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Hiruni Bolonne
Department of Accounting
University of Sri Jayewardenepura
Colombo, Sri Lanka
E.mail: ayeshihiru@gmail.com

ABSTRACT

The Covid-19 pandemic has led many countries to implement lockdowns and social distancing due to an exponential rate at which the virus has been spreading over and the heightened uncertainty of how bad the situation could be. The seriousness of the situation caused a disruption to the consumer habits of shopping as the pandemic heavily influenced to curtail the spending on nonessential goods which ultimately resulted with a massive blow to the global fashion market. This study evaluated the effect of Covid-19 on the apparel industry and using of a framework of strategies falling over three horizons as respond (short-term), recover (medium-term) and reimagine (long-term) to deal with the uncertain situation of Sri Lankan apparel sector facing, to manage its' survival, to make it learn & emerge stronger and to prepare & shape itself for the next normal. The findings of this study emphasize how important it has been almost all organizations in the apparel sector of Sri Lanka to come up with mechanisms focusing on short-term, medium-term and long-term to face the atmosphere created by Covid-19. If the actions in the three horizons are not managed properly, the apparel sector will face more detrimental effects which will ultimately lead both the apparel industry and the economy to collapse as it is the highest export income generator to the Sri Lankan economy.

Key Words: Covid-19; A Framework of Respond, Recover & Reimagine; Apparel Sector; Sri Lanka

1. Introduction

The novel coronavirus (Covid-19) has unprecedentedly resulted in a global health emergency to the today's strongly connected and integrated world while going way beyond its impacts of mortality with an alarming speed and in bringing economic activity nearly to a standstill. According to World Bank forecasts, it envisions a 5.2% contraction in global GDP by 2020 while this being the largest per capita income contraction since 1870. It has also projected that growth of advanced economies will be subjected to a shrink of 7% while emerging and developing markets are forecasted to contract by 2.5% due to coping with domestic virus outbreaks. Furthermore, the world bank predicts that view can be pessimistic leading to the extension of movement restrictions and disruptions to economic activity while driving the global growth to shrink by almost 8% in 2020 (The World Bank, 2020). The experiences of the Asian continent reveals that how worse it has been for apparel manufacturers in forcing them to cease production or to reduce the capacity as a result of disruptions in the global supply chain and the emerging health crisis which has led to imposing of national restrictions on both people and economic activity. The challenge and the extraordinary of this pandemic are that it has both the impacts on demand and supply sides of operations. Considering Tsunami in 2004 and outbreak of dengue, it is the third time, Sri Lanka is facing a non-terrorist enemy despite the 30-year terrorist war and Easter Sunday attack in 2019. Being the largest export income generator, the apparel sector of Sri Lanka has significantly and negatively impacted by Covid-19 as its' main customer base spreading across the European Union (EU) and the United States of America (USA) where consumers delaying their apparel purchasing largely due to no urgency to replenish, uncertain economic scenario, reduction in occasions to hang around and limited product options along with late and expensive delivery charges. Therefore, the main purpose of this study is to emphasize how important it has been for Sri Lankan apparel manufacturers to stay resilient and to be prepared for the long-lasting impact of Covid-19 pandemic on businesses by finding out the answers to the following research questions.

- What is the impact of Covid-19 on the global apparel industry?
- What is the impact of Covid-19 on the Sri Lankan apparel industry?
- What are the strategies adopted by Sri Lankan apparel sector firms?

2. Literature Review

Indication of the Impact of COVID-19 on the Global and Sri Lankan Economy

Coronavirus 2019 (Covid-19) is known to be a newly discovered infectious and severe disease caused by coronavirus 2 (SARS-CoV-2) which has not previously been identified in humans. This is known to be one of the most severe diseases which has been identified leading to confirmed cases of 10,357,662 with a death number of 508,055 globally as at 1st July 2020. Identification of the first case in Wuhan, Hubei, China in December 2019 turned into an ongoing pandemic in just a few months. While it is impossible to depict the exact economic damage from the coronavirus pandemic, almost all the economists are sharing a view that there will be severe negative impacts to the global economy. China, the second largest world economy known to be the first who suffered from the pandemic. As per the report of China Enterprise Confederation (CEC) held on 6th March, a revenue drop was seen over 95% of the 299 large manufacturers which were surveyed in China (Jurczenko, 2020). In the year 2020, it is expected the global economy to float with no global growth due to uncertainty lying behind the Covid-19. As per Tom Rafferty, the main economist for China suggests that global supply and demand should be back to normal by next year, but the virus will act as the last factor in determining when each country will be back to its ordinariness (Jurczenko, 2020).

Moving to Sri Lankan context, the total confirmed cases amounted to 2,054 along with a death number of 11 as at 1st July 2020. With the identification of the first local case in the second week of March 2020, the Sri Lankan government introduced various measures of social distancing such as closure of schools & education centers, culture of working from home, banning public gathering along with international arrivals which led to drastically imposing the island wide curfew to minimize the spread of disease to control the pressure it was giving to both the Sri Lankan health system and the entire community which led

to control the country's fatality rate and recovery rate at 0.54% and 85.1% respectively (Source – Covid-19 Live Situational Analysis Dashboard of Sri Lanka by Health of Promotion Bureau as at 01.07.2020). It was pointed out that Sri Lanka was one of most vulnerable middle-income countries to suffer from this pandemic as the Sri Lankan economy was heavily dependent on foreign trade. As China being the second largest source market for Sri Lanka, Covid-19 in China was throwing a significant blow to the Sri Lankan economy. Furthermore, decreased demands in the USA, UK and European markets and termination of Sri Lankan employees by Middle East countries have put tremendous pressure on Sri Lanka's macroeconomic stability (Roshana, Kaldeen, & Banu, 2020).

The Impact of COVID-19 on the Global Apparel Industry

This sudden pandemic has caused economic disruptions while having spillover implications to almost all industries operating in global context. This global economic impact is further confirmed with the GDP estimates of top ten economies (US, China, Japan, Germany, India, UK, France, Italy, Brazil & Canada) trending downwards (BKR, 2020). Moving to the fashion industry which significantly contributes to the global GDP is now experiencing the worst period ever as the top fashion and apparel markets (USA, Europe, China, Japan, Canada, India and many other players) have been heavily impacted due to the outspread of Covid-19 putting the industry into a helpless position of closing outlets, furloughing employees and cancelling the orders placed to factories. Being the largest apparel market, USA is facing a serious condition with the reporting of the highest number of cases and deaths in global context and as per BCG and other research, 81% of US consumers believe that recession would soon occupy the pandemic leading consumers to worry more on personal finance and to plan their spend on the essentials while limiting on apparel. In addition, the seriousness of the disease has led most of the fashion brands (adidas, BESTSELLER, GAP, H&M, LEVI'S, lululemon, NIKE, Patagonia, PVH and many others) to declare complete store closures in mid-March. As per Wazir advisors, the combined apparel consumption and apparel imports of EU and US are expected to reduce approximately by USD 308bn and USD 122bn in 2020 (wazir, 2020). Even if things start picking in the future, it is very unlikely for the apparel industry to stand up so quickly as it will take some time for the demand to recover and to

overcome the significant disruptions caused by the supply side of the apparel industry.

The Impact of Covid-19 on the Sri Lankan Apparel Industry

Moving to Sri Lanka, it is known to be having a world-class apparel manufacturing industry operating with giant players such as Brandix, MAS Holdings and Hirdaramani who have already able to establish their offices and clothing factories across Asia, Europe and North America with 60-65% of consumer account from US & Canada and 20-25% from the consumer account, EU. The downfall of the main consumer markets due to Covid-19 pandemic has led the industry to experience approximately \$1.5 billion loss in apparel exports during the 3-month period ended in June (Sukumaran, 2020). It is very unlikely to think that the damage to cease from that point onwards as demand contractions have the power to further reduce the country's apparel exports by 30-40% even after June in the best-case scenario. This situation leads to the struggle of the small players to survive while making it very challenging for large players to stay above the waters with 70% of costs amounting to salaries and wages.

Strategies taken by Sri Lankan Apparel Industry

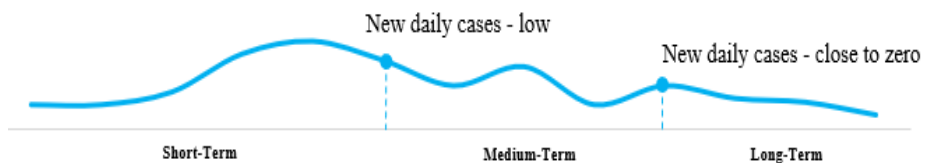


Figure 1:COVID-19 and Phases of Development

In the middle of fighting to save lives and in shaping the economic recovery, it is the responsibility of each unit in every economy to look for approaches to mitigate these widespread and sudden disruptions. Considering the current status of the global apparel market, Sri Lankan apparel manufacturers need to look for strategies of navigating the current crisis to a business advantage in a transformed apparel industry. The global apparel industry will be subjected to three phases known as short-term, medium-term and long-term considering the Covid-19 evolution and fashion impact as graphically presented in Figure 1. Therefore, Sri Lankan apparel industry can apply the framework, “respond-recover-reimagine” in developing strategies to

adapt to each of the short-term, medium-term and long-term phases while exiting the disruption on its feet and being in the game (Alford, 2020).

- Phase 1 – Respond to short-term

Similarly, in any early stage of a disruption, initial step of this phase is to determine how severe or how fast-moving the coronavirus is. Once understanding how the pandemic is affecting the Sri Lankan apparel industry, the players need to immediately initiate responding strategies such as mitigating disruption, optimizing supply chain and maximizing resource capacity to survive in this economic turmoil.

- Phase 2 – Recovery in medium-term

At this stage, the economy is beginning to emerge from isolation and apparel industry will face many challenges due to resuming the efforts and it will not be a smoothie task to restart the operations. Therefore, recovery strategies need to be in place to overcome the challenges.

- Phase 3 – Reimagine in long term

The moment the recovery stage is achieved, it will create the apparel industry itself to look at opportunities for rethinking. Reimagine strategies cannot be achieved overnight and for that Sri Lankan apparel industry players need to build a model how they would achieve long term growth and value to themselves and as well as to the industry.

After reviewing the different literature reviews, below mentioned framework (Figure 2.) was formed to further analyze and discuss the effect of Covid-19 to apparel sector of Sri Lanka.

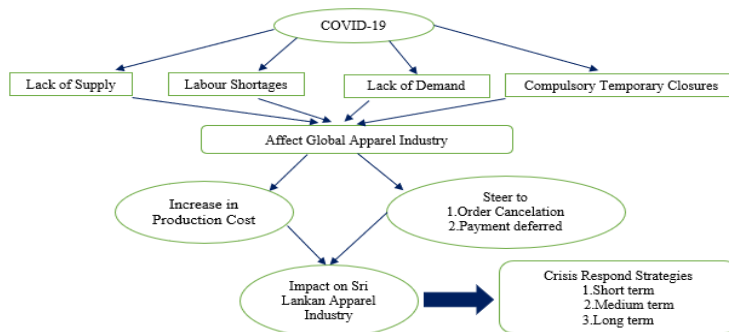


Figure 2. Conceptual Framework

3. Methodology

This study investigates the effect of Covid-19 on the global and Sri Lankan apparel industry and how innovative response strategies emerged immediately in the short run while medium and long run strategies need to be reengineered to address the crisis. To understand the impact of Covid-19 on the global and Sri Lankan apparel industry, previous literature reviews, newspapers and industry reports have been taken into consideration. As Sri Lanka has already passed the short-term phase of Covid-19, had interviews with the apparel giants; Brandix, MAS Holdings & Hirdaramani to identify the strategies implemented in the short run. To understand the effect of this pandemic in medium and long runs, journals such as International Journal of Surgery, Accounting Forum, Journal of Business Research, SSRN Electronic Journal, Asian Journal of Multidisciplinary Studies, Journal of Textile and Apparel, Technology and Management and Diabetes & Metabolic Syndrome: Clinical Research & Reviews were used and utilized the google search engine to locate the latest fashion & apparel industry publications. The search began using the terms “Coronavirus Disease”, “Covid-19”, “Global Apparel Market”, “Sri Lanka Apparel Industry”, “EU and US Apparel”, “Textile and Fashion Industry” and “Covid-19 Response Strategies”. The publications were browsed determining their relevance and the focus was to review publications on global apparel consumer markets and on the weaving of the future of the apparel industry. The next section will outline the findings gathered from the conducted reviews.

4. Analysis and Discussion

The Impact on the Global Apparel Industry

Global fashion industry (Apparel & Textile) known to be worth USD 3,000 billion and 2% of the world’s gross domestic production (fashion united, 2020). Since World War II, Covid-19 has been the biggest economic contraction and the fashion industry has been vulnerable due to its discretionary nature (france24, 2020). As per McKinsey analysis, a much steeper decline of almost 40% occurred in the average market capitalization of the fashion industry between the period of January to March 2020. It is estimated that the global fashion industry will be subjected to a contraction of 27%-30% in 2020 although a positive of 2%-4% could regain in 2021 (McKinsey Global Fashion Index

estimate). McKinsey analysis approximates that if stores remain closed, 80% of the fashion companies in Europe and North America will be subjected to financial distress. As per analysis of Fashion Index, it has been identified that 56% of the global fashion industries are unable to meet up their cost of capital in 2018 and this may have a high chance of leading many global fashion industries to bankrupt. Consumer pessimism is widely spreading, and McKinsey analysis reflects that 75% shoppers in USA and Europe believe that their financial situation will be badly affected in a couple of months. Flavio Cereda points out the impact to the global apparel industry as a nightmare where sales go to zero irrespective of big or small brands (Russon, 2020). Covid-19 pandemic has influenced consumers to shift to a discount mindset where consumers are looking for special promotions as an important factor and digital escalations where social distancing and lockdowns have elevated digital as an urgent priority. The fashion system was also impacted by Darwinian shakeout where shaking out the weak and emboldening the strong and accelerating the decline of companies who were struggling before the pandemic and by innovative imperative where companies introducing new tools and strategies across the value chains to future proof the business models (mckinsey, 2020).

The Impact on Sri Lankan Apparel Industry

Currently Sri Lanka apparel industry is directly accommodating 400,000 employees while with a recorded export income of USD 5.6 billion in the last fiscal year (lanka business news, 2020). However, the pandemic has resulted in mass cancellations of orders which are currently in production and as well as already manufactured. In addition, the situation has coupled up with forced discounts and delayed payments forcing Sri Lankan apparel manufacturers to working capital issues while leading to delays in new orders due to supply chain issues. Extended curfew also resulted in additional losses where shifting the trades to competitors such as Vietnam, Cambodia and Indonesia who were operational. Moreover, the local apparel market was also subjected to the value of USD 2.5 billion and where 50% expected turnover in March and April (festival season) was completely lost (Sequeira, 2020). The Sri Lankan apparel export market is mainly revolving around few countries such as US and EU which account for 46% and 40% of exports respectively while the balance will be accounted by Canada, Australia, China, Japan,

Switzerland and Israel (Sequeira, 2020). With the emerging economic recession, it is expected that the demand for apparel exports will severely fall. The situation will be worse due to lack of local production of raw materials and accessories which would negatively affect local garment exports comparative to other Asian countries. Statistics reflect that more than 70% of fabric and 70% to 90% of accessories needed for production are meant to be imports (Sequeira, 2020). Besides, industry itself is experiencing labour shortage due to many involving Middle East jobs while 1.5 million of the potential workforce driving trishaws for their living (Sequeira, 2020). According to Adittiya (2020), it will be hard for the fashion industry to sell the product once it misses the season which emphasizes how critical the effect of covid-19 will be on the Sri Lankan apparel industry.

Strategies taken by Sri Lankan Apparel Industry

Table 1. Respond Strategies & Actions

Source: Author developed

Staying Operational	Securing the Liquidity & Cash Position
Implementation of remote working facility	Establishing cost controlling mechanisms to control the timing of payments
Maintaining the plants with health & safety protocols	Suspending of dividends
Introduction of the virtual sampling process	Setting up the weekly cashflow forecasting
Increase the frequency of Covid-19 update meetings	Calculating the impact to the liquidity by developing potential scenarios
Introduction of central structure to manage the functional responses	Tightening and centralizing the payment approval rights
Aggressive Cost Reduction	Expansion of credit lines
Canceling of marketing campaigns (offline & online)	Assessment of foreign exchanges risks and entering in to hedging strategies
Freeze of recruitments	Keeping Supply Chain Operational
Cutting of bonus payments	Focus on Tier 1 supplier risk
Reduction of 5 - 60% of employee salaries	Activating the alternate sources of supply
Optimizing Top Lines	Enhance the visibility of inbound material
Launching health and safety communications and projects to build the community	Evaluating alternative outbound logistics options and secure capacity
Producing of protective equipment (PPE)	Conducting global scenario planning

Short-term – Responding to survive

For Sri Lanka, this phase started in the middle of March in 2020 with the identification of the first local Covid-19 patient and with the daily increase of new cases. Similarly, the same period was giving trouble to main consumer markets; USA & EU with the rapid increase in daily new cases plus the daily death number. The situation made the demand for Sri Lankan apparel to shrink with customer cancellations, orders on hold and tightening the acceptance of orders with the fulfillment of all prior specified criteria. Apart from that, it was challenging to bring back operations to normal with the fear factor spread across the country due to the deadly disease. Apparel manufacturers had to conduct many experiments on how to face the situation and ultimately resulting in the opening of plants with a minimum of 50 employees which were usually accommodating an employee capacity of 1200 – 1500. To defend the crisis and to shift into the recovery phase, many response strategies and actions were taken, and those depicted in Table 1.

Medium-term – Recovery

The start of this phase is happening in the moment of the decrease in new cases and when the health system is capable enough to handle the situation. However, a vaccine is not yet found, and apparel manufacturers are always subjected to a risk. This phase is very challenging as the final consumers look for more and more discounts as they are financially not strong enough to spend a great deal on fashion. As a result, there is a necessity of becoming cost effective in every possible way. Hirdaramani's launching of digital factory-floor solutions towards automation (FT, 2020) and the industry accelerating its investments on data analytics, can be considered as the efforts towards achieving cost effective goals. In addition, as fashion retailers such as Fast Retailing, H&M, Inditex and The TJX companies have significantly and negatively impacted while Aldi, Amazon Carrefour and Wal-Mart have received moderately positive impact highlights the shifting of financial wealthiness in placing orders to apparel products (GlobalData, 2020). As Sri Lanka currently operates in this stage, Table 2 will emphasize the strategies need to be taken to recover back.

Table 2. Recovery Strategies

Medium-term
Planning longer strategies to deal with social distancing mainly in factories and other locations
Accelerate the investment and development on digital transformation across the business cycle
Enabling artificial intelligence, data-driven decision making to enhance the efficiency and transparency in the business
Targeting beyond existing clothing retailers to find out financially potential buyers (other retailers who perform at a moderate positive impact) in placing orders.
Developing risk exposure index for suppliers and segmentation to minimize the disruptions

Source: Author developed

Long-term – Reimagine

This is the phase where the pandemic will be managed with either reliable treatments or a vaccine and where the crisis is heading with the acceleration of creating a new path to the next normal in the apparel sector. It can be expected how more consumers will be interested in smart textiles with wearable techs in changing their attitudes to be more health conscious. In addition, this phase will look into re-engineering the supply chain and some of the signals for those can be Brandix entering a joint venture agreement with Best Pacific International Holdings in China in manufacturing material while both Brandix and MAS Holdings moving into nearshoring and onshoring by establishing plants in Haiti & North Carolina respectively. Table 3 emphasizes the strategies that can be implemented in the long run to achieve the next normal.

Table 3. Reimagine Strategies

Long-term
Developing products that would satisfy the altered consumer attitudes.
Moving to input supply from final consumer products.
Looking into on shoring and nearshoring options in terms of manufacturing.
Rebuilding of sustainability programs for impact and resilience.
Testing of new business models to face the potential black swan events.

Source: Author developed

5. Conclusion and Implications

Nobody has an idea of how long Covid-19 pandemic will last while creating a panic situation where it shapes the global economy as pandemonium. The demand and supply chain have been a daily topic due to the severity of the impact of this disease. Circumstances will not be beneficial to the Sri Lankan apparel sector as the main consumer markets; USA and EU facing a great difficulty to establish themselves due to the daily increase of new cases plus deaths. This study emphasizes how badly the global fashion industry has affected and as a result, three phases such as short-term, medium-term and long-term which apparel sector would face throughout the Covid-19 evolution and where responding, recovering and reimagining strategies need to be implemented to overcome the situation, where each phase is subjected to respectively. Next normal of the apparel sector mainly depends on how well the industry have addressed all three phases. As this is a very recently emerged issue, a very limited number of studies can be found and as this study is addressing particularly the Sri Lankan apparel sector, this study can be considered as beneficial for apparel manufacturers to understand how they should act in medium and long runs to secure themselves and to stand from their feet back again. Another major lesson to the apparel sector is that the need of treating health, safety and prosperity as intrinsically collective pursuits than separate ones. However, gathering of information solely based on the apparel giants; Brandix, MAS Holdings & Hirdaramani, not considering other badly affected industries such as tourism and merely capturing the Sri Lankan apparel manufacturers' context in a circumstance where globally apparel manufacturers have affected, can be considered as few limitations of this study which are opened for further investigations in the future.

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