

Tavex Algodonera

Risk management flexibility

for the world's leading denim manufacturer

Interview: Intermundo Comunicación
Photos: Joaquín de Haro

Eli Arrillaga | Risk manager
Rubén Bernat | Financial director



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With clients in over 70 countries, production of 200 million metres of denim and a turnover of more than €380 million in 2006, Tavex Algodonera is the world's leading denim manufacturer. Premium international brands base their creations on and establish the latest trends in the market using cloth made in one of its 14 production units.

Last year, this Spanish company, which was founded in the Basque Country, signed a merger with the Brazilian company Santista Textil, thus becoming the worldwide leader in the denim sector. Tavex Algodonera's pioneering process of internationalisation began way back in 1990, when it built a factory in Morocco. Tavex Algodonera's financial director, Rubén Bernat, and the company's risk manager, Eli Arrillaga, explain how this company became the leading denim manufacturer.

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Which denim sector is Tavex mainly active in?

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RUBÉN BERNAT › Currently, our clients are predominantly companies which set the trends and influence fashion in the denim market.

We work mainly for the "Premium" denim market, i.e. middle and top of the range.

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How does producing denim differ from manufacturing other textile products?

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RB › We buy the cotton in bales, i.e. just like it leaves the plantation. That's where the denim production process begins. In the textile sector, this is quite unique because the technology is extremely segmented, i.e. you have the fibre producer, the weaving company, the company which does the finishes, etc.

In terms of product design and development, this segmentation makes less sense because the fundamental difference



between denim and other fabrics resides in the fact that the fibre can be dyed. With other products, the cloth is dyed or printed once it has been made. If we want to develop an up to date product which is also innovative, this fundamental difference means that we have to start the process way upstream, but this also guarantees the development capability we can offer to companies operating in the "Premium" sector.

→ **Tavex Algodonera was one of the first Spanish groups to apply an internationalisation strategy, by opening a factory in Morocco. What drove you to implement this strategy? Could you describe Tavex's current production network for us?**

← **RB** › The process of internationalisation started in the nineties, with the aim of generating greater production volume and, above all, cutting costs. It is a fact that we did well to go to Morocco. At the time, we anticipated what has become a certainty today.

Tavex currently has 13 production units worldwide: two in Spain, one in Morocco, five in Brazil, one in Argentina, one in Chile and three in Mexico. Very few of the world's denim manufacturers have production units in such varied locations which are so close to the consumer markets. When all is said and done, it's about globalisation of production, although very few companies run production factories outside of their countries of origin at present.



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→ **Is proximity to consumer markets a requirement for Premium clients?**

← **RB** › Labour dictates where clothes are made, and to be able to offer the appropriate service, we have to be close not only to where the garments are sewn, but also to consumer markets. Our clients are motivated by two main aspects, firstly product typology or, in other words, fashion, and secondly the speed and flexibility with which we are capable of ensuring this innovation. This is very complicated when you are 8,000 km apart. It is not sufficient to meet once a year to show the collection. It is an interactive process and contacts must be ongoing.

Every year, Tavex shows brands various cloth collections. We determine with each client how fashion is set to change during the next season and, based on that, we work on the patterns and the washing process.

Consumers of "Premium" range denim are mainly found in Europe, the United States, Brazil, China's Eastern coast, Japan and Korea. As a result, we have to be positioned close to these markets, and this is why our production units are divided across six countries.



“ We are not only manufacturing the cloth, but also carrying out the entire production process in order to supply the client with a finished product. ”

→ **What about your work wear division?**

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RB › Although our production focuses mainly on denim, manufacturing cloth for the working sphere is an important division for Tavex because we have significant market opportunities, for example in Latin America. Some work wear is produced in Europe, where we have a loyal market, but there can be no doubt that the hard core of this sector is to be found in Argentina, Brazil and Chile, where we have a significant position thanks to the reliability and consistency of our product.

→ **What are your short-term international objectives?**

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RB › We've just bought two factories in Mexico and we are making major investments there in order to create a commercial structure which will enable us to expand in the United States. The next strategic objective will be to take on the Asian market with production units in Asia. There is already a major market for the "Premium" range in Japan and Korea. China's Eastern coast is fast expanding, and this is where we plan to establish another major growth centre.

→ **What is the future direction for denim production?**

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RB › In order to offer clients improved service, partly to gain customer loyalty and partly to create added value, we show them sample collections of denim garments with different finishes. This makes the client's subsequent work easier and gives him a clearer vision of the possibilities our cloth offers. As I said, it's an interactive process, i.e. we show the collection to the client, he gives us his feedback, makes proposals and suggests ideas, and, based on that, we take these suggestions into account and make improvements to the cloth.

One of the strategies we have embarked on is to offer our clients an integrated service: We are not only manufacturing the cloth, but also carrying out the entire production process in order to supply the client with a finished product.

→ **What role does your credit insurance play for Tavex?**

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ELI ARRILLAGA › We have been working with credit insurance since 1986. From this, you can see that it is a key part in our day to day management. As far as we are con-

cerned, credit insurance plays an essential role. It is a solution which makes it possible to protect our balance sheet and which serves as a basis for indemnification. Clearly, the main benefit of this insurance is compensation for losses, so that we can sleep soundly.

→ **When did you decide that you needed credit insurance?**

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EA › Initially, it was our export and internationalisation strategy which made this service necessary. If a company operates within, say, the Spanish or French markets, it can manage the risk by itself. However, in our case, it was extremely complicated to keep a close watch on all of our clients across longer distances.

→ **How has your risk management changed?**

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EA › Tavex has evolved a great deal when it comes to risk management. For several years, we worked with conventional policies, which were what was available at the time. However, we reached a stage where this system stopped being appropriate for our situation because it imposed risk limits and excessively narrowed down the clients with which we could work.



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TRe is the only company which offers us cover on these markets and, if a serious problem arises, we are guaranteed above a certain excess. In addition, this policy offers a major benefit, i.e. cover which includes all of the countries in the European Union and the OECD, as well as other countries which are significant to us and where we run greater risks, such as Morocco and Tunisia. The next stage will be to include further countries such as Brazil, Chile and Argentina.

We produce for major international brands, but in many cases we do not invoice these companies, and it was precisely in these cases where conventional policies stopped covering the risks. We therefore found ourselves faced with two options. Either we accepted these risks and worked with these companies without any cover, or we stopped working for these clients. That was when we discovered TRe, which enables us to manage the risks ourselves. We can continue working with these clients deciding, in accordance with our own procedures, whether or not a credit risk is acceptable. If we consider it necessary, it is up to us to find additional collateral. In any event, we know that we are supported if the worst should happen.

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So personalised insurance is important for your risk management ?

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EA → TRe gives us the flexibility we need to be able to continue to manage the risk ourselves, without having to abandon prudence in our cover policy. Due to the singularities of our sector, a good many of our strategic clients have an uncertain financial solvency but, as we have explained, this is precisely our strategic market and we know that, in reality, the risk is not as great as it might seem. In addition to conventional sources of financial information, we have other sources which enable us to perform our own risk assessment. Conventional insurance companies are not versed in these aspects because they do not know these companies.



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