.

¹ FORA, National Agency for Enterprise and Construction, November 2003.

2 Definitions and data sources

The focus of this paper will be on the fashion industry narrowly defined as clothing production (see figure 1). We have chosen this approach since clothing producers undertake both design and production, and since they make up the vast majority of what is otherwise categorized as Danish fashion companies (e.g. producers of bags, shoes, jewelry and accessories in general, as well as companies performing supportive activities such as PR agencies, model agencies, stylists and photographers). Wholesalers and retailers are included in the analysis when needed to explain data, but the main focus is on the clothing production.

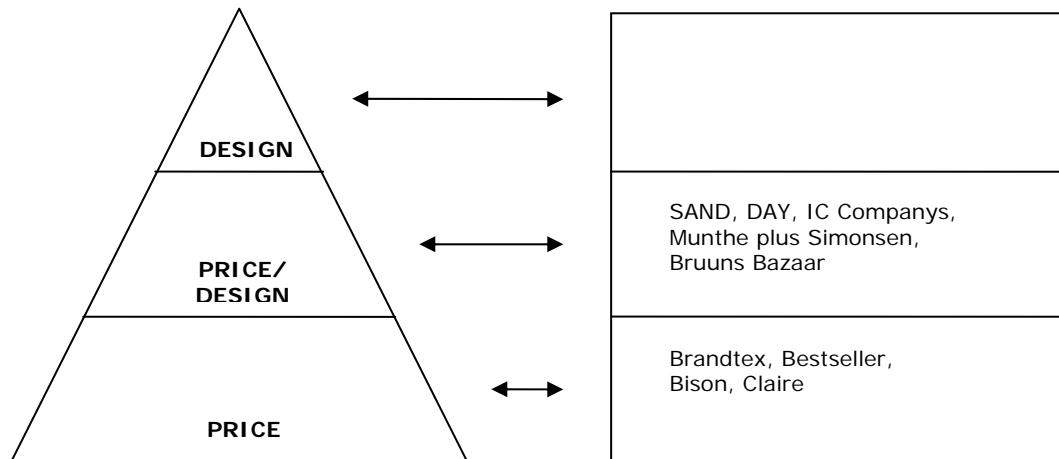
Figure 1: Core actors of the fashion industry and their value chain



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As illustrated in figure 2, the Danish clothing producers can be divided into three sub-groups according to the consumer segment that they target and the target consumer's prioritization of price versus design. This in turn affects the processes of development and production, which can be either price-oriented or design-oriented. The majority of Danish clothing producers pursue price-oriented markets, whereas there are hardly any Danish companies pursuing pure design-oriented markets (e.g. haute couture). Most likely because Danish consumers do not have a tradition for or the buying power necessary for participating in this market. Of course, the placement of several companies can be difficult as the boundary between the markets is blurry, but nevertheless the strategic choice of the majority of Danish clothing producers to pursue price or the price/design oriented markets is essential to have in mind when considering the development and dynamics of the Danish fashion industry described below.

Figure 2: Market orientation of the fashion industry



Source: Based on FOR A, National Agency for Enterprise and Construction, 2003.

The primary data sources are Statistics Denmark and the Federation of Danish Textile & Clothing (Dansk Textil & Beklædning). Data collected from Statistics Denmark mainly embrace the wider category of *Clothing Industry* (NACE 180000), which covers production of all kind of apparel and accessories and thus embraces both fashion design related activities as well as non-fashion design related activities (e.g. preparation of fur). Therefore, to the extent possible, data have been collected embracing only the fashion design related part of the clothing industry. Table 1 includes the latter fashion and clothing sectors.

Table 1: Fashion and clothing sectors with NACE codes

Sector (NACE)	Explanation
18.22.00	Production of outerwear, dresses, trousers etc.
18.23.10	Production of shirts
18.23.90	Production of other underwear
18.24.10	Production of baby clothes
18.24.90	Additional clothing industry

Source: Statistics Denmark

It should be noted that the main data source used from Statistics Denmark in this paper, *General Enterprise Statistics*, in 1999 replaced the former *Enterprise Statistics* produced for the years 1992-1999. The difference is in which firms, industries and sectors are comprised. The former Enterprise Statistics only contain economic and employment information concerning the private sector enterprises registered as compulsory to pay value added tax (VAT), whereas the General Enterprise Statistics embrace all activities and sectors. Moreover, General Enterprise Statistics only cover real active enterprises, where the former Enterprise Statistics up to 1999 covered all VAT paying enterprises in the private sector, if they were engaged in even the smallest activity. Active companies include companies that have at least

a turnover corresponding to 0.5 full-time equivalent employment registered. Consequently, active enterprises covered for example in 2000 only 284,000 enterprises of the total of 521,000 registered enterprises. This means in principle that only approximately 1 per cent of the VAT turnover is covered. All in all, this makes up a considerable change in report methods of Statistics Denmark with two major consequences following. First, it obstructs the continuity in enterprise statistics when the period reported starts before 1999. Second, one could expect that the criteria of 'active enterprises' will rule out several of the smaller one-man operations such as freelancers especially predominant in creative industries².

It should be noted when reading the report that the increasing complexity of the industry from time to time blurs the data material available. Complexity arises for example as a result of companies integrating functions formerly managed by independent companies. Therefore, Federation of Danish Textile & Clothing makes a clear distinction between production, wholesale and retail in their data material in order to eliminate some of the implications of companies managing several functions. For example, if a company manages both production and wholesale, the data are divided into those two data groups instead of a total number.

² Statistics Denmark: *Declarations of content: General enterprise statistics*, downloaded from www.dst.dk, January 2005.

3 Industry performance

The following shows the key economic figures of the Danish fashion industry as compared with the general figures of the Danish economy. Turnover, export, import, consumption and employment generate the foundation for further elaboration of the industry. Furthermore, the development in numbers creates the basis for a prognosis for the industry.

3.1 Turnover

Table 2 shows developments in turnover of the total Danish clothing industry compared to developments in the total Danish turnover.

Table 2: Turnover in Danish clothing industry and total Danish turnover 1993-2003 (Million EUR) (Excl. VAT)

	Turnover of the Danish clothing industry	Total Danish turnover	Clothing turnover as% of total Danish turnover	Clothing turnover growth indexed (1993=100)	Total Danish turnover growth indexed (1993=100)
1993	635.4	198.156	0.33	100	100
1994	665.0	195.226	0.31	104.7	109
1995	690.5	212.364	0.31	108.7	114
1996	639.8	223.138	0.28	100.7	119
1997	619.3	231.606	0.25	97.5	127
1998	635.5	247.535	0.24	100.0	134
1999	640.4	253.873	0.23	100.8	142
2000	657.4	260.922	0.22	103.5	155
2001	612.4	302.348	0.19	96.4	163
2002	532.2	317.681	0.17	83.8	164
2003	495.8	N.A.	N.A.	78.0	N.A.

Source: Figures on turnover in the total Danish clothing industry (NACE 180000) are taken from Statistics Denmark, StatBank Denmark, Manufacturing industries statistics (OMS2), corrected for seasonal fluctuations.

Figures on total Danish economy are taken from Enterprise Statistics from 1992 to 1999, replaced by General Enterprise Statistics in 1999. Due to the change in reporting methods total figures embrace the Danish private sector industries up until 1999 and all sector industries from 2000.

Note: Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

Table 2 indicates a decrease in the total clothing industry turnover from 1993 to 2003. Small growth peaks have been experienced in 1994, 1995 and 2000, however between 2001 and

2003 there was a significant decrease. The clothing industry has fallen from 0.33% of the total Danish turnover in 1993 to a mere 0.17% in 2002. The growth index illustrates decreased growth in clothing industry turnovers in the period between 1993 and 2003, while the Danish economy turnover grew in the period from 1993 to 2002..

3.2 Exports

Table 3 shows that clothing exports constituted 3.4% of total Danish exports in 2000, fell slightly in 2001 and 2002 by 0.1% and 0.3% respectively, and then rose again to 3.4% in 2003. Except for 2002, clothing exports increased from 2000 to 2003 but only exceeded the total export growth index in 2003. The total export growth index increased between 2000 and 2002, followed by a small decrease in 2003.

Table 3: Exports of Danish clothing industry and the total Danish export 2000-2003 (Million EUR)

	Danish clothing exports	Total Danish Exports	Danish clothing as % of total exports	Danish clothing growth index (2000=100)	Danish economy's growth index (2000=100)
2000	1,869	54,949	3.4	100	100
2001	1,913	57,161	3.4	102	104
2002	1,850	59,595	3.1	99	108
2003	1,984	57,780	3.4	106	105

Source: Danish clothing exports based on figures taken from Federation of Danish Textile & Clothing, www.textile.dk: *Statistics and forecasts*. Total Danish exports are taken from Statistics Denmark, External Trade statistics (UH2).

Note: The figures on clothing exports include re-exportation (i.e. cases in which the goods have crossed the border several times during the production process), but exclude Danish goods exported directly from a production country to a foreign market.

Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

Table 4 shows that the vast majority of the clothing exports are within Europe. Here, the seven biggest export markets accounted for 80% of the total clothing export in 2003 and with the biggest markets are in Germany and Sweden. The table also demonstrates stability in export markets since neither of the countries have gained nor lost considerable shares as export markets within the period from 2000 to 2003. There has in the same period been a slightly decrease in the share of export directed to other countries than the seven listed above.

Table 4: Danish export markets ranked according to share of total clothing export 2000-2003 (as percentage of total Danish clothing export same year)

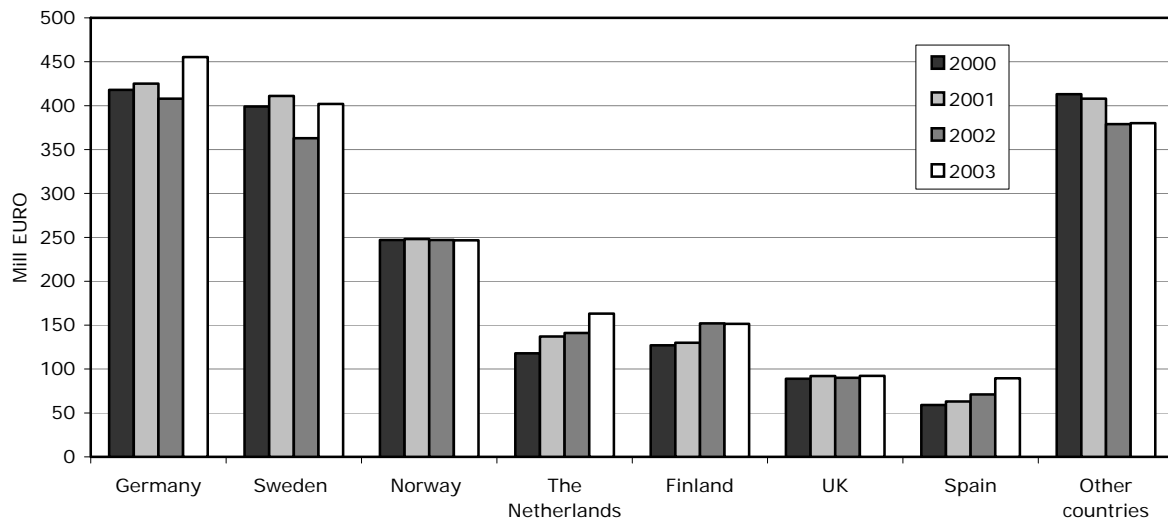
	2000	2001	2002	2003
Germany	22.4	22.2	21.5	23.0
Sweden	21.3	21.5	19.7	20.3
Norway	13.2	12.9	13.3	12.5
The Netherlands	6.3	7.1	7.5	8.2
Finland	6.8	6.8	8.1	7.6
UK	4.8	4.8	5.2	4.7
Spain	3.2	3.3	4.2	4.5
Top 7	77.9	78.7	79.6	80.8
Other countries	22.1	21.3	20.4	19.2
Total export of the Danish clothing industry in million EUR	1,869	1,913	2,857	2,982

Source: Federation of Danish Textile & Clothing, www.textile.dk: Statistics and forecasts (August 2004).

Note: Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

Figure 3 below is based on the figures from table 4 and illustrates the development in market shares in the seven categories.

Figure 3: Development in Danish Top 7 clothing export markets 2000-2003



Source: Federation of Danish Textile & Clothing, www.textile.dk: Statistics and forecasts (August 2004).

3.3 Import

Between 2000 and 2003, there was a general decline in the contribution of clothing imports to total imports. A small increase from 4.7% in 2000 to 4.8% in 2001 was followed by a decrease to 4.4% in 2002 and 4.5% in 2003. The growth index of clothing indicates growth from 2000 to

2001 followed by a decrease in 2002 and 2003. The general import index shows growth from 2000 to 2003, followed by a slight decrease in 2003.

Table 5: Imports of the Danish clothing industry and the total Danish economy 2000-2003 (Million EUR)

	Danish clothing imports	Total Danish imports	Danish clothing as % of total imports	Danish clothing growth index (2000=100)	Danish import growth index (2000=100)
2000	2,290	48,304	4.7	100	100
2001	2,356	49,403	4.8	102.8	102.3
2002	2,286	51,782	4.4	99.8	107.2
2003	2,244	49,762	4.5	97.9	103

Source: Danish clothing imports based on figures taken from Federation of Danish Textile & Clothing, www.textile.dk; Statistics and forecasts (August 2004). Total Danish imports are taken from Statistics Denmark, External Trade, UH2.

Note: Data on clothing imports include re-exportation (i.e. cases in which a company imports clothes in order to sew in their own labels and then re-export them).

Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

Table 6: Import of the Danish clothing industry by country of origin 2001-2003 (as percentage of total import of the Danish clothing industry same year)

	2001	2002	2003
China	16.8	17.4	20.1
Turkey	6.6	9.4	11.9
Italy	7.5	7.6	7.3
Poland	8.4	7.1	4.8
Germany	5.9	6.3	6.6
Sweden	5.1	5.3	5.7
Lithuania	4.5	4.2	-
India	-	-	4.9
Total Top 7	54.7	57.2	61.2
Other countries	45.3	42.8	38.8
Total import of the Danish clothing industry in million EUR	2,356	2,286	2,244

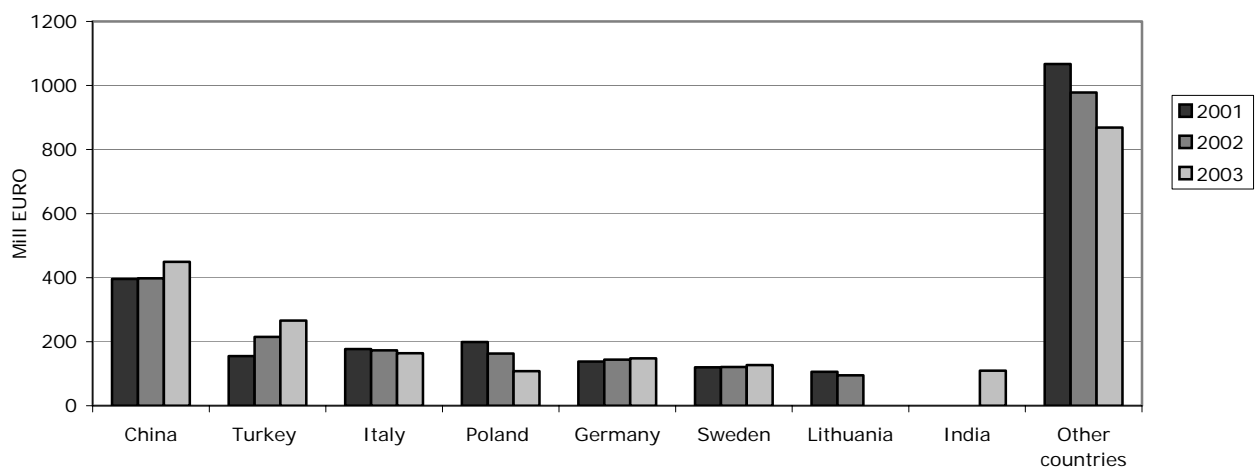
Source: Federation of Danish Textile & Clothing, www.textile.dk; Statistics and forecasts (August 2004).

Note: Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

Based on table 6, one might conclude that the outsourcing strategy of the clothing industry is reflected in imports (including re-exportation), as the majority of import markets are used for outsourcing. The biggest import markets in 2003 were China at 20.1% of total imports, followed by Turkey at 11.9%. Despite the increase in imports from these markets as well as an increase in imports from India, Germany and Sweden, total imports decreased from 2000-2003. This is mainly due to the fact that the decrease in markets like Poland and other countries was relatively larger.

The decrease in the other countries comprising the additional import markets also contributed to the general decrease in imports. Imports from Lithuania decreased from 2002-2003, which meant that the country was moved from the Top 7 category to the category “other countries”. In the same period imports from India increased and the country was subsequently moved from “other countries” to the Top 7. In general, the outsourcing strategy has made it difficult to distinguish between the import of foreign clothes and Danish clothes produced abroad, as the figures do not differentiate between the two. Figure 4 is based on the figures from Table 6 illustrating developments in the Top 7 import markets.

Figure 4: Development in Danish Top 7 clothing import markets 2001-2003



Source: Federation of Danish Textile & Clothing, www.textile.dk: Statistics and forecasts (August 2004).

3.4 Consumption

Table 7 indicates a growth in clothing consumption from 1993 to 2003. As the total consumption increased more during the same period, the comparative growth for clothing has been limited. This is illustrated by the decrease in clothing’s comparative share of the total consumption from 5.8% in 1993 to 5.2% in 2003.

Table 7: Yearly Danish consumption of clothing and footwear and total yearly Danish consumption 1993-2002 (EUR per household)

	Danish clothing consumption	Total Danish consumption	Danish clothing as % of total consumption	Growth index of Danish clothing consumption (100=1993:1995)	Growth index of total Danish consumption (100=1993:1995)
1993:1995*	1,448	24,891	5,8	100	100
1994:1996	1,456	25,703	5,7	101	103
1995:1997	1,520	26,582	5,7	105	107
1996:1998	1,517	28,129	5,4	105	113
1997:1999	1,591	29,358	5,4	110	118
1998:2000	1,664	30,335	5,5	115	122
1999:2001	1,663	30,592	5,4	115	123
2000:2002	1,599	30,855	5,2	110	124

Source: Statistics Denmark, StatBank Denmark: "Income, Consumption, and Prices", FU1.

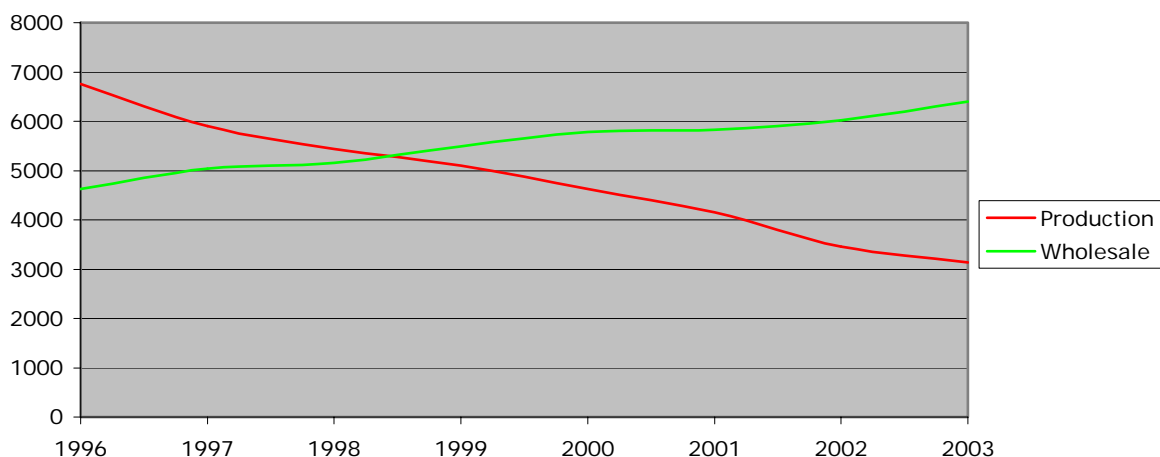
* Data are collected during a period of three years and are subsequently referred to the middle year. 1/3 of the households in the sample are replaced every year. Therefore comparisons should be at least three years back in time. From year to year there may be smaller changes in the exact definition of the groups of goods and services. The consumption expenditures are recorded incl. VAT and other product taxes.

Note: Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

3.5 Employment

As a result of outsourcing strategies in the clothing industry, employment in production in Denmark has been reduced drastically. Figure 5 shows the development in number of employees in the clothing industry from 1996 to 2003 for both production and wholesale.

Figure 5: Employment in clothing production and wholesale 1996-2003

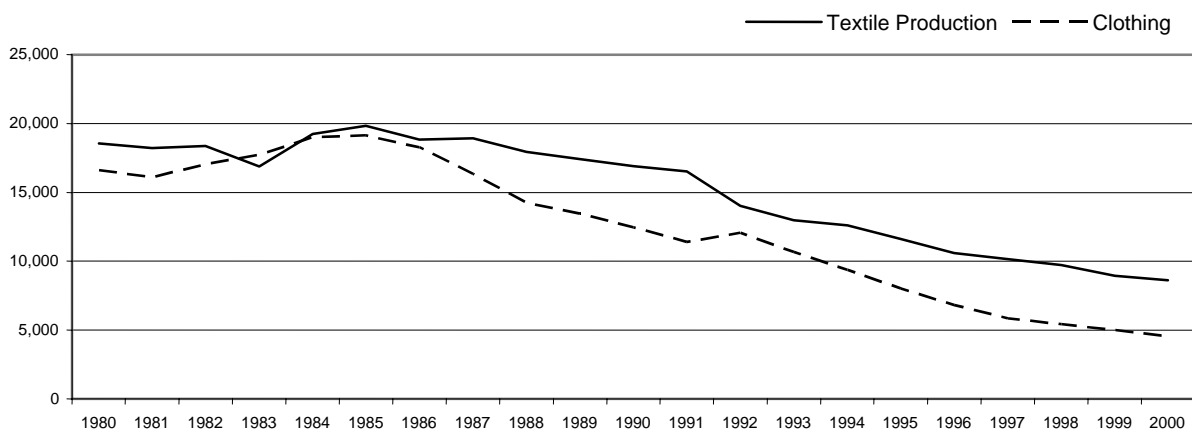


Source: Based on data from the Federation of Danish Textile & Clothing.

In production, the number of employees decreased from 6,758 in 1996 to 3,136 in 2003³, representing a decrease of 54%. In terms of the focus of the report, production is most relevant, but the contrary developments within wholesale are also interesting as they suggest that overall employment in the clothing industry may not have changed as drastically as the production data show. Another explanation can be found in the fact that the wholesale data include wholesale of foreign clothes as well as Danish, so even though there may have been a decrease in wholesale as compared with Danish products, there could have been a relatively larger increase in wholesale of foreign products.

Figure 6 draws a more comprehensive picture of the decrease in the production workforce, as it shows the development from 1980-2000. Figure 6 shows the development in employment in the Danish textile and clothing industry from 1980 to 2000. The clothing data are for clothing producers exclusively, as data on wholesale and retail are not included here, and the figures are therefore comparable with those presented in figure 5. Employment in clothing has experienced a decrease of 73% from 1980 to 2000⁴.

Figure 6: Employment in the Danish textile and clothing industry 1980-2000



Source: Olsen, Karsten Bjerring, Rikke Ibsen & Niels Westergaard-Jensen: *Does outsourcing create unemployment? - The case of the Danish Textile and Clothing industry*, March 2004; calculations based on data from Statistics Denmark.

Note: Developments in the leather manufacturing sector have been excluded from the figure.

³ Telephone interview with Nicolaj Dupont-Mersing, Federation of Danish Textile & Clothing, 1 November 2004.

⁴ Olsen, Karsten Bjerring, Ibsen, Rikke & Westergaard-Jensen, Niels (2004): *Does Outsourcing Create Unemployment? The Case of the Danish Textile and Clothing Industry*, March 2004, pp. 4-5.

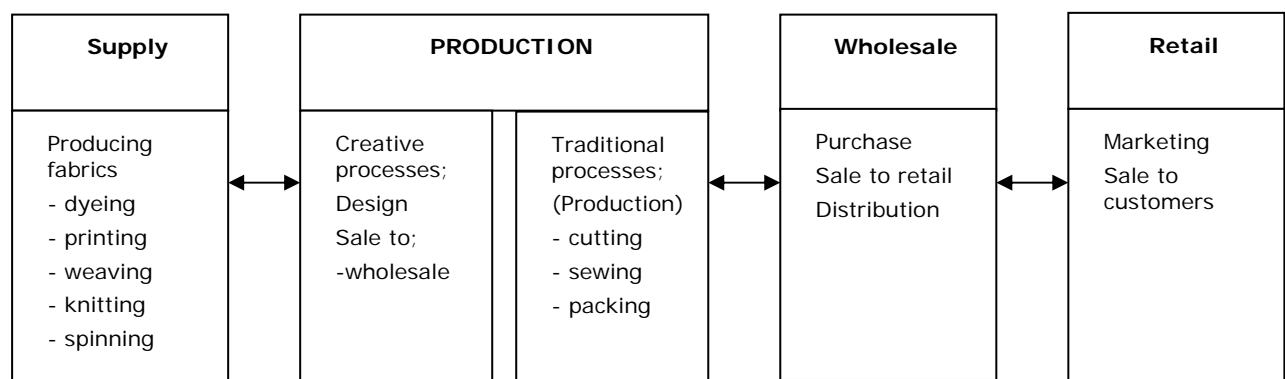
4 Industry structure

The dynamics of the clothing industry are of an international nature as the outsourcing strategy has meant that the production process is no longer restricted to Denmark but rather involves a range of countries. A new industrial structure has evolved and a strong interrelatedness has been developed. The motivation behind outsourcing has mainly been a minimization of production costs and this has affected the competitive conditions of the industry. Consequently many companies have expanded their horizons and have begun seeking new markets. The outsourcing strategy of the clothing industry has redefined the roles of the actors in the value chain. The activities and functions of the industry have been redistributed in response to the changes in the competitive conditions for the industry.

4.1 Value chain

The traditional value chain, shown in figure 7, is based on well-defined functions and tasks for each actor in the value chain. The suppliers provided the producers with inputs for production (mainly fabrics), and the producers transformed these into designed clothes by cutting, sewing etc. The sales function was focused on selling to wholesalers, who sold to retailers and were responsible for distribution of the clothes. The retail function had the main responsibility for marketing the products to the customers as part of the sales process. The traditional value chain of clothing predominated until the late 80s when the extensive outsourcing strategy took off.

Figure 7: Main activities of the traditional value chain of clothing production



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The outsourcing strategy has had a major impact on the structure of the clothing industry. The question of which processes should be outsourced internationally was determined by the related capital need. The processes of dyeing, printing, weaving, knitting and spinning demanded heavy capital investments if they were to be outsourced because of the machinery required. Therefore, these processes remained in the hands of the original suppliers. Furthermore, most Danish companies chose to stick with the national suppliers due to the benefits of quality control, delivery security, flexibility and customs advantages⁵. The essence of outsourcing was the “piecemeal” of the production process such as sewing, folding, cutting and packing that was traditionally performed by the producers. These production processes moved to low-wage countries in Eastern Europe and the Far East. Production was first moved to Poland and the Baltic countries in the late 80s/early 90s, but as the economy of these countries grew during the 90s so did the wage level. Production was therefore moved to Turkey, India and China, countries which had the wage levels necessary to keep costs down and thereby enhance the price competitiveness of the companies.

The role of production companies changed as they moved away from traditional production activities towards creative activities such as design, marketing and sales. Traditional production companies became knowledge companies based on an entirely different set of skills and knowledge. Vertical integration took place, involving in particular the wholesale function of the value chain, resulting in different definitions of production companies. Thus, a great variety of organizational forms of production companies have emerged. Figure 8 shows different possibilities for integration of production companies based on the functions they perform.

Figure 8: Integration possibilities of clothing companies

Type 1	Design				
Type 2	Design	Marketing	Sale		
Type 3	Design	Marketing	Sale	Wholesale	
Type 4	Design	Marketing	Sale	Wholesale	Retail

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The figure 8 illustrates the fact that a production company can embrace various activities ranging from design, marketing, sales, and wholesale to retail. The identity of a company lies in its designs, but some companies partly outsource to external designers as well. These external designers can be defined as Type 1, whereas the companies buying designs can be any of the other types. The integration of the marketing and sales activities is motivated by the need for control over the marketing and branding processes. Most companies integrate on this level as a minimum in order to stay competitive, and are defined as Type 2 companies.

A partial or total integration of the wholesale function is carried out by Type 3 companies in order to focus the marketing process, strengthen their competitive position and increase

⁵ Federation of Danish Textile and Clothing (2000): Danish Textile and Clothing 1987-1999, November 2000.

profits. Large companies are especially found at this integration level, as great demands are made on resources to control the wholesale function. Type 4 companies integrate the marketing and sales activities completely by integrating retail as well. This is done at different levels, as some companies restrict retail to a few image stores, and achieve the majority of sales through wholesale. Others have a more comprehensive retail function serving as the primary sales channel, and wholesale is aimed to a great extent at foreign markets. Only very large companies are able to achieve this level of integration as it places great demands on resources.

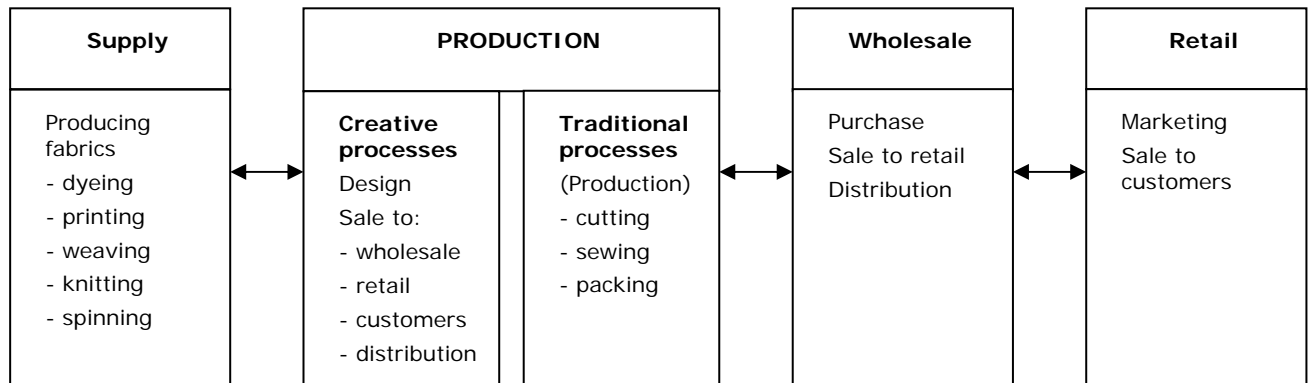
The integration of the marketing and sales activities has meant that production companies no longer have craftsmanship as their main activity but have instead become what may be termed *concept houses*⁶. A concept house is based on the traditional functions of production companies: design and production (in the sense that they as a minimum control the outsourced processes), and has in addition integrated functions such as sales, marketing, and distribution. To gain full control of the marketing activities the marketing function of the retailers is often integrated as well, leaving retailers with the sales function alone. But the sales function of the retail function is also in danger of integration as the producers have an interest in accessing the retail turnover. The increased knowledge of markets and customers creates a solid foundation for taking over the retail function in its entirety as well⁷, but this strategy requires extensive capital resources.

In general the integration of marketing in both small and big companies has provided clothing companies with opportunities for more focused marketing. Many companies have explored this by emphasizing branding as the central element of marketing. As price competition intensifies the image of the clothing becomes an alternative parameter of competition. Many small clothing companies lack the resources to compete in terms of price, as their size prohibits them from exploiting economies of scale. Therefore, they use branding of their products as a means of gaining access to the market. The control of the marketing process also provides companies with the possibility of multiple branding, as the images of the brands are fully controlled by the company itself. This is a strategy that several Danish clothing companies are pursuing to diversify and cover more of the market.

⁶ Federation of Danish Textile and Clothing (2000): Danish Textile and Clothing 1987-1999, November 2000.

⁷ "Sector structuration and its consequences", published in *Advizing*, no. 13.

Figure 9: Main activities of the new value chain of clothing production



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Figure 9 illustrates the complexity of the new value chain, as several actors perform the same activities. The wholesale and retail functions have been somewhat weakened as many producers have integrated the marketing and sales functions, but there are still a large number of independent wholesalers and retailers in the Danish clothing industry. The majority of these trade in foreign brands on the Danish market and are therefore not affected by the restructuring of the Danish value chain. They would, however, be affected by any restructuring that might take place in the foreign companies they wholesale and retail for.

Another change in the value chain is the shift in distribution channels as the special retailers have lost market share to supermarket retailers. The number of special retailers decreased by 10% between 1992 and 2003⁸, so that they only constituted 60% of all retailers in 2003. Supermarket retailers accounted for a 40% market share, distributing 1/3 of all women's clothing, 1/10 of men's clothing and half of all children's clothing.⁹

The business structure of the Danish clothing industry can be determined by the size of companies in the industry. Size can be measured in terms of turnover, number of employees, market shares etc., depending on the purpose of the measurement. Due to the complexity of the clothing industry it has been difficult to extract this information from the data available from Statistics Denmark, as the classification system is not adequate for this purpose. However, it should be possible to order a specific classification system in order to obtain the data needed for mapping the industry structure.

4.2 Start-ups

Table 8 below illustrates how the total number of newly established companies within the clothing industry decreased from 1993 to 2001. Only in the area of production of "other outerwear" did the number of companies established increase - from 41 in 1993 to 64 in 2003. In all other categories there was a falling rate of new established companies. The total figure

⁸ Telephone interview with Nicolaj Dupont-Mersing, Federation of Danish Textile & Clothing, 1 November 2004.

⁹ Telephone interview with Nicolaj Dupont-Mersing, Federation of Danish Textile & Clothing, 1 November 2004.

for all years (1993-2001) of newly established companies producing other outerwear, 248, was modest, however, in comparison with retail and wholesale. The greatest total number of newly established companies from 1993-2001, 1471, was experienced in the category of companies engaged in retail of clothing articles, followed by wholesale with 845.

Table 8: Number of newly established companies in selected years in the Danish clothing industry

Division of companies	1993	1995	1997	1999	2001	Total
Production of knitted goods	7	2	5	3	2	19
Production of other outerwear	41	44	44	55	64	248
Production of underwear	2	4	3	1	-	10
Production of other clothing goods and accessories	22	18	22	11	21	94
Wholesale with clothing and footwear	217	175	185	152	116	845
Retail with clothing articles	311	280	307	293	280	1471
Total	600	523	566	515	483	2,687

Source: Statistics Denmark, VAT statistics.

In order to explain the development of the business structure further it is possible to extract the survival rate of these new established companies from Statistics Denmark.

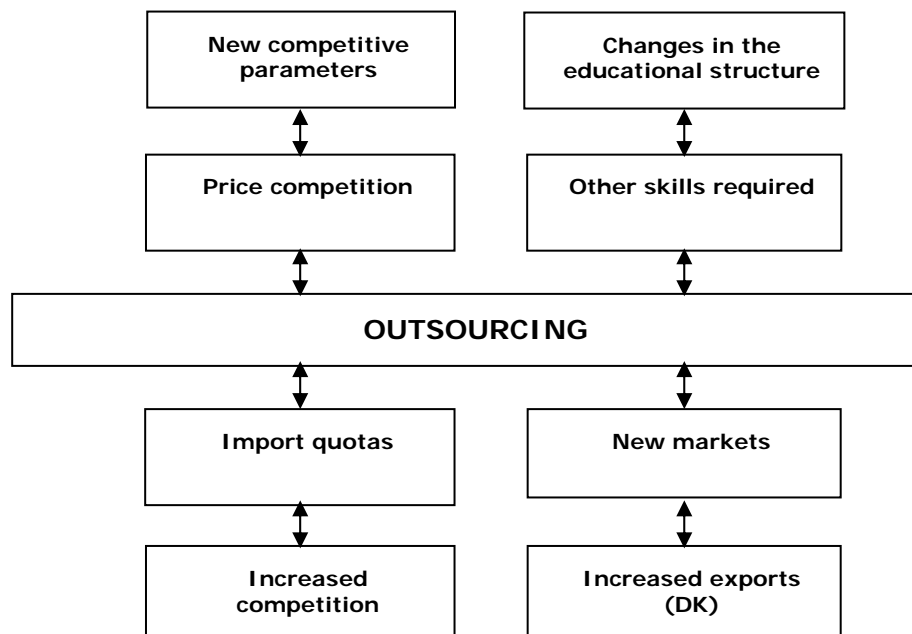
5 Critical conditions for growth

Several aspects of competition affect the growth potential of the Danish clothing industry. Some are determined nationally whereas others are a result of international dynamics. In general, internationalization of the industry has radically changed the nature of the competitive environment.

5.1 Issues of internationalization

The international nature of the clothing industry has a great influence on the competitive conditions of the Danish fashion industry. Especially outsourcing strategies, as the driving force behind the internationalization process, have radically restructured the industry. Figure 10 illustrates the interconnection of the dynamics as they relate to outsourcing of production at the centre. The figure indicates simple relations between the dynamics, even though they are in fact all interlinked.

Figure 10: The dynamics of the clothing industry



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Price competition is related to outsourcing, as cost minimization was the main incentive for outsourcing in the first place. Cost minimization continues to drive the further development of outsourcing, leading to its relocation in even cheaper countries when other conditions make this possible. Some of the largest Danish clothing companies are very successfully pursuing a cost minimization strategy, whereas a growing number of small or medium companies are focusing on a strategy based on other competitive parameters such as design and quality – mainly due to their limited resources. The cost minimization strategy has forced smaller companies in the industry into *mergers and acquisitions* in order to survive the increased competition.

In general, the outsourcing strategy has restructured the industry and redefined the value chain. The functions of clothing companies have been shifted away from physical activities like production towards knowledge-intensive activities such as design, marketing and sales, changing the nature of the workforce as new skills are required. These changes create a demand for a different *educational structure* to meet the requirements of the industry.

Another aspect of outsourcing as a business strategy is the extensive trading of clothing as the processes are conducted in different countries. Restrictions on world trade influence the attractiveness of production countries, and can create problems when pursuing an optimal outsourcing strategy. In the textile industry, *import quotas* have had a major influence in the trade relations of the industry, and the forthcoming elimination of these quotas will further increase price competition.

Fashion clothing has mainly been a consumer good for Western countries, but less traditional markets are becoming more attractive as their economies grow stronger. Countries in both Eastern Europe and the Far East are considered potential *new markets* for global clothing suppliers. The increase in Danish exports as a whole is also related to these countries, which supports the notion of their potential as new markets.

5.2 Change in competitive conditions

For a long time cost minimization has been the main competitive parameter of the clothing industry's push towards outsourcing. However, as price competition is very intense at this point and expected to intensify even more with changes in trade rules, many companies have begun turning towards other competitive parameters such as design and branding. Design and branding are strategies followed especially by small and medium-sized Danish companies whose lack sufficient resources to compete in terms of price alone.

Here it should be noted, that it is not a case of choosing one parameter over another, but rather a matter of balancing the two in a way that fits the company's profile. A big part of the design parameter is the promotion associated with a certain image and certain values. This is where branding becomes important and the reason why marketing has developed into one of the main activities of many clothing companies. Marketing creates cultural value and clothes are a big part of consumers' identity, which is why branding is of the utmost

importance. The value of the product depends just as much on the cultural image as the physical product.¹⁰

In order to be successful at marketing, it is essential that companies acquire a comprehensive understanding of consumers and the culture they are surrounded by in order to achieve an attractive branding. Most Danish companies export to foreign markets, which calls for a more complex cultural understanding when focusing marketing efforts. Some markets may be very similar to the Danish market, while others may be fundamentally different. This cultural gap is an essential consideration when branding as the marketing must sometimes be directed at different people with different needs. The international recognition of Danish design has been of great value for all Danish clothing companies and has been helpful when branding Danish clothes in foreign markets, but in order to distinguish one brand from another, additional marketing efforts are needed. This is where a deep cultural understanding can help create the right marketing strategy and image.

5.3 Mergers & Acquisitions

Increased competition within the international fashion industry has confronted clothing companies internationally with the necessity of mergers and acquisitions, and Denmark has been no exception. The price/design level has been the level of the most intense competition¹¹, also for the majority of Danish clothing companies. Since 2000, several major mergers and acquisitions have taken place as a reaction to the dynamics of the industry and the increased competition, yet the motives behind them have been different.

In 2001 InWear merged with Carli Gry, a move mainly motivated by economies of scale and the possibility of synergies. Synergies have been achieved especially within distribution and administration, but the new company, IC Companys, needs to carefully manage the merger as there are many risks involved.¹² IC Companys has pursued a multi-acquisition strategy in order to eliminate competitors and increase their own competitiveness by integrating competitors' ideas and designs. Today, IC Companys represents 15 independent brands and continues to search for new ones¹³.

RedGreen acquired Danwear in 2003, motivated by the possibility of greater purchasing power and an expansion of the product line.¹⁴ RedGreen is positive towards the idea of more acquisitions in the future.¹⁵ Møller & Co is another Danish company that has recently been involved in mergers and acquisitions. By choosing different strategies for its brands, Møller & Co seek to strengthen the company's role as an international actor in the industry. The two subsidiaries Peppercorn A/S and Solid A/S have been merged with the Norwegian company

¹⁰ FORA, National Agency for Enterprise and Construction, November 2003.

¹¹ "Successful merging in a complicated market", *Berlingske Tidende*, 27 January 2002.

¹² "Successful merging in a complicated market", *Berlingske Tidende*, 27 January 2002.

¹³ "Danish clothing: Great fashion", *Jyllands-Posten*, 2 February 2003.

¹⁴ "Grocer in Vejle acquires clothing company", *Vejle Amts Folkeblad*, 1 April 2003.

¹⁵ "Grocer in Vejle acquires clothing company", *Vejle Amts Folkeblad*, 1 April 2003.

Conseptor ASA and have together become the main stakeholder with a 50% stake in the Norwegian concern. The motive behind this merger was access to new markets.¹⁶ At the same time, Møller & Co have bought a 50% share in the brand Bertoni 2002.¹⁷

Additional mergers and acquisitions will probably characterize the future of the Danish clothing industry as the competition seems to be intensifying. Small clothing companies in particular will be at risk as they lack the resources to take on the bigger companies of the industry.

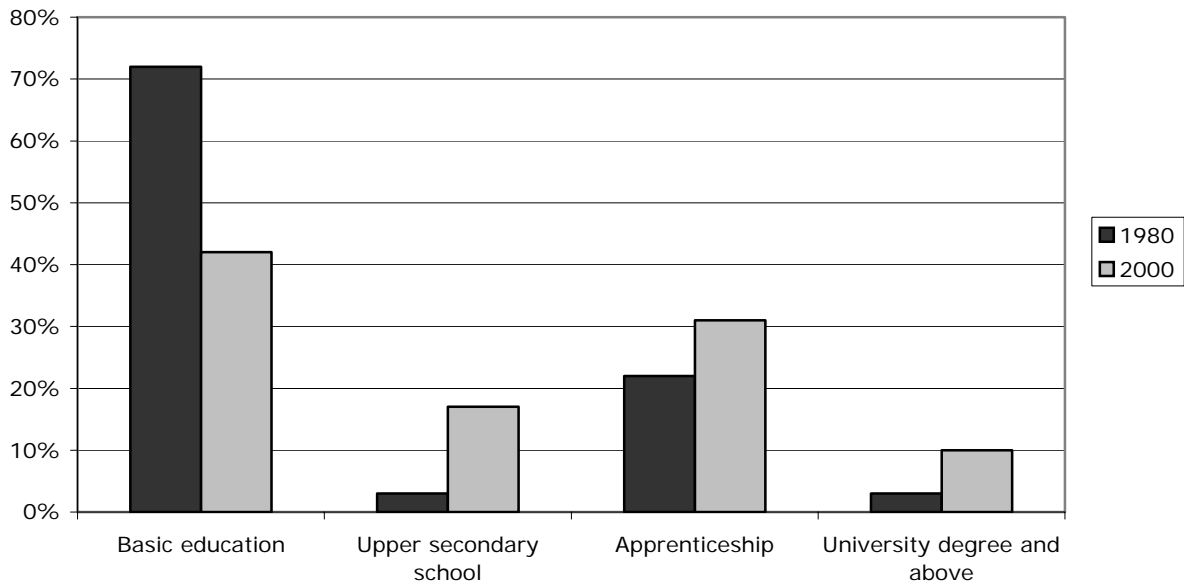
5.4 Education

The extensive outsourcing strategy of the clothing industry has changed the educational composition. The change in focus away from production and towards more creative functions has meant a change in the educational level required, as it is no longer physical skills that are in high demand, but rather knowledge skills. This is illustrated in the educational composition in figure 11. Employees with a basic education constituted 72% of the workforce in 1980 before production was outsourced. By 2000, these employees made up only 42% of the workforce, which had become characterized by a higher level of education, as the number of employees who had completed apprenticeships or who held upper secondary school degrees and college degrees increased.

¹⁶ "Danish company involved in Nordic merging", *Jyllands-Posten*, 24 May 2002.

¹⁷ "Sector structuration and its consequences", *Advizing*, no. 13.

Figure 11: Educational composition in the Danish clothing industry for 1980 and 2000



Source: Adapted from Olsen, Karsten Bjerring, Rikke Ibsen & Niels Westergaard-Jensen: *Does outsourcing create unemployment? - The case of the Danish Textile and Clothing industry*, March 2004.

The change in the educational composition has changed the educational structure related to the industry as educational programmes related to the core activities of design, marketing and sales have become the focus of the educational structure. Restrictions on admission into textile production programmes have been made in an attempt to match the supply of labour with the demand of the industry.¹⁸ Meanwhile, progress has been made in other educational programmes towards developing the specific skills required by the clothing industry today.

Design

Design programmes are of a high standard, especially regarding the development of creative skills.¹⁹ However, the characteristics of the new clothing value chain require skills above and beyond creativity, including skills within marketing, branding, and business development. Cooperative skills are of high value and the ability to relate to other functions in the company is essential as the process from design to sale is integrated and speed is of the essence. The traditional skills of drawing, cutting, and sewing are therefore supplemented by graphics, IT and other business skills to enhance the cooperative skills of the designer.²⁰ As parts of production have been outsourced, specific training in materials and their applicability is no longer available in Denmark, as competencies in this area are assumed to

¹⁸ Federation of Danish Textile & Clothing: *Annual report 2002*.

¹⁹ FORA, National Agency for Enterprise and Construction, November 2003, p.21.

²⁰ FORA, National Agency for Enterprise and Construction, November 2003.

be developed throughout the various design educational programmes. This makes clothing producers dependant on knowledge in the production countries²¹.

Marketing/Sales

The marketing and sales functions of the clothing companies require business skills that can be obtained in most business schools on different levels. The majority of marketing/sales educational programmes are of a general nature, which is why graduates lack specific knowledge of the clothing industry until they become employed. Knowledge of the clothing industry would ease communication between the different functions in the company, and prevent cultural misunderstandings. At present the education system needs to focus more on the importance of cultural understanding, to support the competitiveness of the clothing industry.²²

Cross-disciplinary programmes

One specific programme within marketing/sales is the Textile Academy Program offered by Herning Business College, a two-year programme that prepare students for employment in sales, marketing, or purchasing functions in textile companies, by teaching English, German, international marketing and cultural awareness, sales and negotiation skills, production planning, purchasing and logistics, managing finance and EDP, export law, the structure of the textile industry, and product and industry knowledge. Another programme offered by several educational institutions trains students to become design technologists. The purpose is to combine the creative and the business aspects of the clothing industry²³ by integrating design, production, and trade²⁴, and by teaching law, marketing, purchasing and English skills in technology, and trade, communication and value composition.²⁵

Additional skills

The international character of the industry creates a demand for competencies within logistics as business processes are spread around the world. Effective management of logistics is essential to maintain speed and ensure cost minimization. Another activity of growing importance for clothing companies is trading and export, as the volume of exports is increasing and potential new markets need to be explored in the near future. The dominant strategies being pursued in the Danish clothing industry are the price strategy and the price/design strategy. These strategies differ in terms of their core skills. The price strategy is focused on price and speed, making logistics of key importance and design less important²⁶. The designers work closely with the buyers to ensure a speedy process from production to market, as the strategy is to supply the market with the clothes that already are

²¹ FORA, National Agency for Enterprise and Construction, November 2003.

²² FORA, National Agency for Enterprise and Construction, November 2003.

²³ FORA, National Agency for Enterprise and Construction, November 2003.

²⁴ www.erhvervsakademierne.dk.

²⁵ www.erhvervsakademierne.dk.

²⁶ FORA, National Agency for Enterprise and Construction, November 2003.

in demand, and not to create demand. In these companies, which make up the majority of the Danish clothing industry, logistics skills are more important than innovative designer skills. In contrast, designer skills are central to the price/quality-oriented strategy. Creating trends for the market places designers in a dominant position, and often companies pursuing this strategy set the trend for companies pursuing the price-oriented strategy.

5.5 New markets

The increase in exports within Europe has shown a growth potential in the traditional European markets, but Eastern Europe is also becoming a potential market in addition to other non-European countries as the economies in these countries are growing stronger, thus creating more buying power. Table 9 shows the export market, with the highest growth based on index calculations (1995=100) of clothing exports from 1995 to 2003. With a growth index of 174 in total clothing exports, the table shows the export to countries with a higher than average index. Further, it illustrates the export in million DKK in both 1995 and 2003 as well as the comparative share of the clothing exports for the selected countries. The table below is based on export figures in million DKK from Statistics Denmark divided by SITC numbers. The calculations in the table are based on these figures.

Table 9 shows that especially the Eastern European countries of Yugoslavia, Rumania, Slovenia, Ukraine and Bosnia-Herzegovina have had a growth higher than index 500 from 1995 to 2003, although they each still constitute less than 1% of the total clothing exports. The only Central European country with a high growth index (954) is Spain, where the share of total exports has grown from 0.8% to 4.46% from 1995-2003, placing Spain among the Top 7 Central European export markets (see table 4). Additional export markets with high growth indices are Saudi Arabia with index 2429, Lebanon with index 1870, Australia with index 1033, Russia with index 597 and Turkey with index 510.

There can be several explanations for the growth in these markets, but one feature common to all of them is the growing internationalization and stability of the economies in many countries. The development of a Western lifestyle in Saudi Arabia is partly expressed by Western clothing. As much as 70% of the Saudi Arabian market is estimated to be attractive for Danish clothing companies, and the similarities in distribution channels make entrance into the market attractive.²⁷ The growth in the Russian market is explained by the increased buying power of the growing middle class. As incomes increase, so does the consumption of clothing, and the price and quality level of Danish clothes meets needs perfectly. St. Petersburg and Moscow are especially representative of the market for Danish clothes.²⁸

²⁷ www.danmarkseksportråd.dk; "Clothing from the Western world as status symbol" ["Vestligt tøj som status symbol"], 8 October 2003.

²⁸ www.danmarkseksportråd.dk; "Clothing for 145 million people" ["Tøj til 145 millioner mennesker"], 4 September 2004.

Table 9: Exports of Danish articles of apparel and clothing accessories by purchasing country in 1995 and 2003 (1,000 EUR)

Countries	Index (1995=100)	Exports in 1,000 EUR 1995	Exports in 1,000 EUR 2003	% of total export in 1995	% of total export in 2003
Saudi Arabia	2429	94.2	2,288.2	0.01	0.11
Yugoslavia	1980	67.3	1,332.5	0.01	0.07
Lebanon	1870	134.6	2,517.0	0.01	0.12
Romania	1020	67.3	686.5	0.01	0.03
Australia	1033	80.8	834.5	0.01	0.04
Spain	954	9,435.5	89,993.6	0.81	4.46
Slovenia	954	175.0	1,669.0	0.02	0.08
Ukraine	709	430.7	3,055.4	0.04	0.15
Russia	597	2,126.7	12,692.8	0.18	0.63
Bosnia-Herzegovina	514	94.2	484.6	0.01	0.02
Turkey	510	134.6	686.5	0.01	0.03
USA (1992-)	405	3,270.8	13,258.1	0.28	0.66
Estonia	378	1,803.6	6,824.2	0.16	0.34
Ireland	355	16,407.7	58,241.4	1.42	2.88
Kuwait	350	323.0	1,130.6	0.03	0.06
Czech Republic	344	1,507.5	5,182.1	0.13	0.26
Belgium and Luxembourg	342	10,916.1	37,284.2	0.94	1.85
Slovakia	336	376.9	1,265.2	0.03	0.06
Portugal	290	2,113.2	6,124.3	0.18	0.30
The Netherlands	255	63,356.2	161,856.5	5.47	8.01
Singapore	242	255.7	619.2	0.02	0.03
Bulgaria	227	296.1	673.0	0.03	0.03
France	222	13,783.0	30,554.2	1.19	1.51
Finland	217	74,030.0	160,873.9	6.39	7.97
Austria	202	18,319.1	37,068.8	1.58	1.84
UK	198	53,018.9	105,001.5	4.58	5.20
Malta	196	376.9	740.3	0.03	0.04
Croatia	183	484.6	888.4	0.04	0.04

Source: Statistics Denmark, StatBank Denmark: External Trade statistics (SITC41).

Note: Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

5.6 Outsourcing and import quotas

The outsourcing strategy is strongly related to trading conditions, as the clothes produced abroad are imported for further processing or distribution. Afterwards, some clothes are exported to foreign markets. The outsourcing strategy has been limited by the import quotas set by the EU and WTO, which have forced clothing companies to distribute the outsourcing among different countries and thus prevented them from achieving total cost minimization. As part of a liberalization of the textile industry, WTO decided to eliminate the quotas over a period of 10 years from 1995-2005—i.e., aimed at a complete elimination by January 2005. This will have a major impact on the industry, as free trade will make it possible for companies to pursue a total cost minimizing strategy that intensifies price competition. This is especially important for companies competing in the price focused market, but actors in the price/design market will also be affected by the intensified price competition.

Yet, there are several aspects of the elimination of quotas that the clothing companies need to consider. As China is the biggest player on the textile trade market due to their low wage level, the WTO is afraid that the liberalization will further increase China's power. To prevent this, the WTO has made a safeguard regulation whereby quotas can be imposed on China again until 2008, if the country is considered a risk to the balance of the industry²⁹. This would render the trading situation very similar to the existing one, as the distribution of production would still be necessary. Another point that needs to be addressed is the changes in favorable custom rules applying to the main providers of textiles, China and India, which increase the costs of trading in these countries. The possibilities of lowering costs through the elimination of import quotas are thus limited by the changes in the custom rules. By January 2005, EU's exclusion of China and India from the category of developing countries will mean that these countries will have to adjust to ordinary custom rules. Therefore, customs will increase on everything these countries import above and beyond 12.5% within the textile industry. At present China has a market share of 20% of Danish clothing imports and India's is expected to grow to more than 12.5 % in 2005³⁰, so this may affect the trading situation in the same way as the safeguard regulations for China.

5.7 Network and knowledge

The importance of network relations lies in the knowledge created within them. Knowledge of the different processes from design to sale is essential for effective management and a high degree of competitiveness. There are different kinds of knowledge related to the processes as well as an overall body of knowledge linking them all together.

²⁹ "Import quotas in China on their way out – or what?", published in *KPMG Textile*, no. 2, June 2003.

³⁰ "China and India are loosing ground", published in the Danish daily newspaper *Jyllands-Posten*, 22 October 2004.

The value chain is point of departure for the model depicted above, with the addition of three activities facilitating the core activities of the value chain: Sector organizations, fashion fairs, and knowledge centres as unfolded further below.

Sector organization

The sector organization, Federation of Danish Textile & Clothing (Dansk Textil og Beklædning), is an important facilitator of knowledge relations between actors in the value chain. Federation of Danish Textile & Clothing provides members with assistance and information on legal, environmental, trade, market and educational issues. Of the 490 clothing companies in the clothing industry, 177 are members of Federation of Danish Textile & Clothing.

Fashion fairs

Fashion fairs play an important role in knowledge relations in the clothing industry as physical forums where actors in the value chain, including suppliers, producers, wholesalers and retailers, can create new relations. Denmark is host to the Copenhagen International Fashion Fair (CIFF) and CPH Vision. Moreover, as an indication of the vibrant fashion environment in the country, yet another fair, Goldfinger, was launched this summer³¹.

Copenhagen Fashion Week has grown to one of the biggest fashion weeks in Europe with around 35,000 visitors from Denmark and abroad. With its growing profile as a nest for fashion, Copenhagen is thus competing with fashion Meccas such as Paris and Milan. The CIFF was initiated by Federation of Danish Textile & Clothing in an attempt to strengthen the network relations of the Danish industry both domestically and internationally, and has grown over the last decade to become the biggest fashion fair in Europe. Whereas CIFF represents the established traditional clothing companies, CPH Vision represents streetwear and the more up-and-coming companies and designers. Both fairs have a major impact on the Danish clothing industry, and have gained considerable international recognition.

Knowledge centres

Some knowledge centres affect everyone in the value chain by providing inputs on products/processes as well as markets and trends. The most important Danish knowledge centres are pej gruppen and TEKO. Pej gruppen is a company that provides knowledge and inspiration about trends within lifestyle industries, including fashion clothing, through annual fairs, presentations and magazines specifically target at each individual industry. TEKO, a fashion and lifestyle institute of education, also has an inspiration centre, which provides the industry with knowledge about trends. With its large collection of international fashion magazines and reports by leading trend agencies the centre constitutes a massive knowledge base on trends.

Knowledge relations will require specific attention in future as clothing companies are increasingly defined by their knowledge-intensive activities such as design, marketing, and

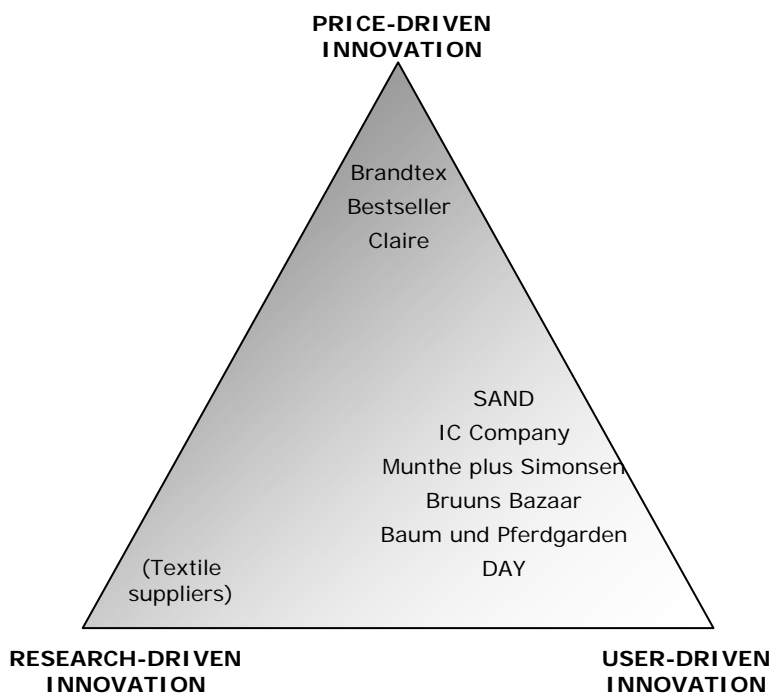
³¹ Read more about the three fashion fairs at www.ciff.dk, www.cphvision.dk, www.goldfinger.dk.

sales. This situation is further complicated by the extensive internationalization currently taking place in the industry, which raises issues such as new markets, ethics, and remote leadership.

5.8 Innovation strategies³²

Innovation within the clothing industry is essential for the competitiveness of the companies. Three types of innovation engaged in by clothing companies depends on the strategy they are pursuing. Figure 13 shows the innovation types and gives examples of Danish companies pursuing them. It is important to note that no company pursues only one of the innovation strategies, but that innovation is a combination of the different types, with one type dominating.

Figure 13: Examples of corporate strategies of firms in the Danish clothing industry



Source: FORA, National Agency for Enterprise and Construction, November 2003 (revised)

³² This chapter is mainly based on FORA, National Agency for Enterprise and Construction, November 2003, pp. 8-14.

Price-driven innovation

The essence of price-driven innovation is cost minimization, which is an important aspect for all Danish companies due to the increasing pressure internationalization puts on costs. This type of innovation is relevant for both companies pursuing the price strategy as well as those pursuing the price/design strategy. The difference lies in how dominant price is as a competitive parameter, which can be difficult to determine as both design and price influence a company's strategy. However, some companies, including Brandtex, Claire and Bestseller, are clearly more focused on price, while others, such as Bruuns Bazar, Munthe plus Simonsen and Sand, are more focused on design.

User-driven innovation

User-driven innovation is based on market needs. In the clothing industry this essentially involves increasing the focus of marketing by branding and thereby adding cultural value to products. This type of innovation, like price-driven innovation, is relevant for all companies, as the branding of products is crucial for the competitiveness of the clothing industry. Just how relevant it is for different companies depends on the emphasis placed on product branding as part of the overall strategy. Many Danish companies rely heavily on the branding of their products to ensure their strong competitive position, as they are not able to minimize costs on any great scale.

Many international clothing companies base their user-driven innovation on the analysis of trends and culture. Through close collaboration with knowledge centres, the companies are kept up to date with relevant analyses of the market, customer needs and their own image. As yet, Danish companies have not made sufficient effective use of this knowledge, but it has the potential to strengthen the competitiveness of companies pursuing user-driven innovation.

Research innovation

Research innovation in the clothing industry is mainly related to textile suppliers as the majority of research revolves around the treatment of textiles. Textile developments are especially important in sportswear. Research in this area is conducted by major chemical companies in the industry, and does not involve the clothing companies, although developments within textiles naturally affect their potential use in clothing. Another albeit limited area of research is intelligent clothing, which is not yet relevant for the commercial side of the clothing industry. In general, research innovation is very limited in the Danish clothing industry. Still it is important to follow developments within this type of innovation, as it may gain importance in future.

Internationally, user-driven innovation dominates, as competition within the industry has moved beyond the price strategy. The user-driven strategy increases the appeal of companies to the customers regardless of the fact that they also pursue a price strategy. The profile of the companies and the branding of their products is a determining factor in competition, as recognized by the most successful international companies like Nike, Gap, Adidas and Levi Strauss, who combine price-driven innovation with user-driven innovation. In the Danish

clothing industry as well, it is the largest companies, Bestseller, Brandtex and IC Company that combine these two innovation types.

6 The future of the Danish fashion industry

Based on the current situation and the dynamics of the Danish fashion industry, the future seems promising. The changes in trading conditions change planned for the beginning of 2005 are expected to intensify price competition, increasing the importance of design and branding of products as these are hard to imitate. Several key representatives of the fashion industry predict that Danish companies will have a strong competitive position under the new market conditions, as the outsourcing strategy is well established in the Danish clothing industry and most companies have managed to strike a unique balance between price, design and branding.

Turnovers have been stable the last couple of years, while exports have increased, indicating that domestic sales are decreasing and foreign sales are increasing. The export growth is linked to several markets, demonstrating the potentialities of Danish clothing abroad. Cultural analyses of new market could help companies focus their marketing efficiently and obtain market shares.

One of the reasons for the success of Danish clothing abroad is the reputation Danish fashion designers have for representing unique styles and design. Denmark thus has a privileged point of departure for further expansion of the fashion industry. In order to exploit this, it is among other things important to focus on the educational system nurturing these skills along with strategic skills within business planning, branding, concept development, and the like. It is important to secure flexible industry organization with cross-collaboration among many of the smaller organizations in order to secure optimal specialization and knowledge sharing. Moreover, it is important to develop innovation strategies in order to keep up with increased international competition.

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