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## Eastern promise

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# Made *in* China

*Dishang Cherry Group chairman Lihua Zhu talks to Drapers about building China's largest export garment manufacturer*

Words by JAMES KNOWLES  
Photography by TOM CAMPBELL

Chinese manufacturing is often cited as one of the main contributing factors to the decline of the British textiles industry. With manufacturers in the region able to offer rock-bottom prices via easy access to raw materials and cheap labour rates, homegrown manufacturers simply didn't stand a chance.

However, the Chinese manufacturing juggernaut can seem like a faceless entity, with some retailers reluctant to talk about where they manufacture, and others fearful of leading the competition to their favoured supplier.

So naturally, when *Drapers* was offered the chance to interview Lihua Zhu, chairman of China's largest export garment manufacturer Dishang Cherry Group, an organisation whose customers cryptically refer to it as "the largest company you've

never heard of", it's fair to say we were keen to find out more.

Sitting in the opulent surroundings of the Andaz Hotel in London's King's Cross, *Drapers* finds a welcoming and smartly dressed Zhu, flanked by his interpreter and two officials from the group's UK office in Harrogate. He tells *Drapers* that his "aim is to keep the company in its position as one of the top clothing companies in the world", and in his calm, considered manner explains that he puts its success down to three key factors.

"Firstly, our volume strength is very important. Due to the size of the group we can secure the most competitive prices for our customers [when purchasing raw materials and components]. Secondly, we offer in-house design expertise and have factories and internal teams that each specialise in different products, meaning brands and retailers can come to us for everything. And thirdly, we





approach international markets directly with our own offices, which saves costs by cutting out the middle man.”

With 49 wholly owned factories across China and Bangladesh, and a staff of 15,000, Dishang Cherry produces 50 million garments a year and specialises in technical outerwear, sportswear, corporate/military uniforms and workwear, formalwear and tailoring, casual outerwear and lifestyle products.

Together with its network of international offices and a portfolio of services that even offers logistics and freight consolidation, and open credit terms too, it's no surprise brands and retailers, including Polo Ralph Lauren, Next and Zara, are among its customers. Such is the firm's success that since 2000, profit growth has never dipped below 20%, achieving an uplift of as much as 80% in good years, while 2011 saw the business's year-on-year turnover rise 14% to hit \$1bn (£627m) for the first time.

**AN IMPRESSIVE FEAT**, considering Zhu's humble beginnings, and the fact that it wasn't him, but the Chinese government that decided he would work in textiles and clothing manufacturing, as was the political situation at the time. It was while working for a large state-owned garment manufacturer, where he had worked his way up to a senior management position, that his love of the trade flourished. When the government opened up the economy in the early 1990s and allowed people to set up their own companies, Zhu decided to strike out on his own.

“It wasn't an easy decision to say I'll give everything up and start my own business. It was a potentially huge risk, but I decided to do it. Though I never dreamed how big or successful the company would become,” he says.

With a chuckle he recounts how, having established what is now the Dishang Cherry Group with the equivalent of just £500, he furnished his office with two desks borrowed from friends, and used to literally get on his bike and go hunting for new business by cycling to meetings.

His entrepreneurial initiative paid off, and the successful acquisition of Cherry Group Co in 2006, a garment company larger than Dishang Group at the time, helped propel it to the lead position in the Chinese market by 2010. “We're on our way to being the biggest in the world, and I won't stop until we achieve that,” he says.

However, despite its global dominance, Chinese manufacturing has been hit by rising labour costs and volatile raw material prices. “Rising labour costs have had an impact, but we can offset this by improving efficiencies, or by moving production further inland,” says Zhu. “Volatile raw material prices have probably affected small or medium-sized manufacturers, but because of our size we're

## ‘We approach international markets directly with our own offices, which saves costs by cutting out the middle man’

able to place large orders, which we tend to do in advance during mills' quiet periods to ensure we get the best price,” he says.

Mirroring the experience of the wider industry, Dishang Cherry is also working more closely with its customers, offering detailed costings to enable retailers to identify areas to take cost out, and offering added-value services such as pattern-making and grading.

However, rising production costs have led many low-margin fast-fashion brands to exit the country in favour of cheaper manufacturing countries. Indicative of the shift, Capital Business Credit's *Global Retail Manufacturers and Importers Survey* found that half of US importers have moved some of their manufacturing outside China, with 33.3% citing Vietnam as the most popular alternative.

Gerhard Flatz, managing director of Chinese performancewear manufacturer KTC, which operates factories in China and Laos and counts UK fashion brands Rapha, Musto and UVU among its customers, says that if they haven't already, fast-fashion brands will leave China soon. “China will give up on the basics. The cheap stuff is now going to Bangladesh, Burma, Indonesia, Laos and Cambodia, whereas the premium garment manufacturing will remain in China,” he says.

Zhu doesn't quite agree, saying China will retain some of the more basic manufacturing, but concedes it may have to shift its focus towards more premium products.

In recognition of this shift, Zhu made the decision to establish a presence in Bangladesh, opening his first factory in the country in 2011, while a second site is due to be finished this month. Manufacturing in the country has its challenges though. “The problem is that efficiency isn't as high in Bangladesh. Whereas in China you may have one employee per sewing table that can sew, cut and do everything, in Bangladesh you may need three people per table, one for every job,” he says.

### Key dates

#### Dishang Cherry Group

##### 2010 Signs

licensing deal for US lifestyle brand Izod

**2006** Dishang purchases Cherry group to become Dishang Cherry Group

**2005** Dishang European offices established

**2004** Partnership to distribute French brand Feraud established

**1993** Dishang (Weihai Textile Industrial Group Import & Export Co) established

Sara Honeywell, supplier relationship manager at home shopping retailer Shop Direct Group, which sources its own brand product from Asian countries including China, Bangladesh, India, Thailand, Malaysia, Indonesia, Vietnam and Cambodia, says the benefit of manufacturing in China is that it offers well-developed production expertise and a stable, solid infrastructure, which are major factors in sourcing decisions.

“China remains the number one sourcing option for many UK companies despite the challenges of an appreciating currency, increasing labour rates and a burgeoning domestic market. This is because China is stable, and stability is crucial,” she says.

However, Dishang Cherry has been hit by Western economic turmoil, particularly in Europe, which accounts for 20.82% of its sales, 5% of which is from the UK. But Zhu sees the situation as an opportunity rather than a challenge.

**RECOGNISING ITS OVER-RELIANCE** on garment exports, the Chinese government has been encouraging the domestic market, which is currently worth RMB600bn (£60bn). While in London, Zhu will meet with UK brands about the possibility of introducing them into the Chinese market via a licensee deal, something he has done with US brand Izod Costume Co, which following a June launch last year, is on target for 80 Chinese stores this year. “Lots of American brands are present in China, but few UK ones. Every time I visit the UK I have a good feeling about them,” he says.

Zhu expects 2012 to be the most difficult year, and tells *Drapers* he expects growth to slow to around 3%, before rising again to more than 10% for 2013. “This is the feeling for me and my customers. The economic situation in America, Japan and the EU is not good, and consumers are being more careful about spending,” he says. However, with an air of confidence he adds: “But I can handle it”. 🌈