

Chapter 4

Cashmere Value Chain in China



Qingliang Gu and Bin Shen

1 Introduction

Cashmere products were worn by the rich customers, but now are much more accepted by mass consumers. As a result, the market demand of cashmere products is much larger than before. China, the largest producer of cashmere in the world, has greatly contributed to enlarging supply and meeting the customer demand (Waldron et al. 2014).

Cashmere is an important sector in the textile and apparel industry in China (Waldron et al. 2014). The cashmere fiber and products show unique attributes and have great values in the world market. China is the largest producer and exporter of cashmere products, and a big potential consumer in the world (Brown et al. 2005). The production of raw cashmere in China is about 15,000–16,000 t, 72% of the world total, and the import is 6500 t annually (Waldron et al. 2014).

The cashmere industry is driven by both supply and demand. China is the largest producer of cashmere yarns, fabrics, and fashion goods. The industry imported large percentage of world raw and semi-processed cashmere as shown in Tables 4.1 and 4.2. Both tables show that the total net consumption is increasing during the period of 2006–2014, which implies that the capacity of cashmere industry is gradually expanding. Furthermore, less export of raw cashmere means that the industry has focused on the value-added sector of production chain in China.

This paper is based on the first author's project "Pashmina enhancement and trade support project" for International Trade Center.

Q. Gu
College of Textile, Donghua University, Shanghai 201620, China
e-mail: qlgu@dhu.edu.cn

B. Shen (✉)
Glorious Sun School of Business and Management, Donghua University, Shanghai 210005, China
e-mail: binshen@dhu.edu.cn

Table 4.1 China net consumption of cashmere in weight in 2006–2014

Year	World imp. (t)	China imp. (t)	Proportion (%)	China production (t)	China exp. (t)	China net consumption (t)
2006	27,536	6278	23	16,395	7003	19,418
2007	25,692	7245	28	18,483	6315	22,653
2008	24,220	6225	26	17,184	5066	20,988
2009	25,966	8932	34	16,964	4086	23,771
2010	31,055	12,981	42	18,518	5624	28,759
2011	29,857	11,107	37	17,989	6007	26,604
2012	23,226	9941	43	18,021	4814	25,620
2013	25,900	10,645	41	18,114	4919	25,915
2014	28,060	12,178	43	19,278	4323	29,082

Source UN International Trade Database

HS Code: 510211; 510219; 510531; 510539

The total industry consumption for the purpose of producing cashmere goods (industry for yarns, fabrics, sweaters, scarves, etc.) could be calculated according to the following equation

Net consumption = domestic production + import – export

Table 4.2 China net consumption of cashmere in value and weight in 2006–2014

Year	Net consumption in value (\$)	Net consumption in weight (t)	Average price (\$/t)	Growth rate in value (%)	Growth rate in weight (%)
2006	501,077,883	19,418	25,804	/	/
2007	610,472,234	22,653	26,949	22	17
2008	533,560,377	20,988	25,423	-13	-7
2009	397,438,290	23,771	16,719	-26	13
2010	626,102,506	28,759	21,771	58	21
2011	729,830,432	26,604	27,433	17	-7
2012	758,457,025	25,620	29,604	4	-4
2013	811,820,887	25,915	31,327	7	1
2014	883,032,329	29,082	30,364	9	12

Source UN International Trade Database

HS Code: 510211; 510219; 510531; 510539

China is the giant producer and exporter of cashmere in the world. According to the latest data from National Bureau of Statistics of China, there are about 2600 cashmere related firms and produces 75% of the world's cashmere products (Towers et al. 2013). To satisfy the international market, Chinese processors used to keep close eyes on international cashmere trend, but now domestic market as well, which has rapid growth at present.

In this paper, the Chinese cashmere value chain is examined. The value chain structure of cashmere sourcing and processing of raw material, spinning, weaving, knitting, and sewing is discussed. The objectives of this study are (1) to understand the Chinese cashmere value chain structure, (2) to identify the industry structure from supply of raw material to production of finished goods, and (3) to introduce the successful cashmere retailers in China and identify how Chinese retailers develop, design, and produce the premium cashmere products.

The rest of this study is organized as follows: Section 2 reviews the cashmere value chain structure in China. Section 3 conducts the case discussion on Chinese cashmere brands. Section 4 proposes challenges and problems in Chinese cashmere industry. Section 5 concludes our study.

2 The Cashmere Value Chain Structure in China

The value chain of the cashmere is quite complex. The value chain of cashmere can be generally classified into the following steps: (1) The cashmere material is collected from goats which are raised by farmer; (2) After collection, cashmere materials need to be selected according to the various quality and standards; (3) The selected cashmere is sold to the dealers who would resell it to the processors (it may be relevant to various parties with informal/formal contracts); (4) After the cashmere is delivered to the factories of processors, it firstly has a preliminary processing which includes abstersion, carding, and dehair; (5) Designers design cashmere products and merchandizing planning; (6) It goes through processing, including spinning, knitting and tating, and sewing; (7) The cashmere sweaters arrive at stores and are sold by retailers to the final consumers; and (8) If cashmere products are difficult to wash and maintain, after-sales services help retailers to enhance consumer satisfaction (Fig. 4.1).

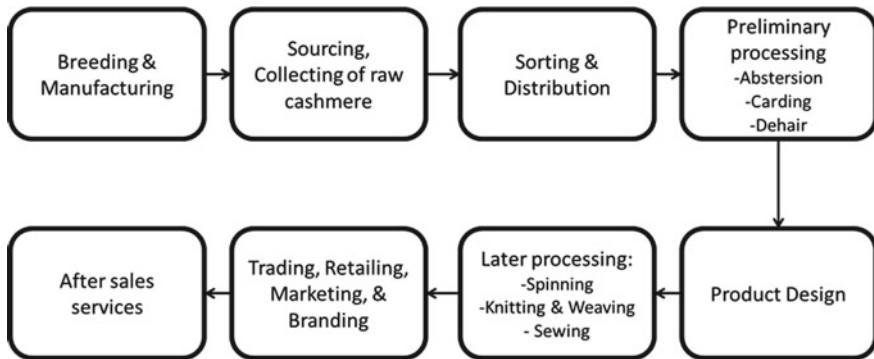


Fig. 4.1 Cashmere value chain

Many Chinese cashmere companies have responded to the Chinese government's "One Belt One Road" initiative. For example, in 2009, Zhongyin, the major player of cashmere in China bought Todd & Duncan, the cashmere spinning subsidiary of the mainstay in Scotland, UK. Moreover, Zhongyin moves out of mass production capacity and sets up factories overseas.

China's cashmere industry plays an important role in the world market. However, as world economy recesses, the export declines consequently, and selling cashmere products in domestic market is also increasingly tough. Besides Erdos, many Chinese cashmere companies have registered brands such as Luwang (King Deer), Weixin (Viction), Shengxuerong (St. Edenw), Xuelian (Snow Lotus). At present, the China cashmere industry not only holds the international market tightly, but also takes the domestic market very seriously (Lightfoot and Cohen 2008). Many firms claimed that the domestic market is more lucrative than the international one (Hume 2014).

Selling cashmere products is a good business and many fashion retailers start to sell cashmere products (Lightfoot and Cohen 2008). For example, Erdos has 1500 retail stores in China¹ (even in the train station such as Shanghai Hongqiao railway station). The price range of Erdos for pure cashmere products is from RMB 600 to more than RMB 5000 targeting segments with different sub-brands. Erdos used to be the medium-high cashmere brand in China, now it tends to extend its product line. Erdos now develops a high product line, called 1436. 1436 sells premium quality products with high prices.

However, it is important to note that the China domestic market is highly segmented. There are a lot of low-value cashmere products in market (Siegle 2014). Moreover, many products are claimed as cashmere one, but they are not exactly. Therefore, Chinese consumers are always concerned with the low quality cashmere which sometimes mislabeled as "cashmere" products (Waldron et al. 2014). In order to develop the cashmere industry to be healthy and sustainable, it is important to regulate the market, set up quality standard, and build brand image, industry reputation, and intellectual properties.

Cashmere industry is unique and special in China. Cashmere firms are located in western China, instead of eastern places. It is because western China is close to the raw materials. In central Inner Mongolia, there are a number of large, stand-long enterprises in Erdos (i.e., Erdos and Dongda), Linhe city (Viction), Hohhot, and Baotou (King Deer). In Ningxia, there is Cashmere Industrial Park Lingwu, which is on the outskirts of the capital city of Yinchuan, Ningxia (InvestHK 2015). However, the fine wool woven fabrics finished goods, especially the high-end fashion, are produced and assembled in southeast coastal area in China, for example, Ruyi Group, the largest suits and dress producer by fine worsted and woolen fabric located in Shandong; Youngor, the China's No. 1 menswear producer with vertically integration from spinning, weaving to sewing in Zhejiang province. Moreover, most giant companies and international brands have their departments of designing, marketing distribution, and trading in Shanghai. The domestic brands' headquarter may locate in Shenzhen, Hangzhou, Beijing, the regional fashion center in East China.

¹In Erdos financial report, it shows there are 20 retail stores which are located out of China.

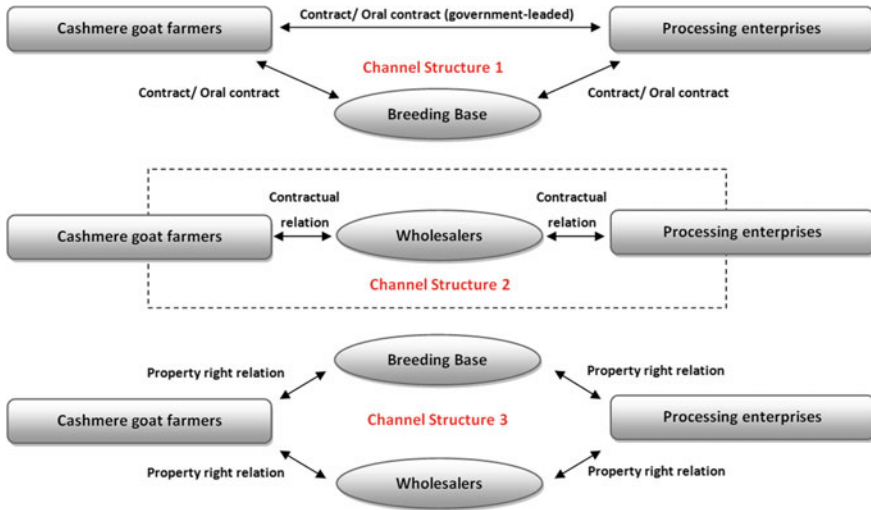


Fig. 4.2 Channel structure of cashmere supply

Cashmere processing is one of the few industries in which western China dominates the production in volume over the more developed and industrialized eastern regions. The most important advantages for mills in western China are their proximity to and familiarity with high-quality cashmere supplies. This contrasts with the worsted and woolen fabric sector that has almost entirely moved to eastern China because of buyers demands.

Clustering is the typical phenomenon of China textile industry. China cashmere industry can be classified into three types:

- (1) The raw material market and manufacturing clusters developed from raw cashmere origin and distribution center, such as Erdos in Inner Mongolia, Qinghe in Hebei, and Lingwu in Ningxia, usually led by large cashmere companies.
- (2) Industrial zones and wholesale markets gathered by many manufacturing SMEs in the form of “stores backed by factories,” such as Puyuan sweater industrial park and Tongxiang sweater market in Jiaxing, Zhejiang province.
- (3) Fashionable metropolises grouped by cashmere brand companies’ fashion marketing, designing, trading, and retailing, such as Shanghai and Beijing.

There are three kinds of channel in China’s cashmere distribution. For small-scale suppliers (Channel Structure 1), goat farmers are part of breeding base and then sell cashmere to processing enterprises. For medium-scale supplier (Channel Structure 2), goat farmers sell the cashmere to wholesalers, and then wholesalers sell to processing enterprises. For large-scale manufacturers, the processing enterprises lead the whole channel. The processing enterprises own breeding base, wholesalers, and farmers (Channel Structure 3) (Fig. 4.2).

Table 4.3 Key cashmere retailers in China

Brand and Company	Categories	Description
Erdos, King Deer, Zhenbei, Snow Lotus, Tianshan, Tuhuang	Cashmere sweaters and accessories	Top local manufacture brands specialized in cashmere
Cerruti 1881, Zegna, Armani, Hugo Boss, Burberry, Gieves & Hawkes	Sweater, coat, dress, suits of fashion brand	Overseas brands imported or local made
Cashmere Yung, Ducan	High-end brands	High-end brands, cooperate with local cashmere companies
Zara, Uniqlo, H&M	Casual and sweaters	Overseas retailers brands, fast fashion, local sourcing retailers
Ruyi, Youngor	Fabrics and menswear	Local manufacturer brands
Woo, Premium good	Scarves and accessories, tailored designand made	National brand boutique special VIP
Tongxiang wool sweater market	Low-end products; sweaters	Wholesale market

3 Cases Discussions

This case study was conducted using multiple research methods. First, the secondary data such as the publicly available statistics from the government and companies' annual reports were collected. Second, the administration of China National Textile and Apparel Council (CNTAC) was introduced and the clear picture of Chinese cashmere industry was gained. Third, investigation of the cashmere industry zones and the case study of key players in China were conducted. Furthermore, the factories and market conditions based on the information were summarized. Notice that the materials from these multiple sources were used for triangulation purpose which helped enhance the reliability of the findings. The case study discusses Chinese cashmere brands.

In this case study section, Chinese cashmere brands can be mainly classified into three categories in the domestic cashmere market, namely manufacturer brands, private retailers' brands, and luxury designer brands. In the Chinese cashmere market, the key players specialized in cashmere and wool sweaters and accessories include Erdos, King Deer, and Tianshan. These companies started their business with OEM, and exports usually account for a large proportion of their total revenue. Erdos is the No. 1 cashmere producer in China with better quality and higher price (Table 4.3).

Case 1 Woo: A High-End Customized Brand with Chinese Culture

Woo is a high-end brand founded by a Chinese intellectual using silk and cashmere as raw materials. The main products of Woo are scarves. The products are customized cashmere and silk accessories with price ranges from 2000 to 4000 RMB. Its target

customers are high-end elite female customers. The products are produced with China's top manufacturing techniques and special design, patterns, and color. The brand highlights customization, Chinese culture, or customer demand. The products are also used as diplomacy gifts and national marketing. The main sale channel of Woo is boutique. Woo has been the domestic high-end brand without any question.

Case 2 Jiayuan: The Upgrading Road of Cashmere Enterprises

Jiayuan is one of the largest cashmere manufacturers in China. It is an Original Equipment Manufacturer (OEM), producing for international brands. With the increase of labor cost in the manufacturing industry and decrease of international orders, RMB appreciation, and homogeneous competition at home, profitability of Jiayuan is also shrinking. To address the challenges and difficulties, on the one hand, Jiayuan Group carries out technological innovation by introducing advanced equipment and increasing R&D investment; on the other hand, Jiayuan Group makes an acquisition of European high-end brand Cashmere Yung (CY) to improve design intelligence, channel network, and brand reputation in market. Jiayuan Group not only consolidates and expands the international market, but also moves its strategic target to domestic market, and opens up the domestic outlets in high-end department stores in the central business district in Beijing and other first-tier cities.

4 Challenges and Problems in Chinese Cashmere Industry

To maintain its competitiveness in the world market, there are challenges and problems in the cashmere industry including quality and price stability, financing of SMEs, excessive inventory and capacity, and labor cost in the value chain.

– Quality of Cashmere Products

Product quality and adulterated products are crucial in cashmere industry. Cashmere products are expensive and selling cashmere products are profitable. To ensure product quality, the government has to launch the restrict grades, standards, laws to improve product quality and detect the adulterated products. Moreover, some organizations could launch the quality certifications in retailing.

– Financing

The cashmere industry is both capital and labor intensive. Large amount of money is needed for raw materials, work in process, and working capital. Firms have greatly financial pressure in recent years due to the low export prices, unstable RMB currency prices, and the intensive competition in domestic market. Most importantly, the price of cashmere is quite expensive. With unstable price of cashmere and higher risks in running business, it is important to manage the firms' cash flow, predict, and act to deal with uncertainties. The government should try to build up the supporting system to help the firms.

– Heavy Inventory and Overcapacity

Seasonal over-stock and markdown is the big problem in the cashmere industry. Cashmere products have long lead time due to its production process. Long lead time could lead to the high risk in product delay, overstocking, and overcapacity. Moreover, cashmere product is very seasonal. Only cold weather needs cashmere products. Thus, product seasonability leads to the risk of high inventory and overcapacity. To better manage product inventory, the systematic inventory management is highly needed and critically important.

5 Conclusion

Cashmere is an important natural material in textile and apparel. Its high raw material cost lifts the price of cashmere products and naturally identifies the processors who must have sufficient capital. China is the largest producer and exporter of cashmere products, and a big potential consumer in the world. This paper provides a picture of cashmere value chain in China. Specifically, in this paper, cashmere value chain in China is discussed. Moreover, two famous Chinese cashmere brands Woo and Jiayuan are introduced. Both retailers are successful in designing, manufacturing and selling cashmere products. We can identify how these two brands develop their value chain. Last but not least, we propose challenges and problems in Chinese cashmere industry.

References

- Brown, C., Waldron, S., & Longworth, J. (2005). *Modernising China's industries: Lessons from wool and wool textiles*. Cheltenham: Edward Elgar.
- Hume, M. (2014). Mongolia's 'cashmere princess' expands 1436. *Business of Fashion*. Available at: <https://www.businessoffashion.com/articles/global-currents/mongolias-cashmere-princess-expands-1436>.
- InvestHK. (2015). *Ningxia cashmere taps overseas market from Hong Kong*. March 11. Available at: <http://www1.investhk.gov.hk/success-stories/ningxia-cashmere-taps-overseas-market-from-hong-kong/>.
- Lightfoot, W. S., & Cohen, C. (2008). The Cashmere Collection: Launching a new brand. *Journal of Chinese Entrepreneurship*, 1(1), 65–74.
- Siegle, L. (2014, December 7). Should I worry about cheap cashmere? *The Guardian*. Available at: <https://www.theguardian.com/environment/2014/dec/07/should-i-worry-about-cheap-cashmere-lucy-siegle>.
- Towers, N., Perry, P., & Chen, R. (2013). Corporate social responsibility in luxury manufacturer supply chains. *International Journal of Retail & Distribution Management*, 41(11/12), 961–972.
- Waldron, S., Brown, C., & Komarek, A. M. (2014). The Chinese cashmere industry: A global value chain analysis. *Development Policy Review*, 32(5), 589–610.