

Scottish Executive  
Enterprise and Lifelong Learning Department  
and  
Scottish Textiles Network

BRIEFING PAPER ON  
**THE SCOTTISH TEXTILE  
AND CLOTHING INDUSTRY**

Prepared by



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## INTRODUCTION

This briefing paper was commissioned by the Scottish Executive Enterprise and Lifelong Learning Department and the Scottish Textiles Network. It draws on three main sources - official Government statistics, our own knowledge of previous initiatives to support the industry, and a series of face to face interviews with key players in the various sectors of the industry. Our commentary on technical and industrial textiles is based in part on contributions from Dr Robert Mather of Heriot-Watt University. We have attempted as far as possible to reflect the industry's own views of its situation and prospects and we are most grateful to all those who made the time to speak to us. The conclusions of the report are however the authors' own.

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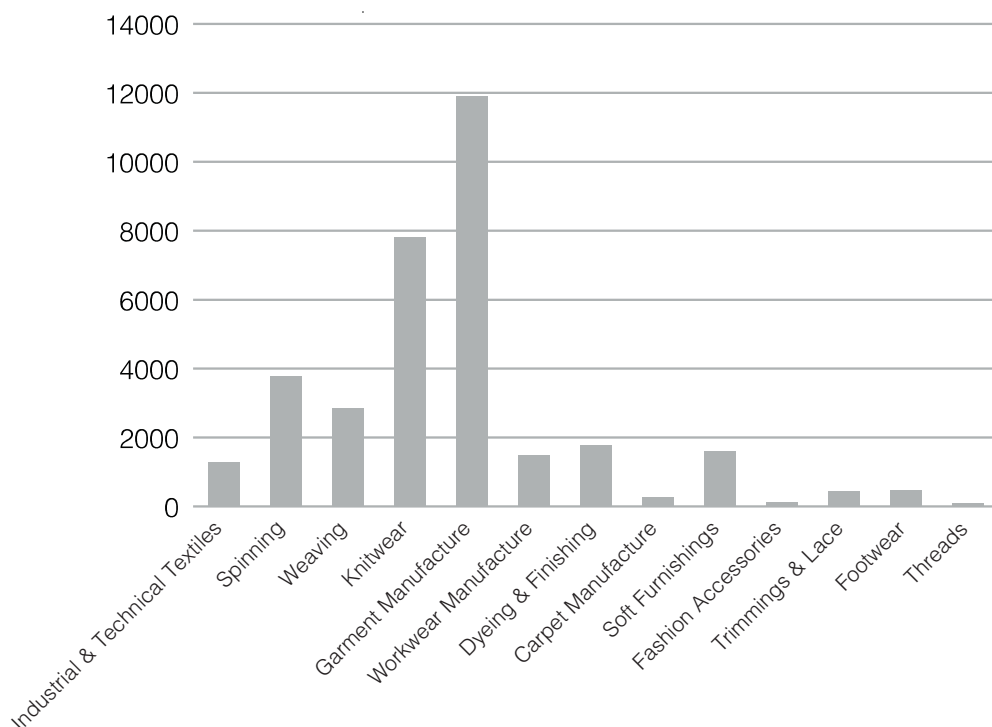
## AN OVERVIEW

1. Despite substantial decline in recent years, in 1997 - the most recent year for which official figures are available - the textile industry was still the fourth largest manufacturing sector in Scotland, accounting for 11% of manufacturing jobs in Scotland.
2. Textile employment has declined from a peak of 57,000 in 1984 to 33,800 in 1997, a fall of over 40% - a rate of decline almost twice as great as that of Scottish manufacturing industry as a whole.
3. Since 1997, an additional 5,000 job losses have been reported in the national broadsheet newspapers<sup>1</sup>, and further substantial decline is forecast. Econometric projections<sup>2</sup> suggest that by 2010, employment will have fallen to 20,000. In fact, with current employment probably around 28,000-29,000, employment would appear to be falling at a faster rate than the projections would have suggested. It is likely that the strength of the pound is a major factor in this more precipitate rate of decline.
4. Output and turnover have also declined since 1985, but less sharply. In real terms, textile industry output has declined by 26% since 1985; in 1997 it accounted for 9% of manufacturing output.
5. The industry is a high value added industry in comparison to other manufacturing industries; per £m of output, it creates more value than any other manufacturing sector in Scotland. However, productivity in the sector - measured as gross value added (GVA) per employee - is low when compared to the manufacturing sector as a whole. In 1995, GVA per employee was £22,000 in textiles compared with £34,000 for all industries.
6. No data are available for earnings in Scotland, but at a UK level, it is known that textiles is a low wage sector, with earnings 16% lower than the average for manufacturing industry in the UK in 1998. This latter point is only partly explained by the gender mix of employment in the sector.
7. Employment in textile and clothing is particularly important in certain parts of Scotland such as the Borders, where in 1997, it accounted for 50% of all manufacturing employment. Job losses in the most recent time period for which figures are available - 1995-1997 - were actually greater in other areas, such as Ayrshire and Glasgow.
8. 80% of textile and clothing employment is concentrated in four dominant subsectors - garment manufacture, knitwear, spinning and weaving. These same four sectors also account for 70-75% of industry turnover, output and gross value added. The distribution of employment in 1997 is shown overleaf.

1 Q1 1998- Q1 2000, *Good News, Bad News Database*

2 Cambridge Econometrics

## The Scottish Textile Clothing Industry Employment (by sub-sector, 1997)



Source: Annual Employment Survey, 1997

9. In addition to the 33,874 people employed in the industry in 1997, we estimate that a further 28,299 jobs were supported in supplier businesses (indirect employment) or as a result of the spending of those directly or indirectly employed (induced employment) in that year. Put another way, for every 100 jobs created directly by the industry, an additional 83 jobs are supported through these effects.
10. The Scottish textile and clothing industry is a major exporter. Its exports were valued at £498m in 1998, making the sector the seventh largest manufacturing exporter. It accounted for 3% of all Scottish manufactured exports.
11. Since 1985 exports from the sector have grown by 7%. However, over the same period total manufactured exports in Scotland have risen threefold, mainly as a result of the expansion of the high value electronics sector.
12. Exports account for 28% of output, but 37% of employment in textiles. As the industry has contracted, it has become more export oriented - in 1984, only 17% of output was exported.
13. Three categories (weaving, knitwear and garment manufacture) account for almost 60% of all exports. Sectors such as workwear, knitwear, spinning and weaving, where the value of exports represent more than 40% of all output, are the most highly export oriented, whereas in garment manufacturing, only 11% was exported.

## ISSUES AFFECTING ALL SECTORS

**Labour Costs:** the differential in labour cost between countries such as the UK and cheaper offshore producers in the Far East, the Indian subcontinent and North Africa is such that for high volume, highly price sensitive items, off-shore production is likely to be favoured, even though lower costs may be offset to some extent by higher fault rates. Evidence from other European countries suggests that up to 80% of a domestic supplier's production for the domestic market may be sourced from overseas. Increasingly, larger manufacturers supplying high street retailers will base their high labour content production in low labour cost countries, supplementing this with production from smaller, more flexible units in the UK.

**Changing Demand in the Domestic Market:** The proportion of disposable income that the UK consumer is spending on clothing is falling. In 1960, clothing and footwear represented 10% of total household expenditure; it now represents only 6%<sup>3</sup>. There are now many other new goods and services competing for disposable income - computers, mobile phones, overseas holidays, gym subscriptions etc - and expenditure on clothing has increased at a slower rate than consumer expenditure as a whole. In real terms, consumer expenditure has increased by just under 3% per annum on average since 1985, whilst expenditure on clothing and footwear has increased at a much slower average rate of 1.6% per annum. Between 1997 and 1998, expenditure on clothing and footwear fell by 1.9% in real terms, despite an overall growth in consumer expenditure of 1.8%<sup>4</sup>. The fall was most marked in menswear, whilst sales of womenswear<sup>5</sup> were flat. To some extent, this fall reflects heavy discounting by retailers in an increasingly competitive market.

**Fluctuations in the Economies of Major Export Markets:** As the industry becomes more export oriented, it becomes exposed to fluctuations in the three major market areas to which it sells: Europe, North America, and the Far East. By good fortune, the collapse in the Far Eastern market and the downturn in Europe has been balanced by the boom in the American economy. For exporters with poorer access to one or more of these markets - for example, exporters of woollen cloth are disadvantaged by high tariff barriers into the US - circumstances may be more difficult.

**Fluctuations in Exchange Rates:** These market shifts may be exacerbated by fluctuations in the exchange rates between major currencies, as has been the case with trade with Europe. Although the European economies are now moving ahead, the pound is now overvalued against the euro by as much as 30%. For many companies, this has had very adverse effects. The German market - normally a major market for high quality textiles of various types - has become virtually impossible for many companies. For example, for all but the least price sensitive business, the upward shift in price has led to British woven cloth being replaced by that of other producers. This rate of exchange creates even stronger competition from the highly effective Italian industry in other export markets and in our own domestic market, as well as reducing demand from Italy itself, an important market for Scottish luxury goods and fibres.

3 ONS Family Expenditure Survey

4 NTC Marketing Pocketbook 2000

5 including girlsweat and infant wear

**The Structure of the Industry:** The domination of the UK garment industry by the major high street retailers is a particular feature of the UK industry - one not found to the same extent elsewhere. In most countries, clothing manufacturers are branded companies in their own right, whereas in Britain it is the retailers who have brand status. The dependence of certain major manufacturers on contracts from major retailers - especially Marks and Spencer - has resulted in the development of major manufacturing plants with little or no supporting design or marketing capability, and no cost advantage against off-shore competition. It is notable that many of the stronger players in other sectors of the Scottish textile industry have diversified markets, and some element of vertical integration - several have now diversified into retailing, although mostly on a small scale.

**Design and Image issues - 'Scottishness':**

For some - but not all - sectors of the industry, association with Scotland is important - it equates with a reputation for high quality. However, it is equally important in some market niches that that tradition of excellence does not come to be associated with a static, traditional product which cannot adapt to fashion changes. The Scottish card is a strong one, but it has to be played skilfully. For some highly design orientated businesses, 'Scottishness' is not in any way advantageous.

The shift to higher value, lower volume production which we see as essential will require access to highly tuned design skills and higher levels of design input - a trend we have observed in the most successful businesses.

**Capital Investment:** In most sectors of the industry, investment has been more limited than amongst our overseas competitors. Without that investment, the industry will find it more and more difficult to compete.

**Managerial Skills:** Because of its image of decline, the industry has found it very difficult to recruit talented managers - the industry suffers from being dependent on a very limited pool of managerial talent. As some in the industry have acknowledged, this limited pool is effectively a constraint on its expansion. The textile and clothing industry needs a particular type of manager - managers who have excellent entrepreneurial and marketing skills, and a strong feel for the product - some would say a passion for the product. Unless managers have both these attributes, their businesses are unlikely to thrive.

## THE GARMENT SECTOR

### KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	22,500 <i>(39%)</i>	13,400 <i>(40%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		3524
Exports (£m) - 1998 <sup>3</sup>		132.8
Gross Output (£m) - 1997 <sup>4</sup>		853.9

NB: Job loss data does not include May 2000 announcements made by Jaeger and Courtaulds. These amount to a further 330 jobs lost in the sector.

The official figures and recent known job losses would suggest that the garment sector still employs around 9,500 people, although this figure sounds on the high side to us and to industry contacts. The garment sector includes many different types of businesses:

- companies specialising in contract manufacture for major chain stores
- jeans manufacturers
- sportswear/streetwear manufacturers
- workwear
- specialist protective outerwear - e.g. climbing and ski wear, country wear, etc
- formal/tailored clothing manufacturers
- traditional clothing ( kilts, tartan skirts , etc)
- small scale designer businesses

In the recent past , it has been the first group, which included such companies as William Baird, Daks-Simpson, and Coats Viyella owned companies such as Jaeger, which have provided the bulk of the jobs in the industry, and it is from them that most jobs have been lost.

### Strengths

- pool of skills for volume garment production
- closeness to market
- some manufacturers with niche products - e.g. Traditional Weatherwear
- some capacity to provide short run, rapid response flexible deliveries
- growing demand for traditional garments such as kilts in the domestic market

### Weaknesses

- dependence on high volume, long run business
- inability to compete with off-shore production for price sensitive business
- dependence on retailers for design and marketing inputs
- absence of skills to serve the top end of the market - Scottish luxury goods suppliers may source tailored garments in Italy
- weaknesses in hand finishing and high quality machinist skills

### Opportunities

- niche markets, including high quality corporate wear
- higher quality, less price sensitive markets
- trading on British reputation for high quality tailoring
- specialisation in rapid response, flexible short run production

### Threats

- weak image in terms of style and quality relative to the Italian industry
- currency difficulties, especially in relation to the European market

## The Future

Further job losses are regarded as inevitable, especially for high volume, non-niche producers. It is difficult to predict what size a sustainable garment industry may be - much will depend on the success of major producers in finding new market niches, or by developing rapid response skills.

The Ultimo bra is an example of a successful new niche product, but one which is currently produced offshore. Some argue for accepting the inevitability of a major element of offshore production and developing skills in its management, including expertise for example in ethical production audit work.

There are a number of small scale start up businesses generated by design graduates - the types of businesses supported by the Glasgow Apparel Project. These young designers typically lack business experience and are thus regarded as risky investments by banks and other sources of capital; most are unable to raise the £15,000 minimum needed to finance a start up. Companies of this type tend to remain small, at 2-6 employees.

## Support Needs

It is possible for LECs to offer considerable support to those affected by the fall out from the industry by assisting with retraining and the search for other employment - the efforts of SEL in relation to the Larkhall closures have been regarded by Daks Simpson as exemplary in this respect. It may also be possible for LECs to support companies in developing winning strategies and in opening up new markets.

With the exception of the traditional Scottish kilt business, and one or two high quality niche businesses, generic promotion of high quality Scottish goods is not advantageous. For some markets, 'Britishness', or, for certain very design oriented businesses, association with London's successful design scene may be more appropriate.



# KNITWEAR

## KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	13,100 <i>(23%)</i>	7,800 <i>(23%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		598
Exports (£m) - 1998 <sup>3</sup>		102.8
Gross Output (£m) - 1997 <sup>4</sup>		311.1

The knitwear sector also includes a number of quite distinct market areas. The sector includes:

- cut and sew knitwear in wool and acrylic fibres
- fully fashioned garments in
  - lambswool, merino
  - cashmere and other luxury fibres

Over the last five years, job losses have been most evident in the low margin cut and sew sector (e.g. Cumnock Knitwear) and in the higher quality sector, job losses have been associated with the rationalisation measures adopted by Dawson International. The famous Pringle brand has been sold by Dawson to an overseas purchaser, and Italian buyers have recently notified a 21% interest in Dawson International. Neither of these developments should necessarily be regarded as a threat - the Italian stock purchases in Dawson suggest that the company has better prospects than when it failed to find a buyer in 1998, and Fang, who purchased Pringle, state that they remain committed to production in Hawick by the remaining 200 Pringle workers for the present - but they raise the possibility of further uncertainty in the future.

## Strengths

Considerable strengths in the luxury fibre end of the business:

- Scottish cashmere knitwear is highly regarded for its quality and finish
- one of only two areas in the world where high quality knitted cashmere is produced
- very strong skills base in the production of cashmere knitwear
- the number of top international designers and couture houses who source their cashmere garments from Scotland
- designer links strengthen the industry's reputation for quality and its design capability
- adjustment to short runs of high value production
- heavy investment in new technology by some companies.

For lower value fibres, strengths are mainly in specialist niches such as designer handknits and handframed garments in special yarns.

## Weaknesses

- much more difficult - some would say impossible - to produce knitted garments in lower value fibres profitably, other than in niche markets
- cut-and-sew industry faces the fiercest competition in a low margin business, including competition from the East Midlands
- some marketing weaknesses evident
- evidence of skill shortages emerging - for example in finishing skills
- some weaknesses in education/training - for example, for designers and technicians in the use of the most recent CAD/CAM technology.

## Opportunities

- strong international demand for luxury fibre knitwear
- in lower value fibres, opportunities for highly flexible, integrated operations, which offer the opportunity of last minute decisions about quantity and colour, and frequent changes of range and style.

## Threats

- Scottish cashmere may lose its status as an aspirational product as a result of the major inflow of cheap, lower quality cashmere from China when the Multi Fibre Arrangement comes to an end
- unless the industry differentiates itself successfully from the cheaper Chinese - manufactured commodity cashmere knitwear, it will lose its unique position in the market
- as the Chinese industry develops and becomes more sophisticated, design and quality may improve
- the strength of the £ against the euro and the prospect of further sharp increases in yarn prices are a concern in the short term

## The Future

High quality producers are optimistic about their industry and its future, but in lower value fibres, further job losses seem likely, other than for niche producers. It is essential for the industry to maintain quality and to promote a quality image - to differentiate Scottish cashmere as an aspirational product, and not to allow it to drift further downmarket

## Support Needs

The Government should seek to :

- maintain the MFA quotas until 2005, and in the period up to 2005, support the promotion of Scottish cashmere as an aspirational product. The promotion campaign - already initiated - must be of the highest possible standard, and it will involve considerable cost

- ensure fairness for Scottish producers in the external trade environment, by investigating support for capital investment from other European Governments
- support investment in machinery and training, through RSA and other measures
- be prepared for the reopening of a further trade war if the US fails to be satisfied with EU compliance on the banana trade ruling.

## WEAVING

### KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	5,900 <i>(10%)</i>	2,900 <i>(12%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		0
Exports (£m) - 1998 <sup>3</sup>		103.0
Gross Output (£m) - 1997 <sup>4</sup>		202.1

NB: the reclassification of SIC divisions made in 1992 mean that slightly different definitions for the sub-sector have been adopted here for 1987 compared to 1997.

Over the last 10 - 15 years, there has been substantial contraction in the number of weaving businesses in Scotland, with several well known names going out of business - Crombie, Kynochs of Keith and, most recently, Hunters of Brora. The sector includes many different sectors:

- apparel weaving
- fashion accessories
- furnishing fabrics
- furnishing accessories
- contract furnishing weaving

### Strengths

- Scotland associated with high quality woollen textiles - seen as more exclusive than the UK industry
- linkages with top designers
- an increasing tendency to move to short run flexible production
- a number of vertically integrated firms with spinning capacity and associated flexibility
- some specialisation in offering fast response service to designers and manufacturers
- strong demand for woven luxury fibres - cashmere etc - even in furnishing fabrics
- household and soft furnishings market is increasingly important
- strong demand for woven fashion and household accessories

### Weaknesses

- skill levels are slipping as fewer people are willing to enter the industry (other than designers, where there is an over-supply)
- low productivity
- low investment due to difficulties in accessing funds relative to other countries - UK investors are very demanding in terms of rates of returns
- strength of exchange rate relative to the euro has wiped out some traditional markets
- high duties on exports to the USA
- poor image of the industry
- lack of coherent marketing at an industry level
- high environmental and safety costs - water costs are a particular problem

## Opportunities

- in luxury markets
- in furnishing fabrics and accessories - increased spend on the home
- high quality well designed fabrics
- demand for highly desirable, unique fabrics
- fabrics for special niches - eg transport
- in less price sensitive markets - but only if euro strengthens.

## Threats

- expansion of EU
- opening up of trade with China
- the association of Italy with quality
- fashion swings
- in some niche areas, a breakdown of the supply chain.

## The Future

Is strong only for niche and quality players - producers cannot afford to be ordinary. The outlook favours short run, high value, highly flexible production - to which the industry has to a large extent readjusted - it is less good for volume production. The Scottish industry needs to build on the high quality of its product and develop on this basis into new markets, in order to provide a more stable income stream. This might involve dealing with a wider range of fabrics - worsted cloth, woollens, silks, cashmere, cottons or a wider range of end-markets - apparel, soft furnishings, accessories. This will give the industry a firmer base.

## Support Needs

The weaving sector would find RSA for machinery helpful in supporting the capital expenditure it needs - some producers have already invested heavily in new machines and CAD/CAM systems. It would also welcome help with export market development, which may go beyond support for attendance at trade fairs.

## HARRIS TWEED

The Harris Tweed industry has always been subject to peaks and troughs, following the swings of fashion, but there has been a general downward trend superimposed over these fluctuations. There are now 4 mills, with the two larger mills owned by the KM Group accounting for over 90% of total production. Employment is largely part-time and home-based, and is estimated at between 300-400.

### Strengths

- unique product based on traditional techniques
- quality image, reinforced by the orb trademark
- strong brand image.

### Weaknesses

- transport costs from the Western Isles
- lack of investment in skills, making it difficult to replace employees as older staff retire
- poor management skills - particularly middle management
- vulnerability to exchange rate fluctuations (90-95% of output is exported, mostly to Europe and Far East)
- image of fabric as a heavy product that is uncomfortable to wear
- inflexible production
- price-cutting in an attempt to increase volume of sales has damaged the quality image of the product.

### Opportunities

- changing perceptions of Harris tweed and promoting qualities of newer fabric - lighter and softer
- developing womenswear market, which is a much larger market than menswear, but currently accounts for only 25% of sales

- use of Internet for provision of information and raising profile of fabric
- regaining UK markets, which currently account for only 5-10% of production.

### Threats

- weakness in international markets - particularly Europe and Far East.

### The Future

Harris Tweed manufacturers need to build on their quality image, rather than attempting to appeal to volume markets. There are significant opportunities in womenswear, but manufacturers will need to be more responsive to changes in fashion and become more flexible if they are to tackle these markets effectively.

### Support Needs

Of the various forms of assistance provided in the past, the industry has benefited most from capital grants and assistance with marketing, although the level of bureaucracy involved can be cumbersome and leads to delays. In an industry which has a very traditional image, the key requirement is that the public sector is forward-looking and commercially focused, looking to new opportunities rather than stepping in only when a crisis develops.

## DYEING AND FINISHING

### KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	1,400 <i>(2%)</i>	1,200 <i>(4%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		48
Exports (£m) - 1998 <sup>3</sup>		0.8
Gross Output (£m) - 1997 <sup>4</sup>		132.1

Many cloth manufacturers have vertically integrated plants with dyeing and finishing capabilities on-site. Dyeing is often undertaken within spinning companies and finishing by cloth manufacturers. In Scotland, a number of plants have closed down over recent years and there are only a few specialist operators left, such as Schofield and Langholm Dyeing. In general, yarn/cloth manufactured in the UK is also dyed and finished here - there is very little international trade at this stage of the textiles business.

### Strengths

- Quality of processes offered
- Technical expertise
- Level of service developed through close linkages with customers
- Proximity to customer base
- Scotland's reputation as a quality textiles location
- Investment in machinery

### Weaknesses

- Historically narrow 'product' range e.g. dyers have usually specialised in either wool or cotton dyeing, but rarely both
- Lack of investment in new technology
- Poor infrastructure in the Borders, where many textiles businesses are based

### Opportunities

- Broadening product range to work with a wider range of yarns/fabrics, so that a customer can deal with one operator regardless of the raw material
- Development of specialist processes which can cope with new products - the in-house facilities of cloth manufacturers will not be sufficiently specialised to offer such processes
- Development of new processes to cope with stricter environmental legislation
- Developing closer partnerships and linkages with customers
- Increasingly demanding consumers placing greater emphasis on quality of garments
- Vertical integration, offering dyeing and finishing from same company

### Threats

- Narrowing customer base as many manufacturers have gone out of business, or developed integrated plants which allow them to finish cloth in-house
- Increasing cost of utilities - electricity, gas, water, sewerage
- Higher costs due to environmental regulation - Climate Change levy, restrictions on use of solvents etc.
- Risk of 'over-engineering' so that processes become unnecessarily complex and expensive and consequently uncompetitive

## **The Future**

Basic processing facilities are increasingly undertaken within vertically integrated facilities, where cost-savings can be achieved. However, there is a future for a distinct sub-sector, which lies in developing new techniques and processes that are more specialised than those that can be provided in-house. This will require heavy investment in research and development. Through developing new processes and ideas and working closely with clients, specialist operators can offer high value added and a level of service which will set them apart from low cost competition. There is another finishing facility due to open shortly in Dundee, suggesting some continued demand for specialist services.

## **Support Needs**

There is a need to create a level playing field throughout the EU, by ensuring that EU regulations in relation to State Aid are applied in all countries. At a more local level, greater consistency in the support available in different LEC areas would also be welcomed.

Tangible support, such as travel grants, is important to the industry and is highly valued. Some other forms of support, including consultancy and training support are often too general in nature to be of direct relevance to particular subsectors of industry, whose needs are very specialised.

The key to the future of this subsector lies in innovation and the development of new techniques. This requires heavy investment in research and development, possibly through linkages with academia, and is an area in which the Government could usefully support investment and joint initiatives.

## SPINNING

### KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	7,700 <i>(13%)</i>	3,800 <i>(12%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		521
Exports (£m) - 1998 <sup>3</sup>		41.9
Gross Output (£m) - 1997 <sup>4</sup>		180.3

NB: the reclassification of SIC divisions made in 1992 mean that slightly different definitions for the sub-sector have been adopted here for 1987 compared to 1997.

Job loss data do not include job losses announced by Laidlaw & Fairgrieve on June 2nd - some 290 jobs.

Scotland is a major yarn producer, producing yarns for weaving, knitwear and carpet production in:

- wool
- wool and other fibres
- luxury fibres.

Some yarn businesses are vertically integrated with weaving and knitwear businesses.

### Strengths

#### Luxury Fibres

- Scotland is one of the world's major cashmere yarn producers. Todd and Duncan and its sister company Joseph Dawson produce:
  - 18% of world fibre
  - 21% of world yarn
  - Todd and Duncan is the largest cashmere spinner outside China
- Scottish cashmere yarn production is of the highest quality.

#### Woollen Yarn

- small volume, specialised, high quality producers
- many businesses are vertically integrated
- many spinners offer service excellence - excellent choice of colours, stock service, fast response service.

### Weaknesses

- strong international competition in the market for woollen fibres
- strength of sterling, affecting the industry in three ways:
  - loss of European markets
  - Italian industry is at an advantage in the other export markets (US and Japan)
  - Italian industry competes more strongly in the domestic market.

### Opportunities

- yarn businesses are high in the supply chain - their opportunities are often linked with the weavers and knitters they supply
- main opportunities in export markets
- fashion trends currently favour the type of woollen yarns Scotland produces
- buoyant demand for cashmere yarn.



## **Threats**

- intense price competition from other countries - yarn from China, Portugal and Italy
- supply chain threats for cashmere
- raw cashmere prices rising sharply
- for cashmere, the risk of taking the wrong view of demand elasticities in periods of intense price change.

## **The Future**

For cashmere and luxury fibres, the outlook is very strong. Other fibres face more intense competition - in 1998-1999 UK exports of spun wool fell by 1/3, but exports of fine animal hair increased by 2/3. Companies who succeed will do so by competing through design, colour and service. The issue of colour is particularly important. Excellent service, whether in the form of a stock service, fast response service or a reputation for reliability in delivery, is very important.

## **Support Needs**

This sector is a very high user of water, and faces very steep increases in water costs. Some companies have faced massive increases in water costs - particularly in the North of Scotland Water Authority area, where one company in Shetland faced a six fold increase over six years. For the cashmere sector, the campaign to differentiate Scottish cashmere from its lower quality rivals is seen as important in maintaining market share.

# CARPETS

## KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	1,500 <i>(3%)</i>	300 <i>(1%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		33
Exports (£m) - 1998 <sup>3</sup>		7
Gross Output (£m) - 1997 <sup>4</sup>		83.4

The carpet industry in Scotland has been reduced to a very small number of manufacturers, with Stoddard International the largest player.

## Strengths

- Quality reputation based on wool rather than synthetics
- Niche position in world markets
- Skilled labour
- Design skills
- Scottish base - of particular benefit when selling to US markets.

## Weaknesses

- Lack of investment in new machinery
- Slow response to market trends
- Lack of focus in product range

## Opportunities

- Strategic alliances with overseas companies in Europe and Middle East
- Use of new technology in manufacturing to reduce costs
- Raising profile of carpets as part of the interior design process, rather than an afterthought

- Highlighting 'feature benefits' of wool carpets - strength, warmth, comfort, fire resistance
- Ageing population, with older age groups more likely to spend money on quality carpets
- Growing leisure market - hotels, pubs, gyms etc.

## Threats

- Low cost manufacturers offering wool products, but lower quality
- Greater public sector support available to competitors at quality end of the market, in particular the Belgian industry
- Changes to the Regional Assistance map will disadvantage Stoddards, the leading player in the Scottish industry
- Priorities of consumers, who are less willing to spend money on carpets
- Consumer preferences, which may shift further towards stripped floors.

## The Future

The Scottish industry has a future at the top end of the market and may be able to move into higher volume markets if it can incorporate new technologies which will lower the cost of production.

## Support Needs

Marketing support would be particularly beneficial for this industry, where there are new market opportunities which have been identified, but where the resources to tackle these opportunities do not exist. IT support is also welcomed and is important to the future of the industry. A forward-looking approach is required, working with companies that have a strong base from which to build, not just the weaker companies.

# LEATHER

## KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	2,000 <i>(3%)</i>	1,100 <i>(3%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		128
Exports (£m) - 1998 <sup>3</sup>		60.9
Gross Output (£m) - 1997 <sup>4</sup>		64

The leather industry in Scotland now comprises around five companies, each of which are dealing in quite distinct marketplaces, including clothing, footwear, accessories and upholstery. The largest company is Bridge of Weir Leather, with 380 employees, whose main area of business is in car interiors.

## Strengths

- niche market positions for Scottish companies, who produce speciality leather products rather than volume, commodity products
- availability of good quality indigenous raw materials
- strong skills base
- good water supply
- Scottish base, with associated quality image.

## Weaknesses

- remoteness from European markets - cannot offer as quick a response time as mainland European manufacturers and transport costs are higher
- exclusion from euro means that companies have suffered from sustained appreciation in sterling
- high cost base, resulting from higher wages and stricter regulation in the labour market and in environmental issues.

## Opportunities

- product differentiation, through the development of new colours, textures and finishes
- joint ventures with overseas companies and/or distributors
- collaborative ventures to develop new technologies
- shared purchasing arrangements (possibly at an international level)
- greater vertical integration to gain control over the production chain.

## Threats

- quality end of the market is becoming increasingly price sensitive
- steady supply of raw material depends on continued consumption of meat - any fall in meat consumption would result in a reduced supply of hides leading either to higher prices or a need to import
- viability of farming in Scotland/UK threatens supply of raw materials
- higher costs of effluent treatment, waste recycling, landfill etc. as a result of stricter environmental regulation.

## The Future

The shrinkage in the Scottish industry has left only a few companies, but these are all relatively strong players in their respective niche markets. In an increasingly competitive marketplace, leather companies will need to become more innovative in product design, so as to differentiate themselves from the competition.

## Support Needs

As a traditional industry established many decades ago, production facilities are often in areas that are not well-served by roads or public transport. The latter can make it difficult to recruit, whilst the former is problematic for deliveries/collections of bulky materials. The industry would welcome road improvements to facilitate access.

In this and other parts of the textile industry, support for dealing with environmental issues, such as energy efficiency and waste disposal would be beneficial.

Exporting advice/assistance is welcomed, but the wide array of different agencies providing support is confusing and results in unnecessary duplication of resources.

RSA has too much of an emphasis on short-run job creation. The introduction of new capital machinery may often reduce employment in the short-run, but in the longer term will increase production efficiency, thereby facilitating expansion with the possibility of job creation in the longer term.

There is inequality in the provision of support to industries between member states of the EU, with other members (notably Italy) often providing much more generous support to individual countries than is believed to be allowed within the State Aid rules.

## KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	400 <i>(1%)</i>	400 <i>(1%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		150
Exports (£m) - 1998 <sup>3</sup>		6
Gross Output (£m) - 1997 <sup>4</sup>		22.7

The lace industry in Scotland has reduced in scale considerably, from around 36 companies in the post-war period to only four at present. There is less of a focus on manufacturing than in the past, with most companies acting more as 'merchant converters' buying in cheaper materials from overseas, finishing it and then selling it on. Morton, Young & Borland continue to manufacture lace, producing low volume, high quality output.

## Strengths

- Strong design capabilities
- Skilled labour force developed within companies
- Quality reputation of industry serving niche markets at top end of market which are less price sensitive than volume markets
- Stable client base
- The USA is the main export market, so the industry has escaped the difficulties faced by those serving European markets
- Scottish image is a bonus in dealing with international clients, but has no relevance in a UK context.

## Weaknesses

- Prevalence of nepotism within industry has slowed the pace of change within the industry, and has meant that the industry lacks strong management skills
- Lack of investment in machinery, design and IT

- Higher cost of labour relative to manufacturers in China, Indonesia, Czech Republic.

## Opportunities

- Development of potential markets in fashion and apparel
- Contract window furnishing for banks, hotels, nursing homes etc.
- Greater focus on design.

## Threats

- High volume market is threatened by cheap imports and is likely to shrink further
- Changes in customer preferences at top end of market with a potential shift away from using lace to dress windows
- Customers' quality standards may slip and they may buy cheaper lace.

## The Future

The market for lace is stable and unlikely to grow markedly. Scottish manufacturers must therefore secure their position at the top end of the market, where the main competition is from Switzerland, Austria and Italy. Investment in design is the main area in which competitive edge can be secured.

## Support Needs

The most pressing need for this subsector is assistance with capital investment. The re-introduction of first year capital allowances is felt to be a particularly effective method of encouraging investment if direct grants are not viable.

Assistance with trade fairs and trade missions is also highly valued in an industry which depends heavily on such methods of promotion. It is essential that those involved in the delivery of export advice have direct hands-on experience of exporting if the advice is to be worthwhile.

## SOFT FURNISHINGS

### KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	1,100 <i>(2%)</i>	1,600 <i>(5%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		0
Exports (£m) - 1998 <sup>3</sup>		19.8
Gross Output (£m) - 1997 <sup>4</sup>		77.2

In Scotland, the soft furnishings market is split between two types of company. At the one end, there are larger companies who are involved in soft furnishings alongside a range of other textiles activities (such as The McNaughton Group and Johnstons of Elgin). Not all of that activity will be recorded under soft furnishings in the official statistics. There are also small and growing specialist companies such as Squigee Textile Design positioned at the top end of the market. There is a large volume of contract work (hotels, conference centres, restaurants etc.) as well as bespoke work and a growing retail market.

### Strengths

- UK reputation for quality in soft furnishing
- strong design capabilities
- position at top end of market which is less price sensitive than the volume markets
- innovation
- fast turnaround
- close links with customers.

### Weaknesses

- Scotland seen as too remote from key London/South East markets by some (although this image is changing)
- Scottish designers have to work harder to establish and maintain presence in London.

### Opportunities

- producing new ideas to meet client requirements within tight deadlines
- expansion into overseas markets.

### Threats

- strength of sterling makes it difficult to develop overseas opportunities
- current level of interest in interior design (TV programmes, magazines etc.) may fade, making retail markets vulnerable (but contract market, which is higher value, should remain stable).

### The Future

Cost factors prohibit UK manufacturers/designers from competing effectively at the middle-lower end of the market. The opportunities for this sector are at the higher end of the market, which is less price sensitive. In these markets, design skills are crucial, with a need for flexibility to enable responsiveness to trends and new ideas. In contract furnishing, close links with customers are essential to building a stable client base and links with suppliers are also important in ensuring a reliable supply chain.

### Support Needs

Smaller design-based companies, particularly new starts, find business support and particularly trade support very valuable. IT support is also welcomed in an industry where new technology can make a major difference to the design process. Larger companies find it harder to access support, but consider that marketing support would be particularly useful for companies at a more mature stage.

## TECHNICAL AND INDUSTRIAL TEXTILES

### KEY FACTS

	1987	1997
Employment (1997) <sup>1</sup> <i>(share of all industry employment)</i>	1,400 <i>(2%)</i>	1,300 <i>(4%)</i>
Job losses announced Q1 1998 - Q1 2000 <sup>2</sup>		14
Exports (£m) - 1998 <sup>3</sup>		22.9
Gross Output (£m) - 1997 <sup>4</sup>		79.1

These figures understate the true size of the sector, perhaps by 100% or more. It is very difficult to establish the true size of the sector - technical and industrial textiles do not fit neatly with the SIC codes. Heriot Watt University estimates that 15- 20% of the UK production is in Scotland, which has been estimated by specialist consultants<sup>6</sup> to be 26,000. This would suggest that employment in the sector may be between 3,000 - 5,000.

In Scotland, the industry falls into two main groupings:

- The industrial textiles sector, based mainly in Tayside, specialising in polypropylene fibres, which developed out of the jute industry
- The bio-medical materials sector which is located throughout the Central Belt.

There are also a number of companies specialising in other areas - e.g. protective clothing, non-wovens and woven fabrics developed specifically for transport uses.

The industrial textile sector consists mainly of privately owned SMEs, operating in highly competitive markets. As a group, they have suffered from increased competition from abroad as a result of the strength of the £, and from increased transport costs because of increased fuel tax. The companies we spoke to in this sector had not increased employment in recent years, and in one case, employment had fallen. By contrast, the bio-medical

companies were generally owned by multi-nationals and tended to anticipate much stronger growth in the market.

### Strengths

- The industry is well represented in Scotland especially in Tayside - a wide range of products are already being manufactured in Scotland.
- demand for certain products is forecast to grow steadily.

### Weaknesses

- horizontal fragmentation of the industry by process - e.g. weaving, spinning, coating. Lack of vertical linkages hampers new product and market development - not enough collaborations and partnership along the supply chain.
- university/industry linkages historically fairly weak - many companies fear that they will lose confidentiality and intellectual property in joint academic/industry initiatives.

### Opportunities

- world consumption likely to rise by c.a. 5% over next few years - demand for polypropylene fibres is rising by 5-6% per annum in Western Europe
- opportunities in the non-wovens sector, especially durable non-wovens, whose annual growth rate is projected to increase by c.8% globally
- it has been argued that by 2005, 40% of textile output in the industrialised world is expected to be technical textiles. In Scotland this would imply either massive contraction of the conventional textile sector and/or substantial growth in the technical sector
- the recent establishment of the Technitex Partnership in technical textiles involving Heriot-Watt University, Leeds University and UMIST, the UK's three leading textile universities and the British Textile Technology Group (Heriot-Watt as lead partner) strengthening the potential for innovation and joint industry/university collaboration.

<sup>6</sup> David Rigby Associates

## Threats

- growth in woven fabrics threatened by developments in other methods of assembling fibres and yarns - knitted and braided structures, etc - low growth rate projected (0.8%)
- increased import competition and possibility that jobs will be lost to countries with lower production costs or a better location
- over stretched management, development and financial resources.

## The Future

Although diversification into technical textiles has been considered in the past as an opportunity for conventional companies, it is our view that diversification on any scale from the traditional industry is very unlikely - the very different type of market knowledge and skills needed mean that the leap is likely to be too great for conventional textile companies. There have been a few examples of successful diversification in the past, such as the Tayside industry, but other examples are in markets which are fairly close to conventional textile production - eg Replin in Peebles, who make high performance, flame retardant woven textiles for use in planes, trains and ships. Growth is likely to come from start up textile companies - perhaps university spin-out companies and inward investors.

## Support Needs

The industry itself looks for a level playing field with overseas competitors, with consideration given to issues such as fuel costs. The industry has little in common with the traditional industry and has shown little interest in textile industry groupings in the past. 'Scottishness' is not an advantage, and a UK wide organisation is more likely to be appropriate for this industry.



## ISSUES FOR GOVERNMENT

The industry does not expect Government to solve all its problems - it is only in certain areas that Government has a role to play. There is one area above all others in which the industry would wish to see change - the area of macroeconomic policy. Although official data does not show Scottish exports falling as UK exports have done, the industry has grave concerns about its ability to retain traditionally strong export markets at recent exchange rates. The industry fears that unless this issue of the relationship between the pound and the euro is addressed, parts of the industry will be so damaged that they will not survive. In some sectors, this may lead to a loss of critical mass which will threaten supply chain linkages.

The industry also needs Government support to represent its interests in the complex field of international trade policy, and in particular, in any proposals to hasten the ending of the Multi-Fibre Arrangement. It should investigate the scope for negotiating on other tariff reductions which would be beneficial to the industry, such as the high tariffs on woollen cloth imports into the USA. It must be prepared to deal with the threat to the cashmere industry if the US fails to be satisfied with the EU compliance with the WTO banana ruling and a trade war breaks out again.

Government must recognise and alleviate the many external burdens on the industry. Water charges are an area for particular concern for the textile industry, parts of which are heavy users of water. Costs to companies have risen very steeply - in some cases by six fold - over just a few years. Government must ensure that the water authorities do not impose excessive costs on the industry. One company has drawn attention to what it calls the additional 'recession costs' resulting from changes such as less favourable tax treatment in loss making years and the cessation of Government rebates of redundancy payments. These issues are of concern in a highly cyclical industry.

The promotion of **quality** Scottish textiles is an area where Government can and should help. If the industry is to survive, it has to maintain and convey an image of quality and excellence. Promotional activity for the industry has to be of the highest possible quality, reflecting the image the industry wishes to convey, and that will not come cheap. The generic promotion of Scottish quality cashmere is an example of the kind of campaign which can work well, and it is possible that a similar model could be developed to support quality producers in other areas - but only with the support of those industries. The Cashmere Made in Scotland Initiative has received some support from RETEX, but further support is likely to be needed.

Support in developing export markets is an area where many companies in the industry would welcome further support. Companies have praised the trade intelligence services offered through STI and other forms of assistance such as support in attending trade fairs, and DTI schemes like the EMRS scheme, but the rules attached to these schemes often involve a great deal of paper work and are rather inflexible. For example, support tends to be limited to attendance at trade fairs, whereas companies would often find visits to prospective customer companies more effective. Trade fair assistance is offered only for a limited number of years, whereas many markets take many years to develop. There is a general view that other countries such as Ireland and Italy support and promote their exporters much more effectively, often offering massive support to both buyers and exporters.

Some companies believe that in export promotion, there is too much emphasis on spreading money evenly between companies, rather than supporting viable business opportunities. Export advisers must have hands-on experience and practical knowledge of export markets, and some companies commented that there was too much overlap of activity between public sector agencies involved in export advice - LECs, STI, DTI, embassies, consulates etc. There is a need to review export marketing arrangements for the textile industry and to look at how support could be enhanced and streamlined.

Capital investment is an important issue for the industry. The changing Assisted Areas map will make a number of producers - notably in the Borders - eligible for RSA for the first time, but some companies will lose eligibility and other companies will still not be eligible. The industry needs support for capital investment regardless of where it is located. The re-introduction of first year capital allowances would provide a huge boost to investment, which has been low across the industry.

The industry has concerns that it does not operate on a level playing field with certain of its major European competitors, particularly Italy and Ireland. These concerns focus primarily on the support given to capital investment and export marketing, and also on the enforcement of environmental, safety and social legislation. Not surprisingly, evidence on these issues is largely anecdotal, but the industry believes that it is important that Government should investigate these issues in the interests of achieving a fairer trading environment for UK companies.

The industry has a limited pool of managerial talent at its disposal. If this is to change, the industry has to show that there are success stories in textiles, not just bad news. However, Government has to recognise that one consequence of this limited pool of managerial talent is that support initiatives must not place excessive burdens on that resource. Support for the industry must be organised in such a way that it minimises the demands on the industry's time, and one way of doing this is to ensure that such initiatives are staffed by people with excellent industry knowledge, who have the confidence of the industry, and thus can deliver support and marketing projects, with the industry providing strategic direction.

In the past, some LECs have resisted the idea of support for the industry coming through a central organisation, because they felt that this threatened their key company management approach. However, it is clear that initiatives like generic marketing cannot be dealt with effectively by individual LECs, many of whom have little or no textile focus. We suggest that support is focused on an central body, which would deal with issues such as joint marketing, with that body working closely with STI on trade promotion. Trend forecasting and the central administration of the website could also be provided by that organisation. Because the industry is now so concentrated in the Borders, there is a strong case for locating the support organisation there, or in Edinburgh, which is reasonably accessible to Borders companies, as well as to other parts of Scotland.

The potential to use e-commerce may be more limited than in some other industries because of the nature of the product, but at minimum, there is potential to communicate with customers electronically and to use websites for marketing. The present industry website, inherited from the STA, will shortly be replaced by a much more sophisticated industry website, which will provide international access to information about the Scottish textile industry. It will give buyers access to details about individual companies, both on the web site itself and through hotlinks to companies' own web sites. It will also post details of export and UK sales opportunities on a notice board and seasonal trend presentations will be available to industry subscribers with a password to those web pages.

The web site is a very important marketing resource for the industry, and will require support to service it and to keep it up to date. The design of high quality websites for individual companies is an area where public sector support for smaller companies would be highly appropriate. There are other more sophisticated uses of e-commerce which larger companies might wish to consider.

There are training and skills issues within the industry, but it would be fair to say that they are not currently at the top of the industry's agenda. The main issues relate to the loss of certain skills in the workforce as older workers retire - for example, specialist finishing skills in the knitwear and weaving industries - and the need to replace these skills. Attention has also been drawn to the absence of sophisticated sewing and tailoring skills in the garment sector, and the need for training in the use of the most advanced CAD/CAM technology in the knitwear industry. All the companies we spoke to favoured in-house training; some companies have received assistance with training from the LECs, and where that has been the case, the assistance has been valued.

Links between industry and academia are not as strong as they might be, and as a result the universities find it difficult to be attuned to the industry's needs. Again, this is partly a consequence of the heavy demands being made on the industry's managers. There may be ways of improving links without adding to the 'meetings culture' which is so problematic for the industry - for example, by introducing student placements, so that undergraduates return to their institutions with a live view of the current problems and issues in the industry.

It is worth pointing out that some attempts to help the industry have had limited impact because the services they offered were only attractive to small, start up companies. The limitation of this type of support is that many of these companies did not grow to any extent, and while these companies were being assisted, larger companies were haemorrhaging jobs at a rate which far outweighed the job gains made by working with these companies. It is important that the Government should maintain focus on initiatives which are also of relevance to medium and larger size companies.

Some companies need to develop new strategies and new markets, and Government can help them to do so by providing support for strategy & market development. However, major Government support for individual companies has risks. Although the public sector seeks to back winners, rather than losers, there have been some conspicuous examples of major support being given to individual enterprises which have subsequently failed, and these interventions have antagonised the industry.

The success stories in the Scottish textile industry are in four main areas:

- cashmere
- luxury goods
- niche areas, including kilts
- technical textiles

However, in all sectors, there are opportunities for businesses who identify a strong market niche and develop competitive products and services for that market.

### Key Fact Sources

- 1 - ONS Annual Employment Survey (NOMIS) © Crown copyright
- 2 - Scottish Executive
- 3 - Scottish Council Development and Industry, Survey of Scottish Manufacturing and Exports
- 4 - ONS Annual Census of Production © Crown copyright