

# [Textile industry](https://assignbuster.com/textile-industry/)

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The force of the bargaining power of suppliers is majorly concerned with the relationship that exists between the supplier and the producer (Jack, 2011). Textile industry is largely cotton based and thus favors the three top producers of cotton in the world, China U. S. and India. India enjoys a cost advantage in the home textile and apparel segments because of its abundant supply of locally grown long staple cotton (Jones, 2006).

The bargaining power of suppliers affect the intensity if competition. This competition increases as other new countries join the global textile market. The competition also increases with the decreasing amount of raw materials leading to increase in their prices. The future market would largely depend on cotton prices and the labor costs. Currently India enjoys a significant lead in terms of labor cost per hour (Saluja, 2008). Today, India and China are competing in the same categories of apparels and home textiles.

However, it is projected that India could gain significant market share in U. S. apparel imports because of its established presence in the high-end segment. This possibility may be limited by the ongoing economic slowdown in the US. The trend may lead to US’s retailers making low orders resulting into lower capacity utilization.

This would also reduce the amount of profit likely to be realized by textile companies in India. As the world’s largest exporter of textiles and apparel, China can also exercise some bargaining power. However, this will depend on the available choices for buyers (Jones, 2006). Threat of the new entrants The threat of new entrants in the industry increases competition to a great extent as well as bringing new capacity into the textile market. This threat depends on the barriers present and on how the existing competitors of the industry react to it (Jack, 2011). With the removal of quotas, there are no rigid barriers to enter the domestic market in textiles.

This increases the competition even more. The existing firms have therefore focused their attention on seeking to gain economies of scale. Other strategies are establishing a strong customer loyalty as well as strong brand preferences (Bruer, Cassill & Jones, 2005). With the existing firms producing at economies of scale, the new entrants are forced to enter into the market with a large production scale capability to lower its fixed and variable cost per unit in order effectively compete. If this is not possible, the new entrants may be faced with exceeding cost problems.

Resultantly, the smaller players who can not venture into the global markets are flooding the domestic markets with excess supply, thus weakening the pricing scenario. Countries that put necessary measures like reduce taxes, as well as creating trading blocks with other countries are often potential threats. In summary, the barriers to entry in the world textile and clothing market are not high (Stimson, Stough & Roberts, 2006). Threat of substitutes Even though textile and apparel products are necessities and there are no close substitutes for them, the global market has a variety of substitute products originating from different exporting countries (Jack, 2011). Since the elimination of quota in the year 2005, many new competitors as well as consumers have joined the global market.

Several competitors have arisen both from the same and other industries. Low costs producing countries like Pakistan and Bangladesh are today posing a threat to the world major producers’ export demand (Jones, 2006). The overseas buyers have started shifting to alternative sources impacting negatively on the incremental volume of the major contributors like India and China. It also been argued that Products from China are similar to those made in India and can substitute one another. At the same time products from U.

S. are similar to those in the E. U. and can equally substitute one another. However, differentiation has been made possible because of difference in the product costs, quality, and services provided which affects the selection of substitutes (Saluja, 2008). For example the U.

S. and the E. U. apparel markets are committed to outdo China’s apparel designs by significantly reducing the prices of their exports. This to an extent has succeeded as consumers substitute the Chinese textile products for the genuine articles from the US and the E. U, especially in the fashion segment (Jones,, 2006).

Competitive rivalry Rivalry among the competing firms is the most powerful of the five competing forces (Jack, 2011). Even though it may be difficult to carry out product or service differentiation in such a mature industry, price competition and product introduction have remain to be essential strategic elements for most competitors. Textile firms equally compete for customers both at the national and the international levels. The competition involves firms and countries trying different strategies. However, such strategies are always met with equal forces by other countries making the competition even stiffer. Such forces may take the form of lowering of prices and quality enhancement by the competing firms/countries (Saluja, 2008).

Healthy competition in the industry will largely be determined by the continued growth of the existing global apparel and textile market. It will also partly depend on the stability of global economy. With the freer trade, textile and apparel production is expected to shift to countries with a comparative advantage. Developing countries, mostly in Asia, are expected to capture a higher proportion of production. This should lead to a production decline in countries that back a comparative advantage (Jones, 2006).

The bargaining power of buyers The Porter’s force of the bargaining power of the buyers is meant to evaluate the demand scenario of an industry (Jack, 2011). By 2006, the global textile industry was worth about US $ 440 billion. The global textile trade has for a long time been dominated by the U. S. and the European markets. The two countries currently accounts for about 64% of the clothing and 39% of the textile markets (Saluja, 2008).

Over the years, the global textile trade has experienced a quick growth especially resulting from the dismantling of quotas in 2005. With the free market, global textile trade grew to about U. S. $ 650 billion by 2010. Although China was likely to become the supplier of choice, other low cost producers like India would also benefit as the overseas importers would try to mitigate their risk of sourcing from only one country (Bruer et al, 2005).