

Textile & Trade Report

Industry Sizes Up Problem Areas at Prime Source

By Constance Haisma-Kwok

HONG KONG — Apparel executives who gathered at the Prime Source Forum here were focused on the global economic crisis. They assessed the impact of the recession worldwide on every aspect of the supply chain, from manufacturing to retailing.

"This is not a simple cycle," economist Nicholas Kwan, regional head of research for Asia for Standard Chartered Bank, said in his keynote speech. "[Expecting an upturn] even next year is too optimistic in our point of view. Never have you seen so many institutions lost, so many instruments lost, so much of the industry lost.

Investment banking no longer exists in America."

But Kwan did note a few bright spots, saying the dollar will remain strong and certain nations will become better consumer markets.

"Those countries that save more than they spend will drive demand — China, to some extent India, a large part of Asia and the Middle East," he said. "There will be a clear shift in terms of where the demand is."

Despite gloom in the U.S. and Europe, many speakers at the event, held from March 31 to April 2, agreed China and India remain outposts of optimism.

"The key to success in China retail is not overexpanding — scarcity is a value," said Michael Tien, chairman of the G2000 Group, a Hong Kong-based retail chain with more than 400 selling points in China. "Local brands are in for the quick buck, they have no long-term strategy."

Thursten Allenstein, managing director of Triumph International (India), said, "Only 5 percent of retail in India is organized. There are 30 million mom-and-pop stores, so it's challenging to break into such a market. Neither China nor India will make up the gap in the U.S. and European markets, but they have the potential to be big winners if you change your strategy and invest your money."

U.S. retailers, meanwhile, are changing strategies on the home front. Janet Fox, vice president and director of sourcing for J.C. Penney Co. Inc., said retailers are doing all they can to maximize efficiency and lower costs. At Penney's, that means controlling inventory, consolidating vendors and paying in cash for orders.

"We can't predict when the consumers will be back or how they will spend when they are back," Fox said. "We have had to look at the inventory situation. We are holding about 13 percent less than last year and we are planning for orders to be down about 20 percent this year. We're hoping to see the beginning of an upswing in the first quarter of 2010."

Similarly, Josef-Albert Beckmann, former president of German Textile & Fashion Industry, said, "Most retailers and manufacturers [in Europe] are using shortened plans. Preorders are 15 to 25 percent lower this year than last year, although lower-priced goods look to be a little less affected." It's important "to keep inventories clean and low rather than risk depreciation."

The strategy of consolidating vendors in order to develop stronger partnerships and efficient supply chain management was among the key points of emphasis.

"We have battened down the hatches," said Jeff Streader, senior vice president on [capital expenditures]. This year we will open 180 stores. We still have growth in Europe and Asia. Our business is good."

Streader said Guess also consolidated its resources.

"Now, 87 percent of our total business is done in four countries," he said, citing

China and India for the majority of garments, Mexico for U.S.-bound denim and Turkey for denim for the European market. Streader stressed the key for brands is to ensure suppliers have businesses that are sustainable, socially compliant and transparent.

Walter Archie, vice president of global sourcing for Dick's Sporting Goods, said partnership is a two-way street.

"[Suppliers] say that the retailer wants everything, but each season we ask, 'What are we doing to hurt your efficiency?'" Archie said. "The retailer must take responsibility for streamlining our own business."

Many speakers and executives discussed the continuing evolution of the industry because of changes in the world economy, customer shopping habits, the environment and safety regulations.

Steve Lamar, executive vice president of the American Apparel & Footwear

Association, noted the Consumer Product Safety Improvement Act, which went into effect in the U.S. in February, "was written with children's toys in mind but affects all consumer products, especially those for children." He emphasized that retailers and suppliers must know the makeup of every component of their product, from the fabric to the individual teeth in a zipper.

Eva Sandberg, senior scientific officer from the European Chemicals Agency, said companies selling products in the European Union not only have to meet chemical safety requirements, but are also directly answerable to the consumer. "The aim is for the supply chain to know what's being used," she said.

Improving efficiency, sustainability and energy use without raising costs was another key issue. Jacqui Dixon, director of CSR Asia, promoted the strategy of carbon trading.

"We have a long way to go before companies consider carbon trading to be part of their strategy," she said. "It might seem intangible, but at the end of the day carbon trading is about energy efficiency."

She noted that regulation regarding carbon is not far off.

"Textiles won't be the first industry hit, but people are becoming more aware," Dixon said.

Fat-mee Woo, chairman of the Sustainability Fashion Business Consortium in Hong Kong and director of denim manufacturer Central Textiles, said, "Oversupply and sustainability are related issues. There is overstock, overproduction and excessive retail. Every sample needs water, energy, chemicals — it's wasteful. The supply chain needs to work together in partnership to tackle the issue of overproduction."

As for who should pay for pollution caused by factories in China, India and other developing nations, many agreed that if goods are headed to the U.S., EU or Japan, the end users should be held liable, not the countries that are filling orders.

"The polluter-pay principle put the textile industry out of business in the U.K.," said John Easton, ecology solutions manager for DyStar U.K.

Easton said U.K. households are charged for rubbish pickup by weight, with a microchip in the trash measuring the contents.

"You could put your trash in your neighbor's bin in the middle of the night," said Easton, explaining how to get around paying your share. "That's essentially what we've done to India and China. They get my trash and I get a \$3 polo shirt. But the polluter is really the consumer. We have to think about who picks up the bill and who gets the reward."



A view of the Fashion Access Show that ran concurrently with Prime Source.

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