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DENIM'S TRYST WITH REVIVAL

Denim, a fabric made of cotton, was firstly used to make working clothes, and later on, other types of garments including shirts, jackets and jeans. Moving forward, product innovations with designs, patterns, colours and fits, and rise of fashion sense helped the denim market grow further. This feature encapsulates one of fashion's most revolutionary products and top leaders in the segment.

by **SANJAY BAKSHI**

Global denim jeans market is projected to reach 3.5 billion units by 2026, growing at a CAGR of 3.7 per cent. Asia Pacific will grow at a highest 4.3 per cent CAGR while North America, accounting for about 28.7 per cent of total market as per a recent report by Fibre2Fashion, is estimated to grow at a CAGR of 3.3 per cent up to 2026. In 2020, denim jeans market was estimated to be worth 2.5 billion units.

JEANS SNAPSHOT

According to a 2020 report on the trends in denim, jeans with regular fit mostly worn by average men and women body shapes is the most-in-use. In terms of price-positioning, the affordably priced jeans sell maximum in low-income group and developing countries with low per capita jeans consumption. Gender wise, women segment is gaining traction especially in countries like Brazil, China and India where the number of office-going women is on the rise. Within retail channels, the hypermarket and supermarket formats contribute highest to sales of jeans owing to factors such as availability of large collection under one roof and competitive price offers, increased urbanisation and rise in working class population, besides growing count of these retail formats. Among regions, North America was found to be the highest contributor of jeans market and is expected to stay at the top in coming years too.

MARKET TRENDS

The key drivers of today's denim market are rise in spending capacity and per capita consumption of denim jeans, consciousness regarding the clothes suitable for the body types, and acceptance of casual wear in offices. Increasing social media penetration and fashion influencers also act as catalyst in helping denim market grow.

Recent popularity of coloured denims and consistent launch of newer styles have helped in expanding demand for denims. Since jeans have evolved into a multipurpose or more rightly an all-purpose attire, its consumption has only increased manifold. Though home confinement during pandemic lockdowns impacted the sale of denim at a global scale, their share in wardrobe and usage never declined due to their availability as pre-COVID collection. As lockdowns were temporary, sales of jeans are reported to have revived back as soon as August 2021 in the world's most of the markets. The alternate products of lockdowns, such as sweatpants and casual bottoms, began experiencing higher discounts by retailers and lower investments by manufacturers. However, consumers exposed to the comforts of these products while staying at home, now seek similar features in their denims too. While the skinny jeans remains a staple, it is falling out of favour with younger consumers, giving way for straighter and baggy silhouettes. Retailers are also making strides to prioritise recycled, responsible and regenerated denim. As per estimates, 39 per cent denim assortments have had a sustainable transformation, up from 16 per cent in 2019. Only 9 per cent of plus-size jeans currently available use alternatives to conventional cotton and 3 per cent of styles can be categorised as 'recycled' directing retailers to innovate with plant-based dyes and resource-saving alternatives. Jeans dominated denim collections across SS21, making up 48 per cent of all bottom arrivals at youth-oriented retailers.

The denim trade has also evolved. Now the ability to manufacture new styles and test them in the market do not involve much of financial risk as it used to be in the past. Several retailers, therefore, have made this their entire business strategy. For instance, Shein, the fast-fashion brand popular with Gen Z, claims to add some 1,000 products to its website every day peaking even up to more than 6,600 styles of women's jeans on certain days. In addition, 'personal' style as opposed to trend-based is also a popular idea today.

A review of top five global denim players will further throw some light on the recent developments and progress in the denim market.

LEVIS STRAUSS

Levis Strauss & Co. (also Levi's) is the leader in the denim world. Levi's with financial year from December to November, entered the pandemic phase on the onset of Q2, FY20. Despite experiencing devastating wars, economic recessions and natural disasters in its 168-year history, the COVID-19 pandemic of 2020 proved to be an unprecedented challenge for the company. The period saw closure of the majority of Levi's stores and even wholesale partner doors jeopardising the company's fiscal plans, besides throwing uncertainty for the balance of the year. As expected, the results could not better the previous year, but the company still emerged more profitable and cash generative as it was quick to adjust its cost structure and focused on cash. This established the fact that jeans would stay even in an adverse situation.

The pandemic fast-tracked many consumer shifts, majorly moving towards casualisation which played to Levi's' strength. During the year, Levi's deepened the connections with consumers through product, marketing, stores and digital experience. The denim-share leadership position was retained globally with two-third of revenue coming from denim bottoms alone. Among channels, DTC (company owned & operated stores, SIS and e-commerce) with 39 per cent share; among markets, the international sales with 56 per cent share; product wise, bottoms with 73 per cent share; and, in terms of segments, women with 34 per cent share remained key contributors to the total revenue. E-commerce business grew by 29 per cent, emerging profitable on fully-allocated basis.

The year triggered the need for non-business efficiencies too. Pandemic pushed the case for quality products designed to last generations and encouraged the consumers to wear what they love and live with it longer. Rightly so, Levi's expanded its use of innovative fabrics such as Cottonised Hemp and launched Levi's SecondHand in the United States – a new re-commerce programme that allows consumers to trade in and purchase previously owned Levi's directly from the brand. Company's value brands Signature by Levi's and Denizen finished the year with more than 20 per cent growth in the third and fourth quarters.

TABLE 1

LEVIS STRAUSS & CO.	Pre-COVID				COVID		Revival
	2016	2017	2018	2019	2020	2021	Q2, 2022
Net revenue (in $ billion)	4.6	4.9	5.6	5.8	4.5	5.8	3.063
EBIT ($ million)	493	502	590	611	181	713	383

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Overall, Levi's aims to grow its share across geographies, categories, genders and channels, as well as its international business.

Pandemic continued in 2021 too. The challenges compounded by major supply chain issues and labour shortage at DCs and yet, Levi's delivered revenues ahead of pre-pandemic 2019. The revenue was the highest since 1998, along with record adjusted gross margins and EBIT margins. During the year, Levi's continued to invest in brands, technology, infrastructure and e-commerce which became a high-growth and profitable business. Omnichannel and brick-and-mortar footprint were strengthened, primarily with the expansion of new, digitally enabled smaller format stores equipped with digital services, curbside pickup and mobile checkout. More than 90 company-operated stores were opened totalling up to 1,083. Net revenue through all channels grew nearly 60 per cent against 2019, representing 22 per cent of total company net revenues for 2021 compared to 14 per cent in 2019.

Levi's acquired the Beyond Yoga business and entered the additional activewear market which is estimated to be five times bigger than denim and growing at a faster rate. Simultaneously, it stayed ahead of shifts in consumer behaviour and the global casualisation trend by introducing new denim cycle to looser, baggier fits – the first new cycle in over a decade.

Levis Strauss & Co. bounced back strongly in 2022 too – a post-pandemic revival phase. On six-month comparison, global DTC revenue has grown 16 per cent (23 per cent in company-operated stores) whereas wholesale has grown by 15 per cent over 2021. During the same period, net revenues through all digital channels represented ~20 per cent of total second quarter net revenues, up 3 per cent on top of 75 per cent growth in the same quarter of the prior year.

Departing from its denim stronghold, the company is now looking forward to capturing additional share of closet. Over the next decade, it aims to achieve gender parity by driving outsized growth in women's segment as well as in product categories such as tops, accessories, outerwear, footwear, non-denim bottoms and activewear. Collectively, these products are intended to comprise more than half of net revenues by 2030. On channel side, the future non-digital business including Levi's largest traditional brick-and-mortar department stores are set to contribute less than 10 per cent of total revenues while the growth of online business of pure-play and wholesale customers will continue. This will lead to a global digital footprint, including own e-commerce, to comprise more than a third of its annual net revenues by 2030.

Overall, the company aims to grow its share across geographies, categories, genders and channels, as well as its international business. The portfolio diversification through organic and inorganic acquisitions is also on the company's agenda.

LEE & WRANGLER

Kontoor Brands Inc., the owner of iconic denim brands Wrangler and Lee, began monitoring status of COVID-19 since the beginning in late 2019. Discussions with experts intensified by early 2020 to tackle the growing challenge. When the crisis unfolded in the Asia-Pacific region, 90 per cent of the company's and partners' stores were closed. In the following months, things became same in the European and North American businesses too. However, Kontoor continued serving its three largest retail partners – Walmart, Amazon and Target, who remained open to provide essential goods throughout the pandemic. Teams worked from home to transition the design work and fittings to a virtual setting to keep production on track. While prudent measures were put into action on financial front, the denim company leveraged its owned and operated manufacturing to quickly realign capacity with changing demand and marketplace conditions. The business improved in the second half of 2020 compared to previous year, decreasing only 4 per cent compared to 32 per cent decrease in the first half. US revenues were also up 5 per cent for both Lee and Wrangler in the second half of the year enhancing company's segment market share by 200 basis points.

FY21 (company's FY is from January to December) closed with almost $2.5 billion company revenue (18 per cent up), including Wrangler contribution of close to $1.6 billion and Lee contribution of ~$0.9 billion. Wrangler gained 17 per cent and Lee grew by 29 per cent year-on-year. The company also managed to reduce its debt by $123 million. Kontoor became leaner and more efficient in operation by upgrading technological capabilities, transitioning to a new information technology infrastructure and global ERP system. Ending agreements with former parent company gave Kontoor complete IT and systems infrastructure independence to move forward as more agile company. The company diversified its channel mix, multiplied the ways of consumer connect and expanded categories and geographies. Additionally, it elevated its design standards, drove stronger brand engagement, advanced a pipeline of innovative products, and leveraged its superior supply chain.

TABLE 2

KONTOOR BRANDS INC.	Pre-COVID		COVID		Revival	
	2018	2019	2020	2021	H1, 2021	H1, 2022
Total revenue (in $ billion)	2.76	2.55	2.10	2.48	1.14	1.29
Wrangler	1.6	1.52	1.35	1.58	0.71	0.83
Lee	0.96	0.88	0.69	0.89	0.43	0.46
Others*	0.20	0.15	0.06	0.01	-	-

*H1 figures are very miniscule to be reported

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Kontoor Brands continued focusing on improving the most important elements of denim products – fit, fabric, finish and overall construction besides providing them at attractive price points.

Together, both denim brands sold around 152 million units of apparel during the year. The company continued focusing on improving the most important elements of denim products – fit, fabric, finish and overall construction besides providing them at attractive price points. In 2021, brand Lee drove innovation-powered collaborations to advance Kontoor's sustainability platform 'For A World That Works'. The brand teamed up with H&M in creating the most sustainable denim collections in the history of both brands. In addition, it partnered with denim manufacturer Artistic Milliners to come up with a special Cradle to Cradle-certified line of 100 per cent recyclable jeans. Lee also launched its first collaboration with textile icon Pendleton Woollen Mills to achieve the perfect pairing of heirloom denim and legacy fabric patterns with unique craftsmanship. In the mid of the year, Lee introduced a new water-saving dye technique called 'Crystal Clear' that drastically reduces the amount of chemicals needed to dye denim thus making it easier to recycle the water from the dye process. Crystal Clear uses an organic version instead of extra ingredients like compounds and salts to achieve traditional blue colour of denim, thereby leaving no leftover salt in the dye bath. Almost at the same time in the year, Wrangler also teamed up with Infinited Fiber Company to incorporate Infinna – regenerated, recycled fibres – into its global denim range for its Fall 2021 collection, the brand's most sustainable denim to date.

Looking at H1, FY22 results, Kontoor is now expecting a 6 per cent annual growth by the year-end. Despite a highly dynamic macroeconomic environment, supply chain challenges and inflationary pressures during the second quarter slightly denting top line, the company managed to deliver 13 per cent revenue growth for a six-month period compared to the same period of the previous year. Kontoor Brands is further planning to transform its India businesses into omnichannel entities to drive growth, as the company aims to double its sales in a span of two years by extensively focusing on online channels.

PEPE JEANS

Pepe Jeans has been at the forefront of international denim-led fashion for the past 49 years and has a track of collaborating with the most iconic celebrities such as Kate Moss, Sienna Miller, Alexa Chung, Cara Delevingne, Georgia Jagger and Dua Lipa in the multimedia marketing campaigns.

Founded in 1973 by Indian-origin siblings Arun, Nitin and Milan Shah in London, Pepe Jeans has earned many stakeholders during the last 8 years. In 2014, Barcelona-based Pepe Jeans Group owned Pepe Jeans which contributed 60 per cent to the group's revenue. The next year, M1 Fashion – a subsidiary of M1 Group and owner of high-end tailor Façonnable, and L Capital Asia (renamed L Catterton later on) took control of Pepe Jeans by signing an agreement with existing investor in the Pepe Jeans Group - L Capital Europe (a PE fund sponsored by LVMH), and PE funds Torreal and Arta Capital which together held 60 per cent stakes. The new investors allowed Pepe Jeans to enter a new phase by becoming completely global and strengthening Pepe's presence notably in Asia, the Middle East, the United States and Latin America. In 2020, Pepe Jeans was renamed All We Wear Group (AWWG) to unify all its brands – Pepe, Hacket and Façonnable; as well as its licensed distribution business of Tommy Hilfiger and Calvin Klein in Spain and Portugal.

In January 2020, the group launched the 'Re:set' transformation plan which got further accelerated due to rise of COVID-19. The group, having around 500 stores worldwide, sought rent reductions at number of locations with closure of about 10 per cent of stores located in the US, Japan, Mexico, India and Europe. Additional measures to tackle the situation included integration of the company's marketing and e-commerce teams to streamline operations and bring resources under one roof in Madrid and Barcelona. The Hong Kong headquarter was closed and got replaced by a new outsourcing model. While the business ceased to trade in the US, the changes were made in business model in Mexico too with greater focus on retail. At that time, the group was doing annual sales of more than €500 million and its online sales had doubled over the past six months. Ending fiscal on March 31, 2020, Pepe Jeans recorded a 6.7 per cent year-on-year decline in sales to €504 million and pre-tax loss of €97 million. In November 2021, Pepe also sold its stake in Pepe Jeans Innerfashion, a 50-50 JV in India which it had formed with Dollar Industries in 2017, to G.O.A.T. Brand Labs PTE. The JV was a conscious attempt to expand product categories beyond denim.

Talking of 2020 further, in the month of July, AWWG formed a new strategic alliance with global digital solutions firm Metyis as a part of its commitment to digitalisation which will be a key factor for growth over the coming years. The alliance aims to increase global net e-commerce sales significantly until the end of FY23/24, reaching a figure of more than €100 million. According to some reports, global net sales of pepejeans.com in 2021 was $31.9 million. The site generates e-commerce sales primarily in France, Spain and Germany. Metyis' expert advice will help in rolling out of a Mobile-first platform for Pepe Jeans in India which will be aligned with a global SFCC platform.

In September 2022, the group,

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working on its product, made its chief product officer Paola Maestro de la Calera additionally responsible for leading the strategy of strengthening Pepe Jeans collections in order to grow the brand, while preserving the iconic brand's DNA and British values. Production design, development and full production will be under her strategic vision and leadership. She will be working closely with different teams and licensing partners.

The group continued to recover from the impact of COVID-19 in FY22 too. Based on the first six months of the fiscal (April 2021 - March 2022), the group has revised its EBITDA by more than 25 per cent. AWWG estimated FY22 sales not to exceed €440 million mark.

Pepe Jeans India

Incorporated in 2011, Pepe Jeans India Ltd (PJIL) manufactures readymade garments and accessories for men, women, teens and juniors under its flagship brands – Pepe, Pepe Jeans and Pepe Jeans London and reports to headquarters in Barcelona. Much prior to the disruption caused by coronavirus, PJIL's net sales and PAT in FY17 stood at ₹427.6 crore and ₹49.2 crore, respectively. As per media reports in 2019, about a dozen companies including Reliance Retail and Future Group, besides various global PE giants were in fray to acquire PJIL.

TABLE 3

PEPE JEANS INDIA LTD	2019	2020
Operating income (₹ cr)	481	403
Reported PAT (₹ cr)	25	-20.76
PAT%	5.2	-5.12

Source: CRISIL

According to CRISIL's January 2021 assessment, Pepe's operating profit in 2020 had fallen compared to the previous fiscal. The exposure to intense competition from domestic and international players in the branded apparel segment had reduced the realisations. Over the last four fiscals, PJIL's working capital cycle had also stretched due to the increasing share of business from large-format stores and franchisee channels functioning on sale-and-return mode. The payment to PJIL is made only after secondary sale at these stores. As of October 2020, its total inventory stood at ₹101.3 crore of which 56 per cent was more than six months old. Deep discounts for liquidation impacted profit margins. For the first seven months of FY21, Pepe's reported revenue was ₹128 crore at an operating loss of 6.75 per cent on account of higher fixed costs.

PEPE JEANS INDIA

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In July 2020, Pepe Jeans tied up with Bengaluru-based Ace Turtle's technology to increase its customer base in India. The idea was to reach new shoppers through this partnership as the market, by that time, had begun shifting to online shopping due to safety concerns after lockdown. The consumers felt more comfortable indulging in online shopping which made it imperative for brands like Pepe to build an omnichannel strategy. During the time, Pepe had retail presence through ~250 exclusive brand outlets, over 1,400 MBOs and 500 large format retail stores. Additionally, it had presence on popular online platforms such as Myntra, Amazon, Flipkart and Ajio, among many others.

By November 2021, the consumer demand for Pepe revived back to pre-pandemic levels which remained sustainable for the near future. The revival was genuine and not one of those 'revenge buying' or 'pent up demand' kind. The company witnessed a double-digit sales growth in its offline channel during the preceding three-month period. Pepe's digital sales at that time contributed to over 20 per cent of the company's overall business. This has prompted the decision to increase spends on digital over the next 3-5 years.

DIESEL

DIESEL

Italian fashion and luxury group Only The Brave (OTB) owns Diesel, Jil Sander, Maison Margiela, Marni, Viktor&Rolf, the Staff International and Brave Kids companies, and holds a minority investment in the emerging brand Amiri. Among them, flagship brand Diesel alone accounts for around 60 per cent revenue share.

In 2019, the year prior to the advent of COVID-19, OTB posted profits of €2 million compared with a net loss from recurring activities of €26 million in 2018. The sales of the company grew 6.4 per cent to €1.53 billion in 2021, fuelled by growth in all markets and channels. The group's brand opened more than 70 stores during the year causing the retail sales to increase by 9 per cent. The brand Diesel posted 2.6 per cent growth and opened 45 stores while its direct e-commerce segment increased by 24.3 per cent during the year. The company bravely decided to keep its 2020 revenue target despite growing cases of coronavirus that had forced other fashion companies to revise their goals for the year. OTB targeted 12-13 per cent annual average revenue growth between 2019 and 2021. However, the company's overall turnover dropped by 14 per cent during 2020 though the company's overall financial position improved over the previous year. Most of its brands underperformed except Maison Margiela which saw 20 per cent growth in revenue. The Group continued its search for new acquisitions including Jil Sander.

In 2021, the Italian company's earnings finally returned to pre-pandemic levels with net sales reaching €1.5 billion during the year – a growth of 18 per cent compared to 2020. The surge was attributed to luxury business across brands Marni, Maison Margiela, Viktor&Rolf and newly acquired Jil Sander which turned profitable in just nine months. The rebranding of Diesel within alternative luxury segment also helped. The brand underwent a 'restyling' of its e-commerce sites which gave OTB a 6 per cent boost in direct online sales from 2020 and a 34 per cent spike from 2019. According to an e-commerce revenue tracking and analytics portal, net global e-commerce sales of Diesel S.p.A.-operated site diesel.com in 2021 was $79 million. During the year OTB invested in direct sales channel including 38 new stores. Going forward, OTB sees Asia as a considerable growth opportunity market instead of complaining about the currently disturbed Ukraine-Russian market like many others. It opened a branch in South Korea last year and plans to double its existing 80 stores in China in the next three years, while Japan alone makes up 25 per cent of its total revenue.

Additionally, OTB aims its operations to be carbon-neutral by 2030 on the basis of several circularity initiatives through Diesel, including Diesel jeans buyback programme and Diesel Second Hand – a resale business available in Milan, Florence and Rome with plans to expand in other countries. The buyback programme was launched in July 2021, and by November it had collected and reconditioned 900 pairs of Diesel jeans washed and treated with Polygiene's anti-microbial and odour resistant ViralOff and OdourCrunch technology. The same month Diesel ventured into digital offerings too with OTB launching its metaverse business unit and helping the brand in debuting its prototype sneaker which will eventually be available as a limited-edition nonfungible token (NFT) created by digital fashion house, The Fabricant.

The group founder Renzo Rosso expects the company to grow, reaching a size which would be more suitable for a listing by 2024. But before that, he wants to build an Italian luxury conglomerate to compete with French groups such as Kering and LVMH.

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DIESEL

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TRUE RELIGION
BRAND JEANS®

TRUE RELIGION

Unlike other denim companies discussed above, California-based designer denim company True Religion Apparel, Inc. arrived on the scene in 21st century, in 2002 to be precise. The company is renowned for its five-needle thread at 2-stitch per inch process called Super T-stitch. After filing for two bankruptcies in 2017 and 2020, the company has undergone 'massive restructuring'. Its customer base is 15 to 40-year-old men and women of all races, with an average annual household income of $65,000. This is one of the most diverse apparel brand consumer bases in the industry today outside of Levi's and Guess. During COVID-19, it lost 60 per cent of its 2020 revenue across wholesale and retail. Somehow, the business managed to sail through tough times due to 50 per cent product margin in the wholesale channel. Since the brand's owned stores have limited contribution in overall growth, its e-commerce, with 2021 sales of $80-90 million, is expected to drive the next level growth. The segment is seen growing to $250 million out of overall sales of more than $500 million in the next 4-5 years. In other words, it means truereligion.com will account for 50 per cent of sales with 30-40 per cent coming from wholesale and the balance from the company's retail stores. The company has strong international business too which is expected to grow to 30-35 per cent of the business. True Religion is the number one denim brand in Selfridges and sits next to strong Italian brands. The brand has presence in China, South Korea, India and 30 other countries. Believing that apparel industry is heading into a strong denim cycle, the company sees its business pie divided into Jeans (40 per cent), T-shirts (30 per cent) and wovens, hoodies and accessories (30 per cent). True Religion finished 2021 with about $250 million in total sales, and an EBITDA of 30 per cent.

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True Religion is renowned for its five-needle thread at 2-stitch per inch process called Super T-stitch.

The company is proactively building out a circular product strategy and is determined to ensure that no deadstock denim exists in the marketplace rather be put back to be repurposed into something special. In September 2022, True Religion Vault was launched as part of its circularity push, starting with 1,000 individual pairs of jeans made and worn in the early 2000s. The Vault will operate as a marketplace for customised products. It will leverage creator collaborations to sell unique, new jeans that are repurposed from the old denim.

WHAT'S NEXT?

Denim will stay, denim will evolve, and denim will grow. With fast-changing markets, consumption behaviour and demand fluctuations, the denim will keep changing too. However, the companies in the segment cannot wholly depend on the jeans forever as is reflected by the discussed companies. For the sake of staying competitive, progressive and relevant they have to expand beyond denim jeans which many are already doing. It is just the matter of formulating appropriate combination between denim and non-denim product offering. Going forward, what is also to be seen is which side a fit-oriented, touch & feel product like pair of jeans will tilt more – brick-and-mortar or online channel. FF


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