THE RELATIONSHIP BETWEEN PARENT FIRMS AND THEIR AFFILIATES LISTED ON SELECTED STOCK EXCHANGES IN CHINA AND GERMANY IN THE TEXTILES AND CLOTHING SECTOR

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Abstract:
This article analyses the net income earned in the years 2005-2009 by companies in the textile and clothing sector, which are listed on the XETRA DAX in Frankfurt, Germany and the Hang Seng in Hong Kong, China.

Key words:
Stock exchange, textile and clothing sector, net income

Introduction

This article aims to present an analysis of textile and apparel companies listed on stock exchanges in Germany and China. The analysis was conducted on the basis of the companies’ net incomes for the years 2005-2009.

The problems in the textile and clothing sector are largely related to the progressive liberalisation of the world market and incremental reductions in tariffs under the GATT WTO [1]. On this basis, the following questions have been raised for research.

What are the main trends of the companies recognised as leaders [2] in the textile and garment sector? What impact have the lowered tariff barriers of the WTO GATT had on the European companies listed on the XETRA DAX in Frankfurt and the Hang Seng in Hong Kong? What were the results of these European companies, their distributors and subcontractors in Asia for the years 2005-2009? What models of governance in the internationalisation of these firms are currently guided by their boards? Could the parent companies listed on these stock exchanges be called foreign direct investors?

The recent trends of the textile and clothing sector have shown that the most likely ways to increase net income is the creation of a brand’s distinctive emblem and moving the simplest stages of production to the Far East including China. Outsourcing [3], the presence of products on all continents, a fast response to customer needs, innovation, global sports advertising [4], the shift in the management company for the next phase - steps the company’s internationalisation pattern of “propagation circles on the water” [5].

Some of the analysed global companies not only quoted on the XETRA DAX are Adidas AG Inhaber-Aktien o.N., H & M Hennes & Mauritz AB Namn-Aktien B SK, Hugo Boss of St. Vorzugsaktien. o.N., and Puma AG Rudolf Dassler Sport Inhaber-Aktien o.N. These international companies are better known to their customers by their shorter names of Adidas, H & M, Hugo Boss, and Puma respectively (these latter names will be used in this paper). These companies conduct their business undertakings in various product segments of the textile and clothing sector.

• Adidas has more than 80 years experience providing athletic footwear, apparel, and accessories. Today, Adidas is a global leader in the sporting goods industry and offers a broad portfolio of products. Adidas’s products are available in almost every country in the world including the brands Reebok and Taylor. Its business and more than 170 subsidiaries are directed from the control group in Herzogenaurach, Germany. Adidas is fully dependent on Adidas Sourcing Ltd. based in Hong Kong. At 31 December 2008, Adidas employed about 39,000 people. In 2009, the company took the strategic decision to move from a vertically integrated structure of the brand to a multilevel structure of the functioning of the Adidas and Reebok brands. Together with its 180 subsidiaries worldwide Adidas the company places great emphasis on developing its business in China and Russia. The main advantages of the company are its speed and efficiency in responding to consumer needs and trends. This action effectively places Adidas ahead of the competition. Adidas invests heavily in its capacity to innovate [6].

• H & M is a well-known global clothing retailer and distributor, selling its product range in 37 countries and employing over 74,000 employees in over 2,000 retail outlets. Its largest market is Germany, followed by the UK and Sweden. In 2006, H & M started franchising in the Middle East, Dubai, and Kuwait. Its range of products can be found in Austria, Denmark, Finland, Germany, the Netherlands, Norway, and Sweden [7].

• Hugo Boss is a global group engaged in the production and distribution of clothing, fragrances, cosmetics, watches, and glasses. The company is engaged heavily in sponsoring sports and cultural events. It has a global and exclusive distribution network, automated logistics processes, leading experts on products, and excellent relationships with international clients. The success of the group is based largely on the coordinated integration of their employees, intensive marketing activities, and their consolidated retail outlets. The company systematically reacts to the high demand for luxury goods, particularly in Asia and Eastern Europe, and is already in the early stages of growth of a global brand strategy. Hugo
Boss products are available in 110 countries and over 6,100 sales outlets. The company has about 330 company stores worldwide, about 1,000 franchise stores, and 1,300 other stores offering its product range. Hugo Boss includes the following lines: Boss Black line (offering classic and elegant suits for business people), Boss Selection (featuring a sophisticated design), Boss Orange (offering clothing daily), and Boss Green (golf clothing). Hugo Boss works with Samsung on mobile phones and accessories [8].

- Puma is one of the largest companies designing, manufacturing, and distributing sports apparel, including footwear and accessories. The company’s products can be found in the areas of sport such as football, swimming, motorsports, golf, and sailing. Puma cooperates with fashion designers such as Alexander McQueen, Mihara Yasuhiro, and Sergio Rossi. This group owns the brands Puma and Tretorn. Tretorn operates in the footwear, leisure, and tennis industries. Puma, which was founded in 1948 and today distributes its products to over 120 countries worldwide, employs over 9,000 people and is headquartered in Herzogenaurach, Germany, Boston, London and Hong Kong. Puma Vision also works very strongly in the environmental sector, heavily investing its initiatives in sports events such as the FIFA World Cup, UEFA European Championships, Olympic Games and Volvo Ocean Race. Thanks to the achievements of athletes benefiting from this brand the clothing company is visible on the international stage [9].

Presentation of the financial performance of these companies

Table 1. Net income for the years 2005-2009 for these four companies listed on the XETRA DAX.

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<tbody>
<tr>
<td>Adidas</td>
<td>383</td>
<td>483</td>
<td>551</td>
<td>642</td>
<td>245</td>
</tr>
<tr>
<td>H &amp; M</td>
<td>9,247</td>
<td>10,797</td>
<td>13,558</td>
<td>15,294</td>
<td>16,384</td>
</tr>
<tr>
<td>Hugo Boss</td>
<td>No data</td>
<td>128,7</td>
<td>154,1</td>
<td>112</td>
<td>99,2</td>
</tr>
<tr>
<td>Puma</td>
<td>285,8</td>
<td>263,2</td>
<td>269</td>
<td>232,8</td>
<td>128,2</td>
</tr>
</tbody>
</table>


Table 1 shows that three out of four of these companies (Adidas, Hugo Boss, and Puma) had a declining net income for the years 2005-2009. By contrast, H & M showed a marked upward trend in net income.

Roles of subcontractors in the parent companies

To increase its competitiveness by rapidly responding to customer needs [10] these companies subcontract their entire production or transfer the simplest steps to the Far East [11,12]. For example, they have many subcontractors producing products for the home players from Europe have a large enough financial resources (and thus production capacity) that are listed on a national stock exchange. These related companies that are listed on the Hang Seng are Daphne International Holdings Ltd., Eagle Nice (International) Holdings Ltd., Mainland Headwear Holdings Ltd, Taxon Holdings Ltd., Yue Yuen Industrial (Holdings) Ltd.

- Daphne International, through its subsidiaries, engages in the production, distribution, and sale of footwear, apparel and other accessories in the US, China and others. The company offers its products under the brand names Daphne Shoebox, Adidas, Sofit, Born, Arezzo, and Nike. At 31 December 2008, it had 1,815 stores including 616 outlets Daphne, 138 posts, Adidas, Nike and 28 points and 418 operating by franchising stores. Daphne International sells its products in a class called OEM Business. This segment manufactures and distributes shoes under arrangements with other manufacturers. Daphne International was established in 1987 [13].

- Eagle Nice is an investment company, involving the production and trade of sportswear. The company operates sportswear for men, women, and children. It manufactures products under various brands such as Nike, North Face, and Puma on the basis of the original equipment supplied by the manufacturer. Eagle Nice has subsidiaries in China, Japan, Europe, the US, South Korea, and Hong Kong. The company was founded in 1993 and is headquartered in Kwai Chung, Hong Kong [14].

- Mainland Headwear was founded in 1986. It has its own production facilities in Buji, Shenzhen, and Dongguan, China. The group manufactures a wide range of headgear, including caps, hats, winter caps, bands, and visors. Most of the group’s products are sold in foreign markets. The main market in Europe is Poland. In addition, major consumers of the group are Warner Brothers, and such well-known film producers and Hollywood’s sports as Batman and Robin, Superman and Star Wars, NBA, MLB, NCAA, NHL, Manchester United Football Club, New Era, Kangol, Titleist, Ferrari, Reebok, and Timberland. Mainland Headwear produces more than 30 million hats a year in over 5,000 different designs. In October 2008, the group signed an agreement for the production of curtains from New Era Cap Co. Inc. ("New Era"). It is the largest and fastest growing headwear manufacturer in the US [15].

- Takson Holdings specialises in the manufacture of jackets and shirts. Its range is sold to markets in China, Macau, the US and Europe. The company has teamed up with leading fashion designers such as Polo, H & M, DKNY, and Hugo Boss. In addition to the clothing export business, Taxon Holdings is constantly gaining more experience in the distribution of branded sportswear in its domestic market in China. The group started its activities in 1977, and has been listed on the Hang Seng since 1997 [16].

- Yue Yuen deals with the production, marketing, and retail sales of sports shoes and coats. Other activities include the provision of group services and administrative management. Group activities are carried out in Hong Kong, the US, Europe and Asia. Yue Yuen is the largest branded sportswear and casual footwear manufacturer. It also owns a shoe manufacturer, whose manufacturing facilities are located in China, Vietnam, and Indonesia. The company is a manufacturer of original equipment for large international companies such as Nike, Adidas, Reebok, Asics, New Balance, Puma, Timberland, and Rockport. The company was founded in 1988 [17].

http://www.autexjr.org/No3-2010/0341.pdf
Table 2. Net income for the years 2005-2009 for subcontractors of Adidas. All these companies are quoted on the Hang Seng (as at 16.02.2010).

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<tr>
<td>Daphne International</td>
<td>256,056</td>
<td>295,104</td>
<td>388,720</td>
<td>497,177</td>
<td>264,982*</td>
</tr>
<tr>
<td>Mainland Headwear</td>
<td>No data</td>
<td>77,8</td>
<td>87,0</td>
<td>41,7</td>
<td>-29.3</td>
</tr>
<tr>
<td>Yue Yuen</td>
<td>310,126</td>
<td>353,6</td>
<td>359,4</td>
<td>468,7</td>
<td>464,7</td>
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</table>

* Data for six months

Firms producing for H & M and Hugo Boss

Table 3. Net income for the period 2005-2009 for firms producing for H & M and Hugo Boss. The company is listed on the Hang Seng (as at 18.02.2010).

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<tbody>
<tr>
<td>Takson Holdings</td>
<td>No data</td>
<td>-20.5</td>
<td>-35.8</td>
<td>-46.1</td>
<td>11.7</td>
</tr>
</tbody>
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Source: www.takson.com/profile.aspx (Data obtained on 18.02.2010)

Table 3 shows that Takson Holdings in 2006-2008 had a marked downward trend in net income. Considerable improvement in the net result of this undertaking was carried out only in 2009.

Firms producing for Puma

Table 4. Net income for the years 2005-2009 for subcontractors of Puma. These companies are listed on the Hang Seng (as at 17.02.2010).

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<tbody>
<tr>
<td>Eagle Nice</td>
<td>94,903</td>
<td>77,411</td>
<td>77,719</td>
<td>115,499</td>
<td>152,262</td>
</tr>
<tr>
<td>Yue Yuen</td>
<td>310,126</td>
<td>353,6</td>
<td>359,4</td>
<td>468,7</td>
<td>464,7</td>
</tr>
</tbody>
</table>

Sources: www.eaglenice.com.hk
www.yueyuen.com/about_corporateProfile.htm

Table 4 shows that both subcontractors, for the period described in 2005-2009, showed a clear, positive net income.

Role of global distributors

A distributor is involved in any stage of the process by providing or making available the final product to the customer. The activities of a distributor do not affect the safety of the final product [18]. The prevailing trends among companies in the textile and clothing industry indicate clearly that the role of distributors to sell their products is very strong and companies are increasingly turning to this way of reaching their final customers. Currently, the most prevailing trends in the distribution of goods in this sector is to produce goods by the company by franchising, offering rights to distribution, or selling through independent shops [19].

Distributors to this sector that are listed on the Hang Seng (as at 15.02.2010), Euronext Paris (as at 1.03.2010), FTSE in London (as at 15.03.2010), and New York Stock Exchange (as at 17.03.2010) include:
- Belle International Holdings, which manages a portfolio of footwear brands including Belle Teenmix, Tata, Staccato, Senda, Basto, Jipi Japa, Milie, and Mirabell. The company distributes footwear including brands such as Bata, Geox, Clarks, Mephisto, BCBG, Merrell, Sebago, and Caterpillar. Belle International is the distributor of sportswear brands Nike, Adidas, Kappa, Puma, Converse, and Reebok. According to the China Centre of Information (2008) six brands in Belle International’s portfolio were included in the list of the 10 largest companies in the Chinese market: Belle (1), Teenmix (2), Dad (4), Staccato (6), Senda (7), and Basto (10). Belle International Holdings has been recognised as the number one brand over the past 13 years. As at June 30, 2009, Belle International were present in 9,104 retail outlets in mainland China and 221 retail outlets in Hong Kong, Macao, and Taiwan. The company is listed on the Hang Seng [20].
- Groupe Go Sport is the third largest supplier of sporting goods in France. The group trades in clothing and sports equipment brands such as Nike and Adidas. In 2008, it had 166 outlets of which 126 were in France, 21 in Poland, and two in Belgium, as well as franchise stores. Over 90% of its sales are in France [21]. Go Sport Group is listed on the Euronext Stock Exchange in Paris.
- JD Sports is a leading retailer of fashion and everyday sportswear in the UK and Ireland that has over 400 stores. Founded in 1981, the company’s first store was only opened in London in 1989. However, by 2002 the company had about 200 stores. JD Sports also bought more than 70 shops belonging to Allsports. This acquisition further strengthened its position in the UK. The group also has stakes in the Scott’s brand and Bank Fashion. The company holds a 57% stake in the Pentland Group, which is a major shareholder of groups such as Lacoste and Speedo [22]. It is listed on the FTSE in London.
- PPR is Europe’s leading luxury products retailer. The company distributes home appliances, leisure products, and sporting goods under the brand Puma. It also designs, manufactures, and distributes leather items, watches, shoes, jewellery, glasses, and cosmetics. Goods are sold under the brands Gucci, Yves Saint Laurent, Boucheron, and Bottega Veneta. At the end of 2008 the group had a network of 560 offices worldwide. It has increased its unrivalled experience in retail sales in various ways starting from different models of highly innovative retail channels. Shares in Gucci and Puma provided a coherent portfolio of prestigious global brands. PPR is listed on the Euronext Stock Exchange in Paris [23].
Table 5. Net income for the years 2005-2009 for the distributors Puma and Adidas.

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<tbody>
<tr>
<td>Belle International Holdings</td>
<td>No data</td>
<td>234,9</td>
<td>976,6</td>
<td>1,979</td>
<td>2,010</td>
<td>HK$’000, Hang Seng in Hong Kong</td>
</tr>
<tr>
<td>Groupe Go Sport</td>
<td>No data</td>
<td>-12,174</td>
<td>12,880</td>
<td>-13,153</td>
<td>-1,4</td>
<td>mln €, Euronext Paris</td>
</tr>
<tr>
<td>JD Sports</td>
<td>30,767</td>
<td>-13,247</td>
<td>10,932</td>
<td>11,731</td>
<td>23,455</td>
<td>’000, FTSE London</td>
</tr>
<tr>
<td>PPR</td>
<td>No data</td>
<td>No data</td>
<td>1,041</td>
<td>1,042</td>
<td>1,044</td>
<td>mln €, Euronext Paris</td>
</tr>
<tr>
<td>VF Corporation</td>
<td>506,702</td>
<td>533,516</td>
<td>591,6</td>
<td>602,7</td>
<td>461,3</td>
<td>mln$, NYSE</td>
</tr>
</tbody>
</table>

Sources: www.belleintl.com/en/aboutus/index.jsp
www.groupegosport.com/pages/franchise.htm
www.jdsports.co.uk/about-usjd-history/
www.ppr.com/sectionId-184_Changelang-en.html
www.vfc.com/about/global-presence

VF Corporation is dedicated to trafficking of jeans and sports clothes and employs over 44,000 associates worldwide. Its brands are sold in over 150 countries through 47,000 retailers in all distribution channels in over 700 retail stores and via the Internet. National Holdings Limited has its base located in Greensboro, North Carolina. The company operates with such brands as Wrangler, Lee, Riders, and Lee. In addition, VF Corporation also owns such brands as The North Face, Napapijri, and Puma. The company is also in coalition with a company dedicated to producing protective clothing for industry, business, government, and industrial laundries. VF Corporation has more than 700 retail stores in the US for the following brands: Vans, Lucy, North Face, Nautica, John Varvatos, the Kipling, Napapijri, and The North Face. VF has approximately 20,000 associates in the US. The company’s range is despatched to the US, Argentina, and Canada. Approximately 50% of its products are produced in Mexico, Honduras, Nicaragua, Chile, and Argentina. VF owns and operates production facilities in Poland and Turkey. Today, VF Corporation is the world's largest supplier of clothing [24]. VF Corporation is a company listed on the New York Stock Exchange.

Financial performance of distributors

Table 5 shows that Belle International, Groupe Go Sport, JD Sports and PPR over the period 2005-2009 showed net growth, although not always positive. VF Corporation recorded no significant decrease in net income for the sample period.

Conclusions

1. Adidas, Hugo Boss, and Puma showed a downward trend in net income at a time when:
   - Daphne International and Yue Yuen, who supply Adidas, showed an upward trend in net income.
   - Taxon Holdings, who supplies H & M and Hugo Boss, showed a downward trend in net income.
   - Both Eagle Nice and Yue Yuen, who supply Puma, showed a clear, positive net growth.

2. Adidas and Puma showed a downward trend in net income while their subcontractors:
   - Belle International, listed on the Hang Seng, showed a rising trend in net income.
   - Groupe Go Sport and PPR, listed on the Euronext Stock Exchange in Paris, showed an upward trend of net income.
   - JD Sports, listed on the FTSE in London, and VF Corporation, listed on the New York Stock Exchange, showed a downward trend in net income.

3. The likely ways to increase net profit is to manage the company according to the sequential model of the internationalisation of enterprises namely:
   - Sell their products through franchising and licenses located in the Middle East [25] and on the Internet [26].
   - Focus their attention on sales in the country that creates a distinctive emblem of the brand [27].
   - Move the simplest stages of production to the Far East [28].
   - Place pressure on the company’s innovation.
   - Work with a direct investment company that operates in a country other than resident foreign investor or foreign investor to be a direct [29].

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