Esquel CEO says automation core to competitiveness

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While doomsayers have been waxing lyrically for the past two years about how the Chinese clothing industry could have a shaky future, John Cheh, vice chairman and CEO of Esquel Group, the Hong Kong-based vertically integrated cotton to shirt maker, is resolute in his optimism.

This is underpinned by sales: in 2014, Esquel, which supplies over 100m garments a year to brands including Hugo Boss, J Crew and Marks & Spencer, earned nearly US$1.4bn in sales, entering its 10th consecutive year of 6% growth.

Negative trends in mainland China, from a slowing economy to concerns about labour shortages, appear to have little impact on Esquel, whose largest manufacturing site is in Gaoming, Guangdong province, and is investing more than CNY2bn (US$313.9m) to build a new facility in Guilin, Guangxi province.

This is where Cheh was speaking to just-style, in an exclusive interview. "People complain about labour shortages in China, and I laugh. How come a country with 1.3bn people could have a labour crisis?" Cheh asks.

Smiling confidently in an impeccable black suit, Cheh reveals his secret weapon: automation. Of course, this is not that rare in the textile sector – "If you look at top European machinery suppliers, maybe 80% of the sales are from China. There is huge investment in this sector to help textile suppliers improve their efficiency and quality. So the textile side is no longer considered labour intensive," Cheh says. He adds that Esquel's new spinning mill in Xinjiang, the company's major source of extra-long-staple cotton, has only 20 workers managing 10,000 spindles.

But what makes Esquel unusual is that it applies automation in the garment sector, which conventionally needs workers to undertake cutting, sewing, ironing and packing. And while Esquel employs around 40,000 of its 57,000 workers in its major clothing manufacturing sites in China, Vietnam, Mauritius, Sri Lanka and Malaysia, Cheh stresses: "But we used to have 60,000 workers make shirts. So we have less workers but we are making more."

At an Esquel garment factory in Guilin, workers work harmoniously with automatic devices: delivery carts that move unfinished parts among different lines, fabric cutting machines armed with vision sensors to align lines and checks on patterned fabrics, and buttonholing machines can almost triple the daily productivity of manual-based systems of 800 pieces to 2,200 pieces.

"This is automation, and I call it de-skilling, which frees us from the pain of finding skilled workers," Cheh says, adding that while making a shirt may look easy, it involves many different procedures which require skilled workers.

"To gain these skills you need to train workers, and it certainly is not some short-term training that takes only months," he explains.

In Malaysia, Esquel even has a test line that takes such automation to the next level – using robots. "At the current stage I don't want to say automation equals to robots, because full-sized robots are big and expensive. It's happening, but we're not quite there yet," Cheh says.

Machinery research and development

Each year, Esquel invests millions of yuan in its own machinery research and development centre, hiring top-level engineers and developing new devices to improve the company's internal automation. The return is evident to the company and its workers. "These devices are easy to operate and they work fast and accurately. As the efficiency increases, so does our workers' wages. However, thanks to the high productivity, our unit cost actually goes down, and this is our key competitiveness," Cheh explains, adding in its Guilin factory, one second means eight shirts, while conventionally, it could take minutes to make a shirt.

Not surprisingly, while other garment manufacturers are moving production out of China, citing rising labour costs and shortages, Esquel continues to invest in the country. Cheh dismisses the idea of leaving China just for the sake of finding cheap labour.

"China has such a complete supply chain from fabrics, dyeing to finishing, and it has built a solid infrastructure, and it has over 800m people in [its] workforce. You cannot find these things together in another developing country. However, if you cannot change, cannot upgrade your factories, yes you have to run away from the rising cost. Just remember that the countries now offering cheap labour will surely raise labour costs in the future as well," he warns.

To emphasise how his business benefits from China's infrastructure, Cheh notes that fabrics dyed in Esquel's Gaoming facility arrive at its Guilin factory within only five hours by truck. In future, Cheh believes transportation between facilities in Gaoming, Guilin, Vietnam and Malaysia will be easier and more frequent as China keeps pushing its 'One Belt One Road' strategy that aims to build business and transport links between west China, central Asia, Europe and Southeast Asia.

"Our facilities are located strategically. We set up our Xinjiang [western China] facility back in 1995 and now it's a key location on One Road. We are keen to see how One Belt could benefit us in the future," Cheh says.

Growing domestic market

Another reason for Esquel to stay in China is for the growing domestic market. While it is true that China's gross domestic product growth rate is slowing, it is hardly in recession – projected to grow 7% this year, an enviable rate in many mature markets. So disposable income per capita continues to grow, to CNY28,844 (US$4,527) in 2014, up 7% from CNY26,955 (US$4,231) in 2013, according to China's national bureau of statistics.

"China's previous GDP growth was too high, and it was state investment driven [so] therefore it wasn't sustainable. Now that the Chinese have more income, they want to improve their life quality and dress themselves nicer and better. I see Chinese consumers continuing to buy and the GDP growth shifting to domestic consumption driven," he predicts, stressing that about US$150m of Esquel sales were from clients' stores in mainland China last year; ten years ago, it was almost zero.

"Now with the new two child policy, there will be a new crop of consumers buying our shirts in 18 years," Cheh jokes.

Overall, Chinese consumers are indeed buying high quality products. On the recent Chinese national online shopping day (11 November), at least 30m Chinese consumers bought imported products through the online platform Tmall, a subsidiary of Alibaba, with garments and accessories, infant formula and cosmetics in the lead, according to Tmall.

The growing desire of Chinese consumers for high quality clothing also explains why Esquel has developed its own high-end shirt brand PYE, currently only available in six stores in Hong Kong, Shanghai, Beijing, Guangzhou and Ürümqi (Xinjiang), with a minimum price at around US$130 per piece.

"We also plan to develop a new high end brand called 'Made in Guilin'. Guilin is a place that stands for natural beauty and clean environment, and the fact we are manufacturing here is quite a statement," Cheh says.

Esquel recently organised a conference on sustainability, which heard how China is making serious efforts to green its growth – and how the clothing and textile sector is playing its part. Click on the following link to read more: Clothing sector helps China to green its growth

Full story：

http://www.just-style.com/interview/esquel-ceo-says-automation-core-to-competitiveness_id126642.aspx