



Received: 21-09-2023
Accepted: 01-11-2023

ISSN: 2583-049X

Challenges of Listed Textile and Garment Industry Enterprises in Vinh Nam Seen from Characteristics of Product Export and Business Operation

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Abstract

The textile industry is one of the key manufacturing sectors of the Vietnamese economy. However, in 2022 total textile and garment demand will decrease by 6% over the same period; Cotton and yarn markets fluctuated strongly, garment product structure changed, orders were few, processing prices decreased. Textile and garment enterprises grew well in the first half of the year, but faced many difficulties in the first half of the year. Last month of the year. In the last 6 months of 2022, the main markets of Vietnam's textile and garment industry are experiencing inflation, purchasing power has decreased sharply. By the

fourth quarter, orders have decreased by up to 30%, with some businesses reducing up to 70% of orders in this market. European school. Garment orders decreased due to reduced world demand, especially in the two main markets of Vietnam's textiles and garments, the US and EU, prices decreased by about 30%.

All of these issues cause significant challenges and are affected by the characteristics of production and business activities of listed textile and garment enterprises. The article will analyze in depth these challenges of listed textile and garment enterprises.

Keywords: Textile Industry, Enterprise, Production and Business

1. Introduction

Textile and garment belong to the light industry, the products created not only serve essential needs but also meet the increasing aesthetic needs of people, so the consumption potential is very large. Vietnam's textile and garment industry is also one of the key export industries and plays an important role in the growth of the economy, accounting for 12 - 16% of the country's total export turnover.

And the 4.0 industrial revolution is expected to create a major change in production methods, deeply changing the product value chain, from research-development to production, logistics services to services. Customers, helping to significantly reduce production, transportation, and distribution costs and increase labor productivity and production and business efficiency.

Vietnam's textile and garment industry in recent years has made positive strides in both production and export.

However, currently, textile and garment enterprises, especially listed textile enterprises, are facing many difficult problems.

2. Theoretical Basis for Listed Textile Enterprises

Listed textile enterprises refer to companies operating in the field of textile production and trading, and these enterprises are listed on the Vietnam stock market.

In fierce competition and constant change, the textile industry is facing many difficulties. Listed businesses in Vietnam need to take very long preparation steps to adapt to the 4.0 industrial revolution, otherwise there will be a risk of major risks, affecting their production and business situation enterprise.

3. Research Methods

The article uses qualitative research methods including two basic methods: data collection, synthesis and analysis and evaluation. Based on the synthesis of data related to the production and business characteristics of listed textile enterprises, the article analyzes the main contents to clarify the challenges of listed textile enterprises in Vietnam. Vietnam today.

4. Characteristics of Production and Business Activities of Listed Textile and Garment Enterprises

First, the main production method is export processing

Vietnam's textile industry includes 3 sub-sectors: upstream sector (fiber production), midstream sector (fabric production and dyeing) and downstream sector (garment production).

Currently, Vietnam's textile and garment industry is almost only involved in the production of final products, which is considered to create the lowest added value, with a profit margin of only about 5%-10%.

Production methods in the textile industry are:

CMT (Cut Make Trim): this is the simplest production method with the lowest added value. Normally, the unit price of CMT processing is 25% of the export value and the after-tax profit of CMT enterprises only reaches 1 - 3% of the processing unit price. When producing in this method, the customer will provide the business with raw materials, designs and specific requirements, the manufacturing company will only cut, sew and complete the product. Finished products will be collected and distributed by buyers.

FOB (Free on Board-buying raw materials, semi-finished products): This is a higher level production method than CMT, also known as "buying raw materials, semi-finished products". For FOB orders, businesses are responsible for importing raw materials and producing orders, businesses enjoy about 30% of export value and profit after tax reaches about 3-5% of net revenue. When producing in this method, businesses will proactively add input materials to produce products. Accordingly, there are two forms of FOB: FOB level 1 (purchasing raw materials from suppliers designated by the ordering party) and FOB level 2 (enterprises are responsible for sourcing raw materials).

ODM (Original Design Manufacturing - proactive from raw materials, design, production of finished products): This is a production method in which businesses are responsible for designing their own products, importing raw materials, cutting, sewing, and transporting. transfer. ODM orders only account for about 2%-3% of Vietnam's garment export value. The main reason is due to limited human resource qualifications and lack of market information.

OBM (Original Brand Manufacturing): this is the method by which manufacturers design and sign domestic and foreign commercial contracts according to their own brand. OBM mainly distributes goods in the domestic market and neighboring countries.

Vietnam's textile industry currently only participates in the third part of the global textile supply chain, which is cutting and sewing, produced by simple processing methods, lacking the ability to provide a complete package, so value increase is still low. Therefore, the cash flow of textile and garment enterprises is still limited.

Second, products of the textile industry are seasonal and have short production cycles

Just like the need for food, textile products are one of the essential needs of humans. The production and business cycle of textile products is sometimes seasonal, mainly spring-summer and autumn-winter.

Third, most raw materials for the textile industry must be imported

Vietnam's textile and garment industry depends heavily on

imported raw materials (about 70%), mainly from the Chinese, Taiwanese, and Korean markets... The cause of this situation is: inadequate yarn quality. In fact, the scale of the finished weaving and dyeing stage has not yet developed commensurate with the characteristics of Vietnam's garment processing for export.

Accordingly, domestic yarn products are not diverse in types (mainly cotton and polyester yarns), the quality of yarn products only meets the low and medium segments, so they do not meet the needs. Textile dyeing requires many different types of fibers (wool, spandex, nylon...).

Besides, the capacity of weaving and dyeing is slower to develop than that of yarn. Third, up to 80% of Vietnam's sewing is processed, so the selection of materials follows strict requirements on origin and quality of customers. Therefore, textile and garment enterprises cannot proactively source fabric materials domestically.

Importing the majority of input factors in Vietnam's textile and garment industry leads to a series of consequences, such as: Reducing the added value of the industry, which can negatively affect the competitiveness of garment products in the world market, causing difficulties for sustainable development and significantly impacting the cash flow of textile and garment enterprises.

Fourth, products of Vietnam's textile and garment industry are mainly for export

Vietnam is currently one of the world's top 5 textile and garment exporters with a market share of 4%-5%, accounting for over 75% of annual export turnover, with garment products mainly made from cotton and synthetic fibers for the mid- and low-end market segments.

The export textile industry is concentrated in familiar markets including the US, EU, Japan, Korea, ASEAN and China. In which the US is currently the largest consumer of the industry's export products. Vietnamese textile and garment. According to VITAS statistics ^[1], the main export products of Vietnam's textile industry include: yarn (cotton yarn, polyester yarn) and garments (including T-shirts, jackets, pants) accounting for 60% exports.

Because the products of Vietnam's textile and garment industry are mainly for export, cash flow control will be affected by foreign exchange rates and legal policies.

Fifth, the textile industry has a high level of labor intensity

Due to the main characteristics of outsourcing production, having to import raw materials and receive orders from abroad, Vietnamese textile and garment enterprises are highly labor intensive. That causes the cash flow out of textile and garment enterprises to be affected because they have to pay wages to a large number of workers.

Sixth, the level of human resources is not high

Currently, the textile and garment industry has only 25% of trained workers and there are still about 75% of workers in the textile and garment sector who have not been trained or have only been trained for less than 3 months.

In addition, over 70% of small and medium-sized enterprises in the textile and garment industry in the industry have difficulty applying new technology. Only 30% of enterprises, including foreign-invested enterprises and large domestic enterprises, have applied automation in each production stage, of which less than 5% have plans to deploy automation technology. connect. This is a huge

challenge for domestic textile and garment enterprises, especially small and medium-sized enterprises when the textile and garment industry is on the rise to compete with productivity, quality, and fashionization of the textile and garment industry. Improve localization rate and access to industry 4.0.

5. Challenges of Listed Textile and Garment Enterprises

Textile and garment is an industry that brings key export value to our country's economy. However, Vietnam's textile industry, especially listed textile enterprises, is facing certain difficulties and challenges.

On the stock market, textile and garment industry stocks decreased quite sharply (down 41% in 2022, much larger than the decrease in the general index VN-Index). Among them, the stock codes that recorded the least positive results include: RMB (down 70% compared to the beginning of the year), ADS (down 68% compared to the beginning of the year), GIL (down 64% compared to the beginning of the year), VGT (down 60% compared to the beginning of the year); and TNG (down 52% compared to the beginning of the year). Stocks of fiber companies, such as NDT and ADS, are very sensitive to the sharp decline in cotton prices in the second half of 2022^[2].

In the coming time, it is forecasted that there will still be many difficulties for the textile and garment industry because world demand has not shown signs of recovery, and the main export markets are all decreasing or increasing insignificantly.

It can be seen that the characteristics of production and business activities of the textile industry have a certain impact and dominate the challenges of listed textile enterprises. Detail:

(i) Production methods require flexible transformation with fluctuations in the international integration process

The process of deep international integration on a global scale creates a shift in the garment value chain, a shift in garment production from China to Vietnam and Southeast Asian countries. That creates opportunities for textile and garment businesses to receive a larger number of orders, especially FOB orders. Orders are not purely processed like before. To have the opportunity to receive orders with greater added value, garment businesses must have a roadmap to shift to higher production methods.

Besides, Vietnamese garment products are mainly exported to the US, EU, US, Japan, and Korea markets. The bilateral and multilateral trade agreements that Vietnam participates in all have these partners, so businesses will be encouraged to place orders in Vietnam to take advantage of the benefits from the rules of origin. At the same time, textile enterprises with direct investment capital abroad are moving more to Vietnam to take advantage of tax incentives, causing competitive pressure on Vietnamese textile enterprises. To increase competitive advantage, listed textile enterprises need to shift production methods to higher production methods.

(ii) Production cycle affects production and business planning

To be proactive in production and business strategies, textile and garment enterprises need to forecast trends, design and estimate the number of garments to produce. In essence, the garment industry is very sensitive to the market, meaning it must continuously meet consumer needs and keep up with trends.

However, textiles and garments are an industry with short production cycles, demand is very sensitive to world income and employment, and face a lot of uncertainty and risk, so it is impossible to have a long-term forecast. for the whole year in the current uncertain economic conditions.

Specifically, in the first quarter of 2023, the number of orders decreased from 25 to 27% due to reduced global purchasing power, and businesses making processed goods were under greater pressure than FOB units (purchasing materials, producing, selling products). products) due to not being proactive in the market. Many textile and garment enterprises are currently only receiving orders equal to 70-80% of production capacity due to reduced consumer demand and unfavorable market signals.

(iii) The import of raw materials depends largely on the world market

According to the Vietnam Textile and Apparel Association (VITAS), although it is one of the top exporters in the world, Vietnam's textile and garment industry still depends heavily on imported raw materials and accessories. Especially during the Covid -19 epidemic, partners providing raw materials could not deliver, affecting 20 - 30% of the entire industry's production capacity.

According to VITAS, in the last 6 months of 2022, the import and export situation of the textile and garment industry slowed down due to the direct impact of inflation, the conflict between Russia and Ukraine, and China's "Zero COVID" policy when Vietnam Vietnam is importing over 40% of raw materials and accessories from this market with strict requirements from importing countries regarding their commitment to sustainable development and combating climate change. Notably, among the four markets. The main suppliers of textile and garment raw materials to Vietnam are China, Korea, Taiwan and the US. China is the supply market with the largest proportion, accounting for 50.61% of the total import value of raw materials and accessories. Vietnam's textile and garment industry. Next is Korea with a proportion of 10.67%.

In addition, high inflation in Vietnam's major textile and garment consuming markets such as the US, EU. The complicated developments of the Russia-Ukraine conflict cause prices of raw materials, fuel and auxiliary materials to continuously increase, including cotton prices. increased by 19.1%; Crude oil prices increased by 40%; Domestic gasoline prices increased by 67%; Transportation costs are 3 times higher than the average in the past 5 years... causing the costs of textile enterprises to increase by about 20 - 25%.

(iv) The export of textile products is influenced by objective factors

Recently, the global economic recession and reduced purchasing power in both the domestic market and the markets of major importing countries such as the US, Japan, Korea, China. have had a major impact on stability of listed textile enterprises. In addition, currencies in some countries that import large quantities tend to depreciate, also affecting the import and export activities of Vietnam's textile and garment industry. Besides, there are strict requirements from brands, such as reducing production prices, small orders, fast delivery times, higher quality requirements, switching to using fabrics with recycled fiber components, At the same time, it requires textile and garment enterprises to comply with many other policies such as sustainable development, greening, energy saving, emissions reduction.

Besides, in the context of integration, the trend of using green products, nanomaterials, and materials with special features is increasingly popular in the world. Therefore, the production technology of the fiber, weaving and dyeing industry must meet this trend to receive orders. In addition, the trend of using digitized and automated textile equipment, especially in the fields of fiber production, weaving, dyeing and basic sewing (smart factory, 3D printing, 3D weaving)... will also We must follow this trend to connect transparently throughout the entire supply chain.

(v) High level of labor intensity does not meet the requirements of the 4.0 industrial revolution

In the current period, the 4.0 industrial revolution is expected to create a major change in production methods, deeply changing the product value chain, from research-development to production. Production, logistics services to customer services. help significantly reduce production, transportation, distribution costs and increase labor productivity and production and business efficiency. According to the Commercial Industry Information Center, connected automation based on the internet of things, cloud computing, 3D printing manufacturing technology, big data analysis and artificial intelligence will gradually gradually replace workers in factory production lines and throughout the entire textile and garment supply chain.

However, Vietnam's textile and garment industry is one of the industries that faces the most challenges from the 4.0 industrial revolution because it uses a lot of labor.

(vi) Human resources do not meet the requirements to develop production methods

Currently, in developed countries, the application of achievements of industry 4.0 in the production and trading of textile and garment products has been widely implemented. In Vietnam, the application of Industrial Revolution 4.0 to the textile industry is being implemented quite slowly, the main reason being the lack of high-quality human resources in the fashion design, product development, and marketing process, which makes businesses. The textile and garment industry has difficulty developing FOB, ODM, OBM methods.

According to forecasts of the Vietnam Textile and Garment Association, in the next decade, the possibility of machines replacing humans will be high in the production of fiber and chemical fibers (40-50%); The production stages of fibers, natural fibers, weaving stages, especially non-woven fabrics and dyeing stages, complete the substitution ability is quite high (30 - 40%). In the sewing stage, in general, the ability to replace is at a low average level (< 30%) due to high fashion, rich demand, diversity in designs, colors, and regional tastes. Production of garment accessories also has a high risk of "being replaced" (30 - 40%)...

That requires listed textile and garment enterprises to improve the level of human resources to meet the requirements of the integration period.

6. Conclusion

In the period 2023-2025, it is forecast that the world economy will still have many uncertainties, the textile and garment industry needs to have a new direction, reduce dependence on the international market, be independent in the supply of raw materials, and gradually shift its focus to exploit the domestic market. With a population of nearly 100 million people, Vietnam is a potential textile consumption market for businesses. Therefore, listed textile

and garment enterprises need to rely on production and business characteristics to turn challenges into opportunities and enhance their position in the international market.

7. References

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