

Denim Wear Industry: A Study of the Unorganised Sector in Delhi

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Abstract- This article explores the unorganised sector of denim wear industry in India. The study is specifically restricted to the physical location of Tank Road, Karol Bagh, in Delhi. For this research, five individuals are interviewed to get the knowledge about the operations of this sector concerning different factors influencing the profitability and sales volume in this business. Qualitative and quantitative methods were used to seek knowledge about profitability and sustainability of this market segment. The research also focused on analysing whether a new firm can enter the market easily and sustain in the market or not. This study is also aimed at finding factors which cause seasonality in this market and their respective reasons. Manufacturing of denim wear is done by different individuals specialising in a particular step of the entire process. Entire cost process was analysed to find that it is less viable to sell denim wear to fellow wholesalers than to the retailers.

Index Terms- denim, jeans, unorganized manufacturing of denim, knitting, apparel;

INTRODUCTION

The denim jeans segment has always been popular as one of the leading segments in the today's apparel industry. The blue denim has been a wardrobe staple and a fashion essential since decades for youth along with increasing popularity among other age groups too. Indian denim market has shown the highest growth rate of approximately 13-15% per year in apparel industry over the past few years.¹

The market size of Indian Denim Wear was estimated to be Rs 23,205 crore in 2017. Research says that the market will touch Rs 39,651 crore by 2021 and Rs 77,999 crore by 2026.² The men's denim segment comprises 84% of the market share while the women's denim segment and kids' denim segment comprise 10% and 6% respectively. Some key features which make this fabric so popular include its durability, comfort, convenience, versatility and its availability.³

India is a large market with a lot of potential for the denim industry despite the fact that the industry has been thriving over the past few years. For a majority of the Indian youth, denim is not just casual wear, but more of a fashion statement. Near about 85% of the market is dominated by men segment, with 10% contribution from the female and the kid's segment contributing about 5% of the market.⁴

However, the retail sector in the section has its challenges since the majority of the market is dominated by unorganized sector due to pricing point disadvantages applicable to organised retailers. With parents and children becoming more conscious about kid's fashion and trends. The advent of e-commerce in the apparel segment has resulted in the more availability of products, though the pricing of products remains a challenge. The increase in purchasing power of the parents is expected to take care of this issue and propel the growth of the segment further.

LITERATURE REVIEW

As the Indian denim market is very popular, there has been much research conducted on the same; but the unorganized segment of Indian denim market is still to be studied deeply as it is relatively untouched by researches. Some past researchers conclude that the unorganized segment comprises about 60% of total Indian denim market.

Gugnani and Brahma (2013)⁶ forecasted that the denim market would touch Rs27,200 crore market in 2018. It also stated that around 40% of total demand came from the age group of 15-29 years. Small Industries Service Institute Government of India, Ministry of SSI (2003)⁷ explained the general process of manufacturing of denim jeans which started from

design sample, cardboard pattern and finished at pressing and dispatch.

Apparel Online (2013) surveyed tank road market which is situated in Dev Nagar, Karol Bagh, Delhi. With more than 1,500 traders mostly into the jeans business, tank road is one of the largest denim jeans markets across the Asian continent. Being unorganized, there are about 3,000 fabricators, having about 50,000 machines, giving a working opportunity to more than 40,000 people in the area. The article talked about 'Cost Effective Creativity' which is the hallmark of this hub, which offers various types of washed and value-added five pocket jeans. There is a need to look into the social aspects of the manufacturing hub, though many claim that the workers are satisfied as they earn a decent living.

Annual report of Nandan Denim Limited 2015-2016 stated some risks in this industry namely cut-throat competition, geographic risks, quality and raw material risks etc. Blue Blends (India) Limited (2016) developed an industry structure with its SWOT analysis and the drivers influencing the market.

Fibre2fashion.com (2016) ⁸ in their report India Denim Market stated the major denim fabric manufacturers in India including Arvind Mills (market leader with 14% share in 2014), Aarvee Industries (9% share) and Nandan Denim (8% share). It also emphasizes that unbranded denim constitutes a higher share in the overall market due to a limited number of mega-metros and metros. It forecasted that branded denim might occupy a higher share in the market in the years because of rising disposable incomes in semi-urban and rural areas.

OBJECTIVES

The purpose of the proposed study is to explore unorganised sector of denim wear industry in India. Due to the limited empirical research in this area, the purpose of this paper is to contribute to scientific knowledge by achieving following research objectives:

- To understand different steps and phases in the manufacturing of denim wear.
- To identify the seasonal trends in the market.

- To analyse the entire denim industry and check if the entry of a new firm would be sustainable or not?

Research Methodology

To satisfy the objectives of this research paper, both primary and secondary data is used. Primary data is collected through depth interview of 5 people and through questionnaire from 50 people engaged in the industry. The target sample of the study includes wholesalers, workers and manufacturers of denim jeans located at Tank Road market, Karol Bagh, Delhi. Since the paper is expletory in nature both qualitative and quantitative technique is used.

Unstructured interviews aim to identify participant's emotions, feelings and opinions regarding a particular research subject. On the other hand, quantitative research through a questionnaire will be used for relatively large samples and where there is a need for different statistical operations on the data collected. Data collected in this method will be used to analyse the general trend of different variables in the market like sales, profitability, cost etc.

For analysis of the quantitative data collected, various statistical tools will be used comprising of an arithmetic average, standard deviation, variance, mode etc.

RESULTS

Following five individuals are Interviewed, who work at Tank Road, Karol Bagh:

- Amit Porwal (Manufacturer and Wholesaler)
- Jitin Dabbas (Wholesaler)
- Moulik Mahajan (Washer)
- Ranjeet Singh (fabricator)
- Pankaj Kumar (Ironman)

All the interviewees had a very positive attitude towards the future growth of this market. During the interview, Mr Porwal told about how he entered this market in 2005 and had witnessed many ups and downs in the market. Replying to my question related to price, he said that his firm sells jeans starting from Rs500 and ranging up to Rs700. Adding to the cost discussion, he told that a basic jean cost around Rs420-460 which was sold at a profit margin of Rs100 to normal customers and for wholesalers, the supply rate was around Rs50 less than the selling price. He believed that there is definite seasonality in

the denim market wherein the boom period starts in March and continues till June end. He stated that in the monsoon months, the sales volume decreases because of uneasy accessibility of the market and congested roads. Sales volume also depends upon different festivals around the calendar like from sales boost around a month before Diwali and Eid.

Mr. Dabbas told how the market is characterised by very low sales in the winter season precisely in December to February. He was the only wholesaler of denim jeans, and he purchased his stock from different manufacturers situated on the Tank Road. He stated that his profit margins are very low as manufacturers are in a better position to sell the same product at the lower price than what the wholesalers can supply for. Mr. Dabbas is not so financially sound, and his business is failing due to increasing competition from the manufacturers. After asking about how location impacts survival, he told that the location of a particular denim jeans shop is very crucial for survival at Tank Road in the long run. He added that the rent rates are very high which increases the fixed cost for the businessmen. Also, he was of the view that this market has a capacity for entry of new firms as there are some businessmen who exit the market as well because of old fashion trends and increased competition. Entry of manufacturers is easy as they can sell at a lower cost whereas the entry of new wholesalers is comparatively tough.

While interviewing the washer Mr. Moulik Mahajan, we came to know that the buyers purchased the jeans keeping in mind three basic and crucial factors namely – Quality of fabric, Price and washing of jeans. Mr Mahajan was of the view that washing is the only single factor which can have a considerable effect on the sales volume. The other two factors are not so much impactful as washing is. All the manufacturers use the top quality fabric and try to price their product as low as possible, but in the end, only washing determines the sales. He described different types of washing namely acid washing, china wash, laser washing, over-dye washing, bubble wash and lot more. He explained how the rugged jeans are made and its process. Answering to my question of his area of operation, he told that he has his washing plant in Narela, near Delhi border. He added that washer picks up a lot of jeans from the fabricators and transport to their plant during

specified hours and takes around 7-10 days for washing. Questioning about the price, he replied that that basic washing starts from Rs60 and ranges as high as Rs220.

Talking to Mr. Ranjeet who is a fabricator by profession, we got to know that all the fabricators in the market paid wages in a weekly manner to the labourers. Fabrication of jeans involved cutting of fabric using different patterns of card-boards and stitching. He told that an average of 1 meter of denim fabric is used to make one jeans. There are different types of threads which are used in stitching; there is a thread known as silky thread informally, which is considered as the best for stitching. Basic fabrication cost starts from Rs60 and ranges up to Rs90. This cost includes only the basic cost of jeans without any design. The final cost depends upon the design of the jeans; every single design has a cost which can be as less as Rs1 and can go as high as Rs15. Mr. Ranjeet also told about the cost of the fabric which starts from 180/meter and goes up to Rs.320/meter. He added that most of the manufacturers purchased the fabric from the traders on the tank roads or directly from Gujrat where the fabric is spanned in the mills. Mr. Ranjeet told me that there is a lot of manipulation of fabric in this, in other words, he meant that fabricators make more jeans in a roll of denim but reveal that they have made less. For example: in a roll of 1000-meter fabric, they made 1020 jeans but gives only 1010 to the manufacturer, this can lead to reduced profit margins and can even lead to losses if not kept a check on.

On Questioning Mr Pankaj, who is press man, he revealed that after washing of jeans, there are numerous small steps till the product is packed for selling purpose. This involved 'KAAJ' which is making a hole for the button, after this there is 'BALTIC' which a small stitch near the pocket. Then there is a designer kit which involves: buttons, ripped buttons near pockets, leather patch, tags, a synthetic patch placed on inner side on jeans etc. Usually, they use Indian kits, but some prefer Chinese kits for premium and upper range jeans. After all this, useless threads are removed, and the kit is inserted followed by pressing of jeans and finally packaging. There are numerous ways in which jeans are packed such as flat packing, roll packing, 'Jalebi' packing wherein jeans are crushed in a way so that wrinkles are left on jeans. Pressing and packing phase in jeans

manufacturing costs around Rs12-Rs15, whereas Kit costs around Rs20-35.

QUESTIONNAIRE

A sample of 50 individuals was taken and asked to fill a questionnaire based on the objectives of the study. The questionnaire included multiple choice questions relating to general costing and pricing of jeans in this market. Out of 50 individuals, data was collected from only 38 respondents. The target audience of this survey was manufacturers, wholesalers, retailers, washers, fabricator, and pressmen, who are working in this market for over a period. It was observed from the survey that around 23% of the respondents were the manufacturer of jeans and around 45% comprised of a mix of both wholesalers and retailers. 42% of total respondents operated at Clubman, Tank Road making this area as the largest operated area for this sector. It was also known that washers and fabricators usually operated on outskirts like Narela and other regions. As it was also observed through interviews that new firms find it difficult to operate in this market until it's has started its own manufacturing, there were only 29% respondents who have experience of fewer than five years; rest all of them had a stable business with lot more years of experience. There was a proportionate response in regards to denim fabric used in the making of single jeans. Hence the result was scattered. Data about cost was also collected using questionnaire by making different cost intervals for the different variable of costs like fabrication, washing, and pressing etc. The selling price of jeans was collected concerning sale made to both retailers and wholesalers. 63% of the respondents were of the view that a single dealer sells more than 1.5 lakh units of jeans annually. 40% of the target respondents told that there are about 1500-2000 jeans dealers on Tank Road only.

DISCUSSION

In this study, the data collected with the help of questionnaire is analysed using different statistical tools like arithmetic mean, correlation coefficient, weighted average etc. MS Excel is used for this analysis. Percentage figures are preferred wherever possible for easy comparison and understanding. From the data collected, it was known that on an

average it took approximately 0.99 meters of denim cloth for manufacturing single denim jeans. Although this figure is not the case every time, this is just an approximation. To calculate the total denim fabric cost, cost of denim fabric was calculated which came out to be ₹266.8 approximately and multiplied with 0.99 making the total denim cloth cost to be 264. This was just the first step in calculating the different cost in the manufacturing process.

The respondents believed that the average cost of fabrication is around ₹84 which is inclusive of designing cost. This cost is paid on a weekly basis to the fabricators as stated by Mr Amit and Mr Ranjeet. Average washing cost was calculated as ₹113 by the responses filled by the sample. ₹42.3 comprised of average cost of ironing, pressing, packing, kit etc. There are numerous additional costs such as overheads, commission and fixed costs; in this analysis, this cost is assumed to be 10% of the selling price to the wholesaler. In this cost analysis, all the different costs were summed up to find the actual total cost for a basic pair of denim jeans which was calculated as ₹505 approximately. This is the manufacturing cost of jeans including all the overhead expenses like commission SG&A expense and fixed costs.

After analysing the entire cost structure, the selling price was estimated both for normal retailers and fellow wholesaler operating on tank road. ₹643 was average selling price a basic pair of jeans to a retailer and ₹588 was charged from the fellow wholesaler. Comparing the selling price and the cost estimated of a pair of denim jeans, profit earned by a firm were calculated, different for both retailer and the wholesaler. A firm earned an average profit of ₹80.32 by selling to retailer and ₹25 by selling to a wholesaler. The profit earned was sometimes negative when selling to wholesaler due to rigorous competition amongst the wholesaler. Many times, firms sell at a price less than the cost to clear off the inventory and unsold stocks. Profit margin earned from the retailer was 12.18% and from a wholesaler was 4.01%. It is clearly evident that profit earned from wholesalers is minimal because of the fact that wholesaler purchase at a lower price because they further have to sell the same pair of jeans to retailer which they initially purchased and their power to

reduce the price (or offer discounts) is reduced due to excess margin of the manufacturer.

There are various other factors which can have an impact on survival of a firm in this market, like no. of existing firms and their sales volume. Questioning about the average total no. of firms operating at Tank Road, it was known that there are about 1463 denim jeans dealers. On an average, the single dealer sells around 186973 denim pants throughout the year. Using a weighted average method to calculate the profit margin of the entire market, it has been found that 13.20% is the profit margin and using sales as weights.

After analysing the data collected by questionnaire, it is established that there is a positive moderate correlation between the sales volume of a firm and the profits earned. Using the CORREL function in excel, the correlation coefficient was calculated as 23.4% between the sales and the profit earned. It signifies that as the sales volume tends to increase, the profit per sale also increase, but it also depends on various other factors.

Phases in manufacturing: As described earlier, making of denim jeans involves various steps. Firstly, the denim cloth is fabricated using patterns to make a raw basic jean which is followed by designing like embroidery. After the jeans are fabricated, they undergo special washing. In this phase, special chemicals are used to give different colours and its shades. If the manufacturer wants to have damage jeans, this is also done with this step only using computerised pre-determined designs. After washing process is completed, numerous small steps take place like making a hole for waist button etc. At last, the jeans go for ironing and packaging, where the design kit is inserted. There are different types of ironing which are done as per the specifications are given by the manufacturer.

Seasonality in sales of denim jeans: It is observed that sales, at Tank Road denim jeans market, are affected by seasonality a lot. There are different phases of the year in which sales boosts up and in some month's sales are negligible. Seasonality in this market is being caused by various factors such as weather, location, tourists, vacations etc. In this study, after evaluating and interviewing, it is known that seasonality is present due to various factors such

as festive season, weather conditions and perception of the retailers. For example, sales are negligible in December to February because during this time almost every garment retailer invests in woollen clothing due to winters. Retailers use their working capital in warm clothes than in denim jeans which are all year investment. Also, the sales boost up to around a month before any major festival like Diwali, Eid, and Holi as customers purchase new clothes during this time.

CONCLUSION

The results of this analysis indicate that there are enough profit margins which are earned by the manufacturers of the denim wears. The market is growing at a steady pace. Manufacturing of denim wear is done by different individuals specialising in a particular step of the entire process. Entire cost process was analysed to find that it is less viable to sell denim wear to fellow wholesalers than to the retailers. Analysing the profitability, it can be concluded that an entry of a new firm is possible only if the firms begin as a manufacturer of jeans. Entering the market as a wholesaler of denim wear is not viable in the long run as there is cut-throat competition between the manufacturers. Seasonality can be easily seen in the sales in this market.

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