PSF 2012: opportunities outside & inside China

By Andrew Jobling, WGSN, 17 April 2012

Sourcing alternatives are increasing, but China's domestic market potential is still a major draw, according to speakers at Prime Source Forum.

Jeff Streader, operating partner of Marlin Equity Partners, at PSF 2012

TAKEAWAYS

- The ASEAN region is gaining lots of attention as a sourcing destination, with Myanmar an exciting prospect
- The Chinese domestic market requires careful research to succeed in and large-scale brand recognition is still some way in the distance
- China's strengths as a production base may have weakened, but they have not disappeared; product strengths make up for lower margins

Opportunities outside China

Sourcing alternatives: there are many pulls to sourcing in China, but with escalating labour costs there is also a considerable push to consider cheaper alternatives. However, the challenges remain the same: China's excellent infrastructure cannot be matched elsewhere and quality levels are not always good enough for certain products, but garment and footwear industries in other countries are growing - often at a staggering rate.

"We are seeing US footwear imports from China shrinking, while they are growing elsewhere," said Matt Priest, president of the Footwear Distributors and Retailers of America. "The rising stars? Nicaragua, Bangladesh and Cambodia. These have been showing dramatic growth in the past year or two."


Matt Priest, president of the Footwear Distributors and Retailers of America, at PSF 2012


Peter Hevicon, GM of Debenhams Hong Kong, at PSF 2012

ASEAN opportunities: ASEAN (Association of Southeast Asian Nations) was another region gaining a lot of attention at Prime Source Forum. Michael Blakeley, executive director of the Source ASEAN Full Service Alliance, said that of the 10 countries in the region, eight have textile and garment industries and there is a commitment for a single market by 2015. This would mean free movement of labour and capital, a single production base, a free trade area and a more transparent FDI regime.

"It's something to be excited about," he said.

One of those reasons for excitement is the Chinese domestic market, which is widely expected to continue to surge and, therefore, require a lot more clothing to be supplied to it. The ASEAN region is nearby and it has a free trade agreement with China that makes it a particularly compelling location. Peter Hevicon, GM of Debenhams Hong Kong, said that it would be a major supplier to China and that orders are being placed already.

Myanmar potential: meanwhile, Myanmar continues to try to open up to the global economy. If sanctions are lifted, then its cheap labour force is expected to become very attractive.

Henry Tan, CEO of Hong Kong-based garment major Luen Thai Holdings, said there had been more talk about Myanmar in the last 10 weeks than in the last 10 years. However, while in the long term Tan thought the country could be big, he felt the current infrastructure problems could hold it back. But for Blakeley, the future is more certain.

"The industry will go to Myanmar," he said. "It's inevitable."

Pull of the BRICs: Ultimately, however, sourcing decisions of the future will be based on which countries have free trade agreements or other trade preferences with the big emerging consumer markets, according to Jeff Streader, operating partner at Marlin Equity Partners.

"Global sourcing will change with the development of retail at BRICs," he said.

China still important

Edwin Keh, lecturer at the Wharton Business School at the University of Pennsylvania, at PSF 2012

Damon Paling, partner of PwC Shanghai, at PSF 2012

Domestic market: retail development in China is already significant and is providing opportunities for many.

"The excitement that I see as I look across the border is that the market is right there," said Edwin Keh, lecturer at the Wharton Business School at the University of Pennsylvania. "Nobody should be satisfied with single digit growth anymore."

However, brands and retailers have found that, to their cost, successfully entering the market is easier said than done. Ronald Fromm, chairman of Brown Shoe Co, thinks there is still a long way to go. "We think China will be a tremendous market for us," he said, but added that large-scale brand recognition is "years away".

"The Chinese consumer needs to learn a brand's quality. The success of the luxury market isn't indicative of what it will be like to distribute branded product throughout the country. It's easier at the luxury end and people will shop there. We don't see much branded product in China as yet, but we see it coming," Fromm said.

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Supply and production: however, supplying the vast Chinese market brings its own challenges. According to Streader, of Marlin Equity Partners, anybody wanting to ship in to China really needs to understand its national standards (Guobiao) regulations, which he said are of a higher level than European standards. While Damon Paling, a partner at PwC Shanghai, said that China is considering introducing an ABCD ranking for retailers that will determine how much testing their imports require.

"If you are at the consumer end of the supply chain you will be working on this a lot, if you are at the manufacturing end, you may be asked to provide more material downstream for pre-testing," Paling said. "It's still in its infancy. It's not rolled out yet, but it's something to look out for later this year."

It's also important to remember that China still offers strong opportunities as a production base, despite its rising costs and the attractions of its rivals. According to Debenhams' GM, Hevicon, finding new suppliers is one thing, but them being able to get the design and "brand handwriting" right is essential and that, even if the margin was lower, sales could be better and with less markdowns just through getting the handwriting correct.

"If price is the main focus, you must look to Bangladesh and ASEAN," he said. "For the middle market, you can work a lot in China. I believe China will still be important for most people."