

## ECONOMIC RECOVERY STRATEGIES FOR AN INNOVATIVE ROMANIAN INDUSTRIAL SECTOR

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### ABSTRACT

*This paper presents possible strategies for the economic recovery of an innovative industrial sector in Romania, namely the apparel industry. Factors with a significant impact on the apparel market and on the activity of SMEs in the field are described, leading to the identification of strategies currently used by local apparel firms.*

**KEYWORDS** *strategy, economic recovery, financial crisis, innovation.*

**JEL CLASSIFICATION:** *O12, D22, D30*

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### 1. INTRODUCTION

The financial crisis that has ravaged the worldwide economy was not only profound and intense, but it also had an overly long lasting effect on Romania.

With regards to the immediate impact of the financial crisis on the real economy, the following facts need to be mentioned:

- In recent years, Romania's economic growth was high (an average of 6.4% during the period 2002-2008), accelerating the convergence of our country towards the European Union. However, the dynamics of the aggregate demand have systematically exceeded economic growth, maintaining a persistent gap of inflation-generating excess demand. This situation has led to the gradual accumulation of macroeconomic disequilibrium, whose vulnerability and perception of vulnerability were deepened by the crisis;
- At the end of 2008, the current account deficit in the balance of payments was of approximately 13% of GDP, and the deficit of the consolidated budget amounted to circa 4.6% of GDP (double compared to the figures initially planned);
- This state of disequilibrium, through its magnitude and perception of vulnerability, has imposed a rapid and appropriate adjustment treatment, performed in an orderly manner as much as possible, in contrast with the chaotic and unpredictable effects of contamination that the current international financial crisis has inevitably brought upon the Romanian economy. The mechanism of this contamination can be described as follows:
  - from a *commercial* point of view, a reduction of exports ensues, on account of the deceleration in the activity of partner states' economies;
  - from a *financial* perspective, a series of private sources of external financing were interrupted, forcing an adjustment in consumption, which had formerly been financed predominantly through loans in foreign currency;
  - as far as the *exchange rate* is concerned, the reduction of external financing reflected in the depreciation of the national currency;
  - with regards to *investors' confidence*, a decrease of risk exposure has taken place, as well as a withdrawal of investment in Eastern European countries; the new behaviour resulted in the manifestation, on the monetary-currency market, of moments of panic and speculative attacks (Pop et al., 2010).

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The management of marketing in this new context implies the identification of key-factors of success on the relevant market: innovation, financial strength, technical assistance for clients, product quality, workforce qualification, access to distribution channels, the continuous monitoring of the competitors' positioning strategies, the identification of the variable degree of visibility for the competition's marketing activities.

The need to permanently evaluate the competitive position of the firm is essential in order to:

- evaluate its own capacity of satisfying success criteria vital for the establishment and maintenance on the market;
- favourably position itself as opposed to its competitors.

Peter Drucker (1967) indicates eight performance areas which are decisive for the long term success of a company:

- market position;
- innovation;
- productivity;
- physical and financial resources;
- profitability;
- performance and managers' development;
- performance and employees' attitudes;
- public responsibility.

With a population of approximately 500 million people, the European Union comes in third after China and India, comprising the largest part of global commerce and generating a quarter of the world's welfare. Consequently, the magnitude of EU business and its economic, commercial and financial impact exert an important influence on a global scale. For Romania, this represents the main marketplace of textile and clothing products. In 2009, 90% of the total Romanian exports were directed to countries within the EU, which is why any change undergone on this market may be transmitted to the local industry and trade of textiles, clothing and footwear as well.

The clothing industry in Romania is a branch with a long tradition in exporting a diversified product mix, ranking third in total Romanian exports and fourth in the EU clothing exports. It also focuses the largest number of SMEs in the industry, is a representative industry to identify business strategies used and these are reasons for considering that a study in this sector is timely. Moreover, the garments industry is an innovative industrial sector.

## **2. FACTORS WITH A SIGNIFICANT IMPACT ON THE EVOLUTION OF THE APPAREL INDUSTRY AND ON SMEs' ACTIVITIES IN THE FIELD**

The garments market has undergone important changes in recent years, due to several factors with a significant impact on the evolution of this market. These factors are:

- The reconfiguration of the value chain for clothing products – the international relocation of products, frequently accompanied by an ever higher level of implication on behalf of retailers in the activities upstream of production, such as product design, as well as by the increase in the role of retail salesmen in the textile-clothing production, derived not only from negotiation power (in the case of transactions), but also from market power (the orientation of consumption preferences);
- The extension in Eastern Europe of large retailers – hypermarkets and specialised chains, whose reasons for success are: dimension, high negotiating power, and also to the transition from local production to cheap imports, pursuant to the liberalisation of clothing imports;
- The reconfiguration of retail selling formats and of light industry products, namely the stores' tendency to increase in size and the growing focus on self-service (in hypermarkets and specialised chains), as is the case with the retail sale of food products, through which lower prices are ensured, whilst the services offered are less varied;
- The apparition of new forms of commerce, such as for instance 'lean retailing' – retail in small quantities, or better said, small inventory and 'just-in-time' and 'fast-fashion' procurement –

the promotion of cheap garments, copied after the most recent fashion collections, whose stocks are cleared before the end of the season by promoters like Inditex (ZARA), H&M, GAP and so on;

- The change in consumption models in the light industry, due to the modification of consumer trends becoming less loyal towards established brands and more interested in the purchase of products during price discount sales periods;
- The apparition of changes in consumers' perception with regards to the choice and buying decision of a textile product – depending on value, quality and its ecologic characteristics, but also regarding the producer's social responsibility and the eco-recycling of textile products;
- The transition from merely assembling raw materials to more complex operations - producers from Eastern Asia are becoming, as we speak, the full-package suppliers for international buyers;
- The continuous decrease, in the latest years, in the prices of light industry products;
- The reduction in the activity of apparel companies due to the decrease of demand in Lohn system starting with 2005; the decline deepened due to the effects of the economic crisis in 2008 and 2009, with a slight rebound beginning with 2010. This has led to the bankruptcy of many SMEs and to the loss of numerous jobs.

### **3. SURVEY REGARDING STRATEGIES USED BY COMPANIES FROM THE ROMANIAN CLOTHING INDUSTRY IN THE CONTEXT OF THE WORLD ECONOMIC CRISIS**

Given the factors mentioned above, starting with 2009, in order to counteract the effects of the global financial crisis, the apparel firms' objective was to resist on the market by cost cuts, increase in work productivity as well as respecting delivery terms and impeccable execution.

Starting with the year 2010, over 60% of the garment firms have been producing for export (approximately 57% under the Lohn regime and 3% under their own brand) and fewer than 40% of them for the internal market. This constitutes a change compared to previous years, when over 80% of the firms were producing for export (mainly Lohn) and fewer than 20% for the local market. This change appeared as a necessity due to the declining Lohn orders. Consequently, on the background of the global crisis, the development of personal brands placed primarily on the local market so as to first compete here with international brands was one of the first strategies adopted by apparel firms. In this context, designers in garment companies simultaneously manage costs, marketing, monitoring of sales. In addition, the designer possesses knowledge so diverse that he will not propose unrealisable items or products which would surpass the budgeted costs. Throughout the creation and collection production process, the designer will maintain contact with all the departments, including the commercial department and the salesmen (Popescu et al., 2009). Consequently, a new collection does not involve only creativity; it is the result of knowing the market, of the detailed analysis of potential consumers' expectations and of their reactions to past collections. The final product represents a beneficial union between the sums of knowledge generated by marketing professionals in the field and the style imprinted by the designers.

The partnership between CODECS and L'Institut Supérieur Spécialisé de la Mode in Paris (MOD'SPÉ Paris) has made possible the founding of an institution destined to the Romanian fashion industry, namely Artacademy. The Artacademy project therefore meets the market's acute needs, especially with regards to marketing, product management, quality control and communication.

The programme provided by MOD'SPÉ Paris is a sign for the consolidation of the garments industry, offering for the first time in our country courses in the domain which are internationally certified. The Artacademy courses are structured into two stages, which are Fundamentals of Fashion (first level), and Fashion Marketing and Design (second level). Each course is held throughout an academic year and is finalised with a week of study and practice in Paris. The curricula is comprised of classes such as Consumer Behaviour, Sourcing of Fashion Products,

International Trade, E-marketing Strategies, E-business, Fashion/Brand Communication, Financial Management, Customer Relationship Management and so on, structured so as to offer an immediate application of the subjects studied, through case studies and interacting with MOD'SPÉ Paris lecturers. The lecturers are represented by trademark companies in the fashion industry: Louis Vuitton, Gucci, Balenciaga, Chanel, Guy Laroche, Armani, Nina Ricci etc. The statistics issued by FEPAIUS (the Federation of Light Industry Unions) indicate that only the medium and large exporting firms have sent their employees to attend the Artacademy courses, covering their expenses.

Among the main currents initiated by the crisis is the one concerning the promotion of quality garments coming from brands motivated to respect traditions and cultural influences. This current, corroborated with the development of personal brands, has led to the launching in November 2011 by the 100% RO Association of the couture collection 100% RO, entitled "Prejudices", signed by the French designer Philippe Guilet (the artistic director of the French Embassy in Bucharest) and prepared by firms belonging to the association with the support of dozens of Romanian craftsmen and designers from Maramureş, Bucovina, Braşov, Bistriţa and Bucharest. The collection used as an inspiration source the Romanian cultural heritage and was labelled "Prejudices" since it defies negative stereotypes about Romanians. This collection was exclusively inspired from local sources. In fact, everything in this collection was of Romanian origin, the fabrics, resources, the project team, with the exception of the designer and the project initiator. Thus, the collection represented a reinterpretation in a modern and surprising manner of cultural elements, of arts and crafts and traditional Romanian objects, transforming these sources of inspiration in modern and sophisticated couture clothing. The 100% RO Association sets itself the task of implementing cultural projects that highlight the Romanian cultural heritage, reinterpreting it in new cultural languages. The purpose of these projects is to promote Romania and its cultural and artistic resources, to show their indisputable value, their modernity and capacity to inspire new artistic creation (Turp Balazs, 2011). The firms that export under their own brand are in their vast majority firms having developed niche businesses, such as apparel for certain sports segments (paragliding, hang gliding, swimming, ski), but also ecologic clothing.

The firms involved in the sportswear niche import fabrics made of latest generation fibres incorporating innovation and brand. These companies use laminated fabrics with anti-perspiration waterproof membranes (micro porous and hydrophilic) from the Gore-Tex, Dermizax lines, Soft Shell, Wind Stoppers, Toray, Schoeller fabrics, meaning the most technically sophisticated fabrics available on the market. Sportswear incorporates a high amount of technology and functionality to minute detail, from waterproof zippers, stitching with ultrasounds, heat sealed so as not to permit humidity, to sound system cables incorporated in the jacket or heating systems with rechargeable batteries (warm care/heat conduction).

The firms activating in the eco niche use imported natural fibres (especially organic cotton and organic hemp). These firms also emphasise on the design of their products, destined to be purchased not only by eco adepts, but also by fashion enthusiasts.

The firms operating in market niches are also the ones that ensure product guarantee, service, but also a good price-quality report.

Small garment firms in Romania penetrate markets towards which large firms manifest a low to zero interest, thus avoiding their competition. By applying this strategy, small firms can become market leaders on a very small market, a niche market, instead of being followers on a large one.

Firms operating in market niches grow to know so well consumers' demands and expectations, that they ensure a high level of satisfaction, creating a special affinity towards a given brand or product, service or store, and not only a rational preference (Kotler, 1998).

These firms can intervene in meeting and maintaining clients' satisfaction much better than other firms occasionally addressing clients with their products on the same market niche.

Firms active locally are confronting themselves with the reality that sometimes it is harder to sell than to produce, and the downfall of local brands such as Erros, Secuiana and others only confirm

this reality. This is why these firms have strengthened the partnership with distributors. The latter need to possess knowledge in domains such as visual merchandising, marketing, and to offer consumers services and information in fashion, styles and prices. Given the decrease in demand, the low purchasing power, an extremely low number of firms sell their products by means of the new retail forms, those that offer the consumers a pleasant shopping experience. This issue is either not yet understood by companies' management, or in the majority of cases the costs involved cannot be supported.

These new forms imply the sale of companies' products within the consumption universe rather than traditional store areas. This requires a different arrangement of the sale surfaces, by presenting the product offer regrouped by theme and by practising a veritable 'category management'. This new organisation of sale points by universes also requires that the consumers become 'category managers'. This new option imposed from downstream to upstream naturally subscribes to the ECR philosophy (efficient consumer response), targeting a reconfiguration of stores based on consumption means and on clients' behaviour in their purchasing process (Purcărea & Ioan-Franc, 2000).

Consumption universes undeniably better answer the clients' logic of consumption compared to traditional store areas. Through them a better regrouping is performed in the same store space, for instance, of products destined to a single activity (sports), to a single category of people (new-born), to a given moment of consumption (breakfast) or to a certain place of consumption (bathroom).

Since the concept of the consumption universe better applies to non-food articles, this entails the fact that hyper stores will be preferred to superstores. By identifying various consumers' need categories and placing the offer as well as possible in every universe, hyper stores will place their client in the centre of their strategy better than ever.

Besides, the sale of garments within hyper stores comes to the prevention of one of the factors with significant impact on the garments market.

Another new retail format for garments is the concept store.

Concept stores are retail models where the buying process has a different meaning, entailing a philosophical twist.

The customer does not only have the opportunity to buy physical products, but is also provided with a full emotional and sensory experience. In practice, those shops offer a mix of items belonging to different designers and brands addressed to particular groups, for example ecologically friendly, luxurious or street wear-oriented customers.

The variety of products usually includes clothes, shoes, accessories, books, cosmetics, food and gadgets. It is important that all items must be united around the concept store's philosophy, expressed in the unusual layout of the store in order to underline the extraordinary character of products that are sold there. (Popescu & Popa, 2012). In the paper "New forms of retail- Case Study on the apparel retail industry in Romania", Popescu D. and Popa I. consider that an extremely low number of firms addressing the internal market sell their products in concept stores.

#### **4. POSSIBLE STRATEGIES OF ECONOMIC RECOVERY FOR THE TEXTILE-GARMENTS INDUSTRIAL SECTOR**

- the increase in the number of firms producing under a personal brand both on the external and internal markets;
- the identification and development of new market niches;
- the accessing by producers of structural European funds POSCCE for the support and development of their business;
- the accessing by producers of European funding for perfecting the training of their personnel in the garments domain;
- initiating a collaboration with companies belonging to the two clusters from the textile-clothing manufacturing field in Romania (North-East ASTRICO cluster and the Romanian

Textile Concept cluster from the Bucharest-Ilfov region) in order to market and promote products, especially since the study revealed a larger financial and logistic potential for the companies in the two development regions;

- promotion actions through the participation to internal and international fairs (taking part in large international fairs can be operationalized by firms belonging to associations or clusters by using a common presentation booth, each firm keeping its own identity);
- knowledge and awareness of the benefits of marketing the products in the new retail forms by attending courses, seminars, specialised workshops;
- Initiating cooperation between firms to jointly participate in the new retail forms.

## 5. CONCLUSIONS

This paper presents the strategies currently used by firms operating in the apparel industry, both the exporting companies and the firms addressing the internal market. The paper underlines the necessity of a growing number of firms producing under personal label for the external market as well as for the internal one. Moreover, the need to identify and exploit market niches is emphasised. With regards to promotion, the paper stresses the importance of increasing promotional activity performed by specialised firms, and with regards to distribution, the necessity of realising the advantages of selling products by using the new retail forms is also signalled.

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