



Home Textiles

Trade Route & Competitive Forces in the European Market

The nature of trade in home textiles is set to keep changing in the near future. The market is becoming increasingly globalised, resulting in players having to reposition themselves within the home textiles trade channel. This implies instability in existing trade channels, which will have to change according to the new reality of the sector. The main changes are: Increasing dominance of chain store retailers; Importers/wholesalers facing increased competition; Buyers demanding transparency in the supply chains, and Covering against growing insecurities.

The European home textiles market is characterised by the strong power of buyers and the high degree of rivalry among suppliers. Although both forces are expected to strengthen in the near future, several types of action can be undertaken to increase your opportunities in the European market: e.g. focussing on the higher market segments or niche markets and offering a unique product. Furthermore, your future power as a supplier will depend on the increase of disposable income in the emerging markets and developments in the supply of raw materials.

This article is in continuation to the article on insights and forecasts on key European market dynamics; and The Four Scenarios - Cautious spenders; Celebrate your niche; Green community; and Reset the value chain., that would take shape in the next five years.

Trade Channel

Dominance of chain store retailers stimulates direct trade

The influence of large chain store retailers in the value chain for home textiles has increased significantly, especially in northern and western regions of Europe, at the expense of the position held by wholesalers and importers. Larger chain store retailers are increasingly

controlling the entire chain – from production in developing countries (DCs) to the European retail outlet – in order to profit from larger margins and cost efficiencies. Over the past few years, moreover, large apparel retailers, such as H&M and Zara, have moved into the European home textiles market. Currently, they are quickly gaining ground in Europe by offering fashionable home textile articles at reasonable prices.

In the future, it is anticipated that these large retailers will consolidate their position in the mature Western European markets and will move gradually towards Southern and Eastern European markets - especially in large urban areas. This increasingly dominant position will increase the buying power of these large chain store retailers and apparel retailers. For DC exporters, this will result in a tougher bargaining position, because their potential buyers will be fewer.



Considerations for action

- If your scale of operation (high volume, standardisation of products) is able to satisfy the demands of large retailers, you could move up the value chain and trade directly with them.
- Promote the benefits of your country or region to European buyers of home textiles (e.g. good infrastructure, close proximity to the European market) thus showing the logistical benefits of trading with your company.

Present yourself as a back-up supplier

Due to this consolidation in the trade structure, importers and wholesalers are facing stronger competition. This affects their buying policies and sourcing strategies. There is a growing need for cooperation within the value chain in order to compete or better cooperate with the chain store retailers. As importers'/wholesalers' influence in the trade structure diminishes, they have to be stronger in information technology, planning and logistics in order to build their supply chain. The changed nature of trade in combination with the recession in Europe has forced buyers to be more aware of risk management.

An interesting example for suppliers in DCs is the emergence of back-up suppliers, which allow principle suppliers to

deliver larger quantities in a shorter lead time. As a result, buyers can better cope with future insecurities and diversify their supply sources. Another result is the emergence of new supplying countries besides China, which is still superior in terms of infrastructure and logistics. Among

the new supplying countries of increasing interest are those close to China, such as Vietnam, as well as low-cost countries closer to the European market, such as Turkey, Macedonia or Portugal.

Specialisation brings new opportunities for exporters. In response to the increasing influence of large retailers, smaller interior retailers will increasingly specialise in order to compete. These interior specialists

Considerations for action

- DC exporters can approach interior specialists or specialist importers/wholesalers, but should be aware that they demand high-quality raw materials, perfect technical execution and finishing.
- When targeting specialists, showcase your craftsmanship in your home textile products. Exporters can also specialise in order to cater to specialised importers/wholesalers, especially if able to supply to the higher segments.

will aim to distinguish themselves by selling products that are more personalised and that tell a story. The latest development, already signalled in the fashion world, is the arrival of mono-stores, which offer only one product. As a result of further specialisation by retailers, importers/ wholesalers are also specialising in order to sell a specific product group or to cater to specific consumer target groups.

E-commerce: a viable business strategy?

Consumers are increasingly buying online. This is supported by a rapid rise in sophisticated mobile technology (e.g. smart phone, tablet). European consumers increasingly enjoy the convenience of online shopping, the sense of community through using social media, reviewing purchases for others, negotiating prices and buying in groups. This will only increase, and we are seeing great leaps in online shopping, particularly in the Asian region as well as among younger consumers. At present, online retailers are not used to importing directly from overseas DC exporters. In the main, they prefer sourcing closer to home, keeping stock risk low and maintaining direct contact with the wholesaler. Although exceptions exist, exporters in developing countries need to source to the European e-tailer first if they want to see their products sold to online shoppers.

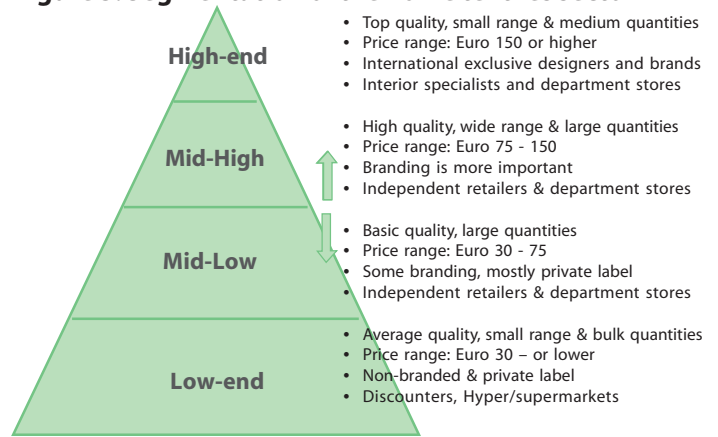
Do remember that it requires a totally different and tailor-made business model, involving specific arrangements with regard to working capital, investment, logistics, communication, stocking, range development and marketing.

Segments

The middle market: small margins or a story presentation

The traditional middle market has come under pressure in recent years. It has lost focus, lacked innovation and not dared to connect with and invest in new suppliers. European consumers are increasingly combining low and high-priced home textile products in their homes. To supply the middle-low segment, DC exporters are recommended to conform to the existing

Figure 3: Segmentation of the home textiles sector*



* Price range (related to bed linen) should be used as an indication. Prices for other home textile products can differ substantially.

low-middle price structure, meaning that DC exporters will have to accept lower margins. Regarding the middle-high segment, DC exporters will have to focus on their special skills as well as on fashionable designs that tell a story about their product (i.e. create an experience or emotion).

Recession makes the consumer turn to a lower segment

Currently, there is an increasing demand for products from the lower market segments owing to the economic crisis. Some

consumers have shifted from the middle-high to the middle-low segment. Some consumers in the high-end segment have turned from branded products to middle-low retailers such as IKEA (but not low-end products) when buying their home textiles. In the long run, however, the market is expected to move towards more conscious consumption patterns where fewer products are purchased, but where these products are more personalised, durable and high-quality. Buyers

Considerations for action

- The middle market can be a good option, but you need to choose between the middle-high segment (personalised products that show your skills or story) and the middle-low segment (fashionable basic products at a low price).

seek suppliers able to comply with Western rules and codes of conduct. Work on commitment, mutual trust, cooperation and exclusivity. Get to know your buyer by understanding his situation more fully and stay in touch. Don't say yes, when you mean no. Learn to communicate with buyers. Dare to ask for information and keep communicating.

Competitive Forces

Dominance of chain store retailers stimulates direct trade

Buyer power is strong due to growing price-sensitivity. However, DCs can find opportunities in Europe by offering value-added products and avoiding the most price-sensitive markets. In the future, the home textiles market will remain a buyer's market. European buyers know most about consumer demands in their market and can match suppliers' capabilities and skills to meet these demands. Pressure from buyers is increasing due to increased price-sensitivity, buyer concentration and substitution of suppliers. Although sustainability is an increasingly important driver, price will remain the main driver in negotiations with buyers. However, consumers

Considerations for action

- Ensure you show your added value and skills to potential buyers. Buyers can assist you in improving your product's suitability for the market because they are closer to European consumers.
- As a response to growing price-sensitivity, you could consider selling directly to retailers, which is a cost-saving strategy. Although retailers will capture most of the extra margin, it will increase your market opportunities.
- Consider targeting niche markets, e.g. organic or Fair Trade, where buyer power is lower and increasingly gaining popularity.

in the near future are expected to desire more transparency in your supply chain; consequently, buyers will be looking increasingly for suppliers that comply with social responsibility criteria. Buyers continue to engage in product innovation. Examples include new materials with anti-allergic properties or fibres with coatings that enable digital printing.

Degree of rivalry strong, expected to increase

Most opportunities can be found in the higher market segments, where you can make yourself distinct from your competitors. Rivalry among suppliers has increased in the lower market segments, and this trend is expected to continue in the years to come. The low-end market is dominated by large producers from China, India, Pakistan and Turkey, which compete on price and logistics. The middle-low segment competes on standardisation and price, and it will increasingly come under price pressure. Branding is weak in the middle-low segment. There is less rivalry in the higher market segment. Competition is on quality, reflected in high quality raw materials, handmade skills, execution of techniques and perfect finishing. Demanding consumers will strengthen competitive rivalry, especially in the middle market. Market fragmentation is increasing, with consumers trading up or down. The future home textiles market will be characterised by increased concentration of buyers,

Considerations for action

- Target the middle-high and high-end market segments, which offer most opportunities. Because buyer concentration is increasing, you should differentiate yourself. Ensure your product is of high quality and tells a unique and personal story, suitable for the middle-high or high-end market.
- Respond to your buyer's needs by offering smaller volumes and ensuring delivery of a consistent, i.e. standardized product.

leaving fewer selling options for many suppliers. Demand cycles are shortening. Shorter lead times, smaller volumes and supply reliability are increasingly important. The entry of large apparel retailers (Zara, H&M) within the home textile sector will have a major impact on shortening demand cycles. These retailers use the apparel sector as a blueprint for their approach to the home textile sector, resulting in several “seasons” throughout the year and a greater focus on promoting home textile products. Supplying home textiles to ‘apparel’ retailers is hard for small and medium-sized DC exporters, but can be of interest if you can meet chain retailers’ quality requirements, produce several collections per year and ensure short lead times.

New entrants being increasingly faced with barriers

European regulations for home textiles are becoming ever more stringent, creating a de facto trade barrier. Increasing numbers of legal requirements are being put in place to protect European consumers. Information about requirements is often very technical and difficult to understand. Implementation can be costly and time-consuming. More and more, the shortening of demand cycles is making distance from the European market a disadvantage for DC suppliers. At the same time, this strengthens the competitive advantage of Eastern European suppliers that are closer to the market. European consumers are either trading

Considerations for action

- Avoid the middle-low market, which is under pressure. Instead, focus on high-quality products or else target niche markets. Brands are stronger in the middle-high and high-end segments, where you can differentiate yourself.
- Be prepared to work flexibly with your core materials and designs, applying them to a wide range of product categories.
- Consider alternative markets or market segments if your product is threatened by a substitute.

up or down, resulting in increased fragmentation of the European home textiles market. This continuing fragmentation can make it more difficult for one to enter the market.



Substitutes with the same functionalities pose a threat: be flexible and stay up-to-date about the latest developments. Alongside cheaper products from the same product group, substitute products that perform the same function as your product pose an important threat: convenience and fashion can all create new or substitute products. Examples of product substitutes include: blinds replacing curtains, blankets instead of duvet covers and wooden flooring substituting carpets. Some developments can even totally change demand for a certain product: e.g. the dishwasher, which replaces cheaper kitchen linen, and the trend to move away from formal dining, which has resulted in a fall in table linen sales.

Supplier power will be strengthened by growing BRIC markets

Supplier power is being increased through the emergence of BRIC markets, where demand for home textiles is showing a growth trend. Supplier bargaining power increases when there are more potential markets. However, your own suppliers could also affect your power. Scarcity of resources could pose a threat, making your suppliers of, say, organic cotton more powerful when there is a sizeable shortfall of supply. Uncertainty in the regular cotton supply also poses a threat, which has resulted recently in peak prices for cotton.

Keep track of emerging (regional) markets, which increase your sales opportunities and negotiation power. Keep track of developments in your raw material supply. Alternative materials or sources should be considered when your suppliers become too powerful. ■

Source: CBI, Netherlands