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A Study on Applied Diffculties of Ready Made Garment Exporting Firms

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ABSTRACT

India is the world's second-largest textile producer (after China) is diversified and capable of producing wide variety of textiles. The spinning segment is fairly modernized and competitive, accounting for about 20 percent of world cotton yarn exports. The readymade garment industry especially Tirupur is one of the Export Promotion Zones of India and the area has a lot of industrial clusters. All types of manufacturing units' i.e., micro, small, medium and large scale industrial units are running in this area. More concessions and export promotion measures have been announced and implanted by the government to promote the exports from this area.200 sample firms from the Micro, Small and Medium sector were selected for this study as per the convenient sampling method. The present research work identifies the problems in every nook and corner of exporting the readymade garments. Particularly, receipt of foreign orders directly from the parties, bank finance, availing the incentives/ subsides and heavy operating expenses are the immediate problems to the export firms. So, it is concluded that the micro, small and medium firms, engaged in export of readymade garments in Tirupur should be given adequate supporting measures by the government as early as possible.

Key words: Readymade Garment, Crag, Export and Import

1. INTRODUCTION

The garment or apparel industry is one of the oldest and largest export industries in the world. Most nations produce for the international textile and apparel market, making this one of the most global of all industries. The garment industry is often the "starter" industry for countries engaged in export-oriented industrialization: for example, it played the leading role in East Asia's early export growth. In many countries around the world, the garment sector is the largest employer in manufacturing, producing a wide range of apparel primarily for industrialized markets.

Today, the textile industry has an overwhelming presence in the economic life of India. The textile sector is the second largest provider of employment after agriculture. It plays a pivotal role through its contribution to industrial output, employment generation, and the export earnings of the country. Currently, the textile and clothing industry contributes about 14 % of industrial production, 5 % of the GDP, and 20 % of the country's export earnings in terms of foreign exchange. The export value of $ 14 billion is expected to reach $ 40 billion at the end of the 11thplan period. 35 % of India's foreign exchange is earned by the textile sector (Anil. K. Kanung, 2012). A substantial number of workers are recruited from the marginalized communities of rural areas and urban poor. Children, adolescents, youths, unmarried women, middle aged men and women are directly employed and there are approximately 38 million people employed in this sector. The textile industry is projected to grow from the current financial year 2005-2006 figure of US$ 47 billion produced goods to US$ 115 billion by the

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year 2012. This projected growth rate is 16 % per annum. Readymade garments account for approximately 45 % of the country's total textile exports. During the year 2004-05, readymade garment exports were US$ 6 billion, recording an increase of 4.1 % as compared to the corresponding period of 2003-04. In the first quarter of 2006-07, the readymade garment exports amounted to US$ 2.17 billion, recording an increase of 15.70 %in comparison to the corresponding period last year. This growth is expected to reach a higher level when the Foreign Trade Statistics of India publishes its statistical compilation report (Foreign Trade Statistics of India, 2012).

Readymade garments (RMG) were among India's leading export sectors during the last financial year, according to preliminary figures released by the Ministry of Commerce. During the fiscal year that runs from April 2011 to March 2012, shipments of ready-made garments, yarns and fabrics rose 18 per cent to $13.7 billion (Rs 71,692 crores).

COMPETITIVE POSITION OF INDIA'S TEXTILE AND APPAREL INDUSTRY

India is the world's second-largest textile producer (after China) is diversified and capable of producing awide variety of textiles. The spinning segment is fairly modernized and competitive, accounting for about 20 percent of world cotton yarn exports. India's textile and apparel industry benefits from a large pool of skilled workers and competent technical and managerial personnel. India's labour is inexpensive; hourly labour costs in the textile and apparel industry average less than 5 percent of those in the U.S. textile and apparel industry. Policies of the Government of India (GOI) favoring small firms have resulted in the establishment of a large number of small independent units in the spinning, weaving, and processing sectors. Sources in India claim that GOI policies have provided competitive advantages for the small independent units over the generally larger composite mills, discouraged investments in new manufacturing technologies, and limited large-scale manufacturing and the attendant benefits of economies of scale.

India's textile industry depends heavily on domestically produced cotton. Almost two-thirds of domestic cotton production is rain fed, which results in wide weather-related fluctuations in cotton production. Moreover, the contamination level of Indian cotton is among the highest in the world. According to sources in India, the cotton ginning quality is poor, contributing to defective textile products.

IMPORTANCE OF THE STUDY

Today, the buyers of readymade garment segment are aware of the running trends, and demand the newest in fashion and products at a reasonable cost. At the front position of this evolution are the smaller players, which private labels that are thoroughly transforming the dressing way of men, women and children. With the supply chain limitations eased, organization in real estate markets, and rationale tax structure the readymade garment segment has become more lucrative and it is anticipated that the readymade garment segment will be the main segment in the next five years. Particularly, the export sector takes a vital role to increase India's share in the world market. It is expected that India will reach utmost destination in the world market in respect of readymade garment sector.

STATEMENT OF THE PROBLEM

Exporting is the most encouraged sector in the LPG era and India's balance of payment position becomes safer due to the export promotion after the 1990s. The readymade garment industry

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especially Tirupur is one of the Export Promotion Zones of India and the area has a lot of industrial clusters. All types of manufacturing units' i.e, micro, small, medium and large scale industrial units are running in this area. More concessions and export promotion measures have been announced and implanted by the government to promote the exports from this area. The area has all sorts of infrastructural facilities. To what extent the facilities are used by the export units? In what way the readymade garment export units are benefited or not benefited? These are the questions to be answered. These are the research problem of the present paper.

2. OBJECTIVES OF THE STUDY

1. To study the mode of securing foreign orders by the readymade garment firms in Tirupur
2. To analyses the practical difficulties involved in raising export finance

3. RESEARCH METHODOLOGY

The paper is a descriptive study because it tries to narrate the problems involved in the exporting business in the field of readymade garments from Tirupur, Tamil Nadu.

DIMENSIONS OF THE STUDY

The export related exclusive problems are identified in the following areas: Securing the foreign orders, raising the export finance, Export marketing, Availing Incentives and Subsidies. These are the dimensions of the study and questions are related to these dimensions.

DATA USED

Secondary data related to the export business of India have been collected from web sites and various study reports and they were shown in the initial chapters. The primary data have been collected from the selected readymade garment firms in Tirupur.

POPULATION AND SAMPLES

As per the records of the District Industries Centre, Tirupur, there are 6,892 Micro, Small and Medium units, functioning in Tirupur district. Among them, 4,269 units are export units as per the records of Tirupur Exporters' Association. This is the population of the study. As the size of the population of the study is very large, 200 sample firms from the Micro, Small and Medium sector are selected for this study as per the convenient sampling method.

QUESTIONNAIRE

A well-defined questionnaire was prepared and pre tested accordingly. Necessary modifications were made in it to collect the data from the sample exporting firms.

4. METHOD OF ANALYSIS

The primary data were classified and tabulated properly and then they were analyzed with the help of percentages.

5. LIMITATIONS OF THE STUDY

The study does not take the large scale industrial units. The coverage of the paper is the MSM sector only. The analysis is based on the primary data, collected from the 200 sample export

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firms. No secondary data relating to the quantity and specification of exported readymade garments are included in this work. As the basis of analysis is primary data, the opinions of the exporting firms in respect of various dimensions may change in passage of time so that the findings of the study do not claim permanency. Findings of the study may not be appropriate to areas other than Tirupur.

ANALYSIS OF THE PROBLEMS OF READY MADE GARMENT EXPORT FIRMS IN TIRUPUR

GENERAL PROFILE OF THE FIRMS

SL.NO.	VARIABLE	DIVISIONS	NO. OF EXPORTING FIRMS(N=200)	%
1.	Ownership Pattern	Sole trading firm	70	35
		Partnership	60	30
		Joint stock company	40	20
		Cooperative firm	30	15
2.	Size of the firm	Micro	70	35
		Small	70	35
		Medium	60	30
3.	Annual production (in tones)	Upto 5 tonnes	42	21
		5-10 tonnes	48	24
		10 -15 tonnes	50	25
		Above 5 tonnes	60	30
4.	Age of the firms	Upto 5 years	68	34
		5-10 years	85	42.5
		Above 10 years	47	23.5
5.	Type of the firm	100% Export Oriented Units	120	60
		Other Export Units	80	40

Source: Primary Data

TABLE No 1

The table 1 shows the general profile of the sample firms of the present study it is needless to interpret the issues related to the contents of the table because the table is self explationatory in nature. However, the flowing points are noteworthy: Majority of the sample firms (35 %) are of sole proprietorship in nature. Micro and small sized firms take equal majority (35 % each) in the total samples. Majority of the firms (30 %) produce usually more than 15 tons of readymade garments annually. Majority of the firms (42.5 %) have been started within the period of 5 to 10 years.60 % of the sample firms are of 100 % Export Oriented Units.

MAJOR SOURCE OF THE FOREIGN ORDERS

SL.NO.	MAJOR SOURCE OF THE FOREIGN ORDERS	NO. OF EXPORTING FIRMS	PERCENTAGE
1.	Direct orders from the buyers	47	23.5
2.	Association of exporters	10	5
3.	Government agencies	38	19
4.	Middlemen	105	52.5

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	Total	200	100

Source: Primary Data

TABLE No 2

Major source of the foreign orders comes from the middlemen and the majority of the firms (52.5 %) depend on this source. The direct orders from the foreign buyers (institutional buyers and individual buyers) come next. Next, the orders given by the government agencies like the NSIC, KVIC etc. take next part to the 19 % firms. The exporters' association plays very little in this regard.

SECURING THE ORDERS FROM FOREIGN COUNTRIES
MODE OF CANVASSING FOR FOREIGN ORDERS

SL.NO.	MODE OF CANVASSING FOR FOREIGN ORDERS	NO. OF EXPORTING FIRMS	PERCENTAGE
1.	By advertisements	28	24
2.	Through on line	39	19.5
3.	Through foreign agencies	45	24.5
4.	By middlemen	88	44
	Total	200	100

Source: Primary Data

TABLE No 3

In respect of the mode of canvassing the foreign orders, majority of the firms (44 %) secure the orders by approaching the existing middlemen in the distribution channel. It is an easy one to the firms because the middlemen are in touch with in firms as well as the foreign buyers. 24.5 % of the firms follow a traditional way of approach that they canvass the orders through the foreign agencies and representatives. Many foreign agencies and individual representatives are functioning to collect the foreign orders in the line of business. 19.5 % of the firms make their canvassing by means of one line and it is a wider practice adapting the modern means of communication. 24 % of the firms depend on the media advertisement for canvassing for the foreign orders.

MOST DISCOURAGING FACTOR IN RESPECT OF THE FOREIGN ORDERS

SL.NO.	MOST DISCOURAGING FACTOR IN RESPECT OF THE FOREIGN ORDERS	NO. OF EXPORTING FIRMS	PERCENTAGE
1.	Delay in getting the amount	92	46
2.	Short period of time	40	20
3.	Taxation	37	18.5
4.	Terms and conditions	18	9
5.	Commission to agents	13	6.5
6.	Any other	00	00
	Total	200	100

Source: Primary Data

TABLE No 4

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As far as the discouraging factor is concerned, delay in receipt of the money is the major problem to the majority of the firms. This is due to practical difficulties arising from the banking transactions and other formalities. Short period of time for executing the order makes the 20% firms as discouraged. Taxation is the factor to the 18.5 % of the firms and it include the customs duty as a major part.

RAISING EXPORT FINANCE
STAGE AT WHICH FINANCIAL SUFFERINGS

SL. NO.	STAGE AT WHICH FINANCIAL SUFFERINGS	NO. OF EXPORTING FIRMS	PERCENTAGE
1.	At procurement of raw materials	22	11
2.	At manufacturing stage	98	39
3.	At the packing stage	60	30
4.	At the transportation	20	10
	Total	200	100

Source: Primary Data

TABLE No 5

Majority of the firms (39 %) suffer from financial problem at the time of manufacturing stage because more funds required in this stage. Especially, the wages payable to workers becomes a heavy commitment to eh firms as the payment cannot be postponed. Many types of operating expenses such as electricity charges, repairs and maintenance etc., incur this stage. 30 % of the firms have suffering during the package of stock. It is quite natural that the stock has to be dispatched to abroad so that safe package is essential. Procurement of raw materials i.e., threads, cloth, colors etc are definitely a huge commitment to the firms but, the firms procure them at credit so that it is not at all an immediate demand to them. However, 11% firms point out it as the financial suffering as they cannot afford the credit purchase of raw materials at convenient terms and conditions. 10% firms meet heavy
transportation cost as they do not have own means of transport so that it is a financial suffering at the time.

DIFFICULTY IN RESPECT OF THE FINANCIAL ASSISTANCE

SL. NO.	DIFFICULTY IN RESPECT OF THE FINANCIAL ASSISTANCE	NO. OF EXPORTING FIRMS	PERCENTAGE
1.	Terms and conditions	20	10
2.	Credit period	60	30
3.	Surrender of security	110	55
4.	Arrangement of guarantee	10	5
	Total	200	100

Source: Primary Data

TABLE No 6

In the matter of practical difficulty in raising financial assistance from the banks, majority firms (55%) point out that the banks demand sufficient collateral security for the debt. This is a difficulty especially to the micro and small enterprises as they do not have adequate sufficient

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fixed assets. Usually they raise loans by pledging the stock and it involves a cumbersome process and formalities. In view of the 30% firms, the credit period is short and the banks do not allow medium term or long term loans.10% firms feel that the terms and conditions are heavy. 5% of the firms have an opinion that the arrangement of guarantee for the loans is a practical difficulty in this regard.

LOADING THE CARGO

MAJOR PROBLEM IN RELATION TO THE CARGO

SL. NO.	MAJOR PROBLEM IN RELATION TO THE CARGO	NO. OF EXPORTING FIRMS	PERCENTAGE
1.	Packing the cargo	48	24
2.	Transportation	92	46
3.	Loading the cargo into ship	60	30
	Total	200	100

Source: Primary Data

TABLE No 7

At the time of preparing the garments for dispatching to abroad thorough ship, transportation is the difficult work because Tiupur is not in proximity to any harbor. The stock is to be sent to Chennai of some ports of Kerala such as Cochin, Calicut etc. It incurs a tedious process and expenses also. 30% firms feel that the process of loading the cargo into the ship is hard because the stock has to wait in the harbor for their turn. Packing the cargo is also a difficult problem to the 24 % firms.

INCURRING MORE EXPENDITURE FOR

SL. NO.	INCURRING MORE EXPENDITURE FOR	NO. OF EXPORTING FIRMS	%
1.	Packing the cargo	58	29
2.	Transportation	126	63
3.	Loading the cargo into ship	16	8
	Total	200	100

Source: Primary Data

TABLE No 8

More expenditure are incurred at the stage of transportation of the cargo to the harbor to majority firms (63 %) and this happens because the firms do not have any own means of transport. At the same time, 29 % firms spend more amounts for packing the cargo. Small number of firms (8%) points out that the loading the cargo leads to heavy amount of carriage outwards.

MAJOR PROBLEM IN THE FOREIGN MARKET

SL.NO.	MAJOR DIFFICULTY IN THE FOREIGN MARKET	NO. OF EXPORTING FIRMS	PERCENTAGE
1.	Heavy competition	116	58
2.	Importers’ restrictions	20	10
3.	Wide spread market	36	18

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4.	Narrow distribution net work	18	9
5.	On line trade	10	5
	Total	200	100

Source: Primary Data

TABLE No 8

Majority firms (58%) face the problem of competition in the world market because all the countries are in the market invariably. This makes the market more sensitive and complicated. 18 % firms feel that the market is spread in wider area so that the firms have to pay more expenses for transportation. 10% firms suffer from the problem of importer's terms and conditions. 9% firms have narrow or short distribution channel so that they cannot extend the market and scale of operations. 5% firms point out that the on line trade is the problem.

MAJOR DIFFICULTY IN AVAILING THE INCENTIVES/ SUBSIDIES

SL.NO.	MAJOR DIFFICULTY IN AVAILING THE INCENTIVES/ SUBSIDIES	NO. OF EXPORTING FIRMS	PERCENTAGE
1.	Norms fixed by the government	12	6
2.	No transparency	23	11.5
3.	Bribe	10	5
4.	Inordinate delay	155	77.5
	Total	200	100

Source: Primary Data

TABLE No 9

Major difficulty in availing the incentives and subsidies, majority firms feel that that there is inordinate delay to grant them. It is purely a reason of red tapes of the government offices. 11.5% firms blame that there is no transparency at all because, many times, the applications of the firms for getting the incentives /subsidies have been rejected without proper reason. Norms fixed by the government are hard to 6 % firms. At the same time, a usual prevailing thing i.e., bribe to government officials is the difficulty to 5 % of the firms.

CHI SQUARE TEST RESULT

TABLE VALUE AT D.F AT 5% SIGNIFICANT LEVEL	CALCULATED VALUE	RESULT
12.6	14.6177	Null Hypothesis is rejected

TABLE No 10

There is significant association between the size of the exporting firms and major source of foreign orders.

6. FINDINGS OF THE STUDY

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1. Major source of the foreign orders comes from the middlemen and the majority of the firms (52.5 %) depend on this source. The direct orders from the foreign buyers (institutional buyers and individual buyers) come next.
2. In respect of the mode of canvassing the foreign orders, majority of the firms (44 %) secure the orders by approaching the existing middlemen in the distribution channel. It is an easy one to the firms because the middlemen are in touch with eh firms as well as the foreign buyers. 24.5 % of the firms follow a traditional way of approach that they canvass the orders through the foreign agencies and representatives.
3. As far as the discouraging factor is concerned, delay in receipt of the money is the major problem to the majority of the firms. This is due to practical difficulties arising from the banking transactions and other formalities.
4. Majority of the firms (39 %) suffer from financial problem at the time of manufacturing stage because more funds required in this stage. Especially, the wages payable to workers becomes a heavy commitment to firms as the payment cannot be postponed. Many types of operating expenses such as electricity charges, repairs and maintenance etc., incur this stage. 30 % of the firms have suffering during the package of stock. It is quite natural that the stock has to be dispatched to abroad so that safe package is essential. Procurement of raw materials i.e., threads, cloth, colors etc are definitely a huge commitment to the firms but, the firms procure them at credit so that it is not at all an immediate demand to them. However, 11% firms point out it as the financial suffering as they cannot afford the credit purchase of raw materials at convenient terms and conditions. 10% firms meet heavy transportation cost as they do not have own means of transport so that it is a financial suffering at the time.
5. In the matter of practical difficulty in raising financial assistance from the banks, majority firms (55%) point out that the banks demand sufficient collateral security for the debt. This is a difficulty especially to the micro and small enterprises as they do not have adequate sufficient fixed assets.
6. At the time of preparing the garments for dispatching to abroad thorough ship, transportation is the difficult work because Tiupur is not in proximity to any harbor. The stock is to be sent to Chennai of some ports of Kerala such as Cochin, Calicut etc. It incurs a tedious process and expenses also.
7. More expenditure are incurred at the stage of transportation of the cargo to the harbor to majority firms (63 %) and this happens because the firms do not have any own means of transport. At the same time, 29 % firms spend more amounts for packing the cargo. Small number of firms (8%) points out that the loading the cargo leads to heavy amount of carriage outwards.
8. Majority firms (58%) face the problem of competition in the world market because all the countries are in the market invariably. This makes the market more sensitive and complicated. 18 % firms feel that the market is spread in wider area so that the firms have to pay more expenses for transportation.
9. Major difficulty in availing the incentives and subsidies, majority firms feel that that there is inordinate delay to grant them. It is purely a reason of tedious formalities of the government offices. 11.5% firms blame that there is no transparency at all because, many times, the applications of the firms for getting the incentives /subsidies have been rejected without proper reason.
10. There is significant association between the size of the exporting firms and major source of foreign orders.

7. SUGGESTIONS

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The government may take further steps to include all the industrial units which are engaged in the exporting of readymade garments but are not covered under the scheme of incentives and subsidies by redefining the eligibility criteria. Quantum of subsidies may further be increased for the benefit of the exporting units. Formalities and procedures of applying for subsidies may be relaxed Exporters' association may act as the bridge between the exporting firms and banks as well as the government agencies. Periodical training for export firms and continuous feedback should be ensured by means of entrepreneurial training programme.

8. CONCLUSION

The readymade garment exporting firms in Tirupur are functioning well but at the same time they have some grievances in respect of incentives/subsidies and it is a strange situation that some eligible firms also do not avail the benefits of subsidies due to operational difficulties and governmental formalities. The District Industries Centre of Tirupur and State Government have to perform more in this regard. Likewise, the role of the Association of Tirupur Exporters is to be further improved. The present research work identifies the problems in every nook and corner of exporting the readymade garments. Particularly, receipt of foreign orders directly from the parties, bank finance, availing the incentives/ subsides and heavy operating expenses are the immediate problems to the export firms. So, it is concluded that the micro, small and medium firms, engaged in export of readymade garments in Tirupur should be given adequate supporting measures by the government as early as possible.

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