

PRIME SOURCE FORUM 2011

By Andrew Jobling, WGSN, 19 April 2011

This year's Prime Source Forum discussed many of the challenges currently facing the global apparel sourcing industry, with major topics including talent management, future sourcing destinations and strategies for rising costs.



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It seems that the global sourcing chain is being buffeted from all directions, having to contend with soaring raw material costs and labour wage growth at a time when customers - wary of uncertainties in consumer spending - are reluctant to pay more than is absolutely necessary.

Those concerns and many others - including China's role in the future of sourcing and strategies for developing and retaining talent - were discussed at Prime Source Forum, which took place in Hong Kong from March 30 to April 1.

WGSN highlights the most important strategies to emerge:

Cost strategies

Costs are rising, and the broad expectation is that they will remain high as developing economies place more strain on raw material supplies, and labour rates continue to move upwards. Inflation is also being seen as a major concern.

"We have created a massive middle class in China," said Kurt Cavano, CEO of TradeCard Inc. "The only way we can deal with this is inflation. I'm calling this the start of the great inflation. Oil, food, energy prices will all go up."

So how should companies act when prices for them, their customers and the end consumers are rising?

"We're seeing the need for efficiency," said Stephen P Forte, managing director, global sales at Coats. "It's not just in the supply chain - it is also in the line. Many factory owners hadn't thought about machinery speed."

And speed also plays a vital part in terms of the time-to-market.

"We see the future being about proximity," Forte said, adding that markdowns wouldn't be seen as part of the strategy anymore. "It's about getting the right garments on the shelves quickly so there is better sell-through."

* WGSN ANALYSIS

- *High costs - due to soaring raw material and labour prices - are broadly expected to remain a factor in the sourcing industry*
- *Strategies to deal with them - other than just looking for cheaper locations - will be vital*
- *Efficiency is crucial. Tightening up production and the supply chain is important, while improved speed-to-market will generate better sell-through and fewer markdowns*
- *China is losing market share due to high labour costs, but it is expected to remain an important part of the sourcing landscape*
- *Many rival countries don't have the infrastructure, knowledge or, importantly, the manpower to absorb all of China's production*
- *Lower cost production is to be found in other areas of China, while Africa is one long-term possibility for cheaper sourcing*
- *Look after the workforce - retaining them for longer boosts productivity*
- *Training is vital - including at management level - to boost talent in the supply chain*
- *Raw material management - now and in the future - will be crucial, with demand expected to increase as China and India continue to develop as consumer markets*
- *Western consumption patterns might change if raw material availability decreases while prices*

Veit Geise, VP Asia sourcing at VF Asia Ltd, agreed that efficiency was part of the solution, describing it as "the key to the game" and saying that companies needed to think about internal solutions rather than previous strategies of simply moving to cheaper locations.

The China question

Considerable debate focused on the future of China as the world's major sourcing destination. It's no secret that other locations such as Bangladesh and Vietnam are often more cost-competitive and are taking share away from China, but what will that mean long-term? The overriding view is that China is not finished yet.

"Because of the infrastructure built up in China, clothing will always have a place, certainly in the next 10 years," said Stanley Szeto, CEO of Lever Style Inc. "A lot of know-how has been built up and, especially for high-end goods, it's difficult to move because of a lack of know-how [elsewhere]."

David Dodwell, chief executive of Strategic Access Ltd, was even more forthright over speculation that concern over prices would convince companies to move out of China.

"In broad terms, it seems to lack any sense in my point of view," he said, noting that Mexico's workforce was 20 times smaller than China's, Turkey's is even smaller, while other countries also have limited labour pools, with India the only real exception.

"Which other country is endowed with the manpower to take up the slack if companies want to dilute their supply chains?" he said.

Yet there are problems associated with Chinese production. Migrant labour is coming to an end, according to Szeto, with industrial development in other parts of the country meaning more and more workers are no longer prepared to move away from home to find work in garment factories - or not without significant financial compensation anyway.

So costs are rising significantly, while a higher labour turnover means lower productivity as well. What are the solutions? Locating in cheaper parts of China is an option, but for Edwin Keh, lecturer at the Wharton Business School at the University of Pennsylvania and a former COO of Walmart Global Procurement, that is only a short-term solution.

"For those serving the lower end, moving west is a good stop-gap solution. But only for the next three to five years. In the next 10 years, the solutions will be further away," he said, suggesting that the most important manufacturing region in the next decade would probably be Africa.

But there are problems there too, according to Kevin Burke, CEO of the American Apparel & Footwear Association.

"Looking around the world, where are you going to find the size of population to support the industry? Logically you say Africa, but it needs infrastructure," he said. "My feeling is that you will see money going into Africa, Chinese money. But it is long-term."

Talent management

increase - investing in brand value is key

ABOUT THE EVENT

Prime Source Forum, billed as the annual meeting place for the apparel industry, was held in Hong Kong from March 30 - April 1. The next event takes place from March 28-30 2012.

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solutions that could really work.

In some countries, notably China, power has been shifting towards workers rather than factory owners in many ways as more and more options open up for them. Add to this the fact that, with costs surging from all angles, optimum performance from the workforce is vital, and it becomes clear that effective strategies for developing and retaining talent are essential.

"Why are we surprised when there is a labour issue in China, where people don't want to work for minimum wage in hostile conditions with no future," said Keh. "The average stay in a factory is now two-and-a-half years from three years, but the last six months in a factory is the most productive, so to lose that is catastrophic."

According to Keh, one solution lies in offering education and training in exchange for a commitment to work for the company for a period of time. That way, says Keh, companies will attract the best people to work for them.

"We need to be more thoughtful about labour challenges," he said. "We are dealing with a new generation of people and have to treat them differently."

Francis KC Yüik, senior vice-president at Worldwide Responsible Accredited Production (WRAP), suggested that working together with employees is important - for example, providing teachers for children while parents work in the factory - but it's not just at the "worker level" where more needs to be done. Keh said that better training needs to be given to people further up the chain as well.

"We have a lot of mid-tier managers who, as the world has changed so much, are not equipped to do what we need them to do," he said.

For Susan Jennion, a director at Levi Strauss & Co with responsibility for development and sourcing at the Global Denizen brand, the industry needs to look closely at what is required - and where - and formulate strategies to fill in the gaps.

"I think it is about building talent at every single level of the supply chain," she said. "The question is how do we go about, as an industry, building talent where it needs to be?"

Material focus

High raw material prices, supply shortages and the looming threat of both of those being compounded by a huge demand increase from China and India are bringing strategies for material management sharply into focus.

"The companies that are able to manage their raw material commodities well are the companies that will do well," said Pat-Nie Woo, director at Central Textiles (Hong Kong) Ltd.

He added that the amount of arable land available for cotton is not going to increase significantly so the only way to increase supplies is to push up yield. Of course, there is only so far that can go and one of the ideas that Pat-Nie - who is also chairman of the Sustainable Fashion Business Consortium - is pushing is redefining waste in the supply chain.

"China produces 3.5bn yards of denim a year, and there is 15-20% waste at cut and sew plants," he said. "That's 500m yards of cut and sew waste. It's definitely doable to take that waste, turn it back into fibre and make clothes out of it. I think this is a way we can reduce waste and reduce the need to consume more cotton."

But there are still strong arguments that western lifestyles will have to change as demands on limited stocks of raw materials increase.

Pat-Nie described it as a commodity super cycle, while David Dodwell said that, after "a period of incredible partying by a small minority of the population", consumption patterns had to change.

"The consumption that we've seen in recent years cannot be sustained when the economies of India and China develop," he said. "It simply cannot be sustained, the resources just run out, and the prices of those resources go off the chart."

And the solution for companies faced with the prospect of lower sales volumes?

"We have to invest more in brand value than just the physical aspect," said Dodwell.