



BUSINESS RESOURCE FEATURES

Prime Source Forum 2009: conference report

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Reliable partnerships, speed-to-market and supply chain efficiency were top of the agenda for industry professionals at the annual Prime Source Forum in Hong Kong last month.

The global clothing industry, weighed down by a weak retail environment, is at a major turning point. For its companies to survive, the industry should rethink strategies and streamline the clothing supply chain, said speakers at Prime Source Forum in Hong Kong last month.

Setting the context for the conference, keynote speaker Nicholas Kwan, Asia head of research for Standard Chartered Bank, noted that **a true economic recovery might be as far away as 2011**, with the lowest point to come later this year. "The US housing bubble has created a mess from which it may take up to two to three years to recover."

US retailer JC Penney's director of sourcing VP Janet Fox agreed with Kwan's gloomy forecast. Most US retailers are not expecting any positive changes in the next year or so, she said, based on the fact that **"consumers currently have very bad balance sheets"**.

She highlighted a run of depressing figures from the US retail industry, including 18,000 retail jobs cut in February, 25% of retailers undergoing restructuring in 2009 and the estimated closure of 200,000 retail doors by year-end.



Nicholas Kwan, Standard Chartered Bank

JC Penney's Janet Fox

Jeff Streader, Guess

The downturn has also hit Chinese manufacturers hard, following on from soaring labour costs last year and the introduction of tougher government regulations on environmental issues. "More than 70,000 factories in China closed down in 2008," said Jeff Streader, SVP, Global Sourcing at Guess, who also said that reliable industry observers in the market predict that **two-thirds of the Chinese textile factories will close by the end of 2009**.

One bright side to the current crisis is, however, it creates an opportunity. The inevitable industry consolidation it brings will rid the market of unreliable partners and create fewer - but improved and more predictable - sourcing partners for buyers, noted Stephen Lamar, executive VP of the American Apparel and Footwear Association.

WGSN pulls out five of the key ideas discussed: partnerships; speed to market; supply chain efficiency; common standards; emerging markets; and talent management.

Key points

- Industry consolidation among retailers and manufacturers will create more reliable companies to partner.
- Long-term partnerships between buyers and suppliers are key, based on communication, understanding and transparency.
- Western buyers are shifting production out of China to countries closer to home.
- The lack of common standards for product safety and social compliance is creating inefficient procurement.
- China and India represent new retail opportunities but establishing a foothold in either market involves significant investment and time.
- Asian companies think too short term and often fail to recognise the contribution of talent to their businesses.

About the event

Prime Source Forum, the annual sourcing conference organised by Greater China Fashion Survey 2009, was held at Hong Kong Convention and Exhibition Centre, April 1-2 2009. Next year's event is scheduled for March 30-31, 2010.

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Partnerships: committed relations

"Partnership" has been a buzzword in discussions about supplier-buyer relationships for some time, but during a period of uncertainty, speakers noted it has become critical. Discussions focused on how companies could build committed, trustworthy relationships and work closely and more efficiently together.

JC Penney's Fox said such strategic partnerships are crucial in an environment where "you never know whether your suppliers will exist tomorrow". **Streamlining the vendor base and developing partnerships to a level of trust** would enhance the overall efficiency of sourcing, she added.

Suitable partners are those with a sound balance sheet, manufacturing design-driven products and with access to a multi-country production network to help reduce risks, said Fox.

Transparency is also an essential part of partnership, said Streader of Guess: "You've got to look into your supply chain and ask your suppliers questions. **There should be no surprises and no secrets.**"

Some of the questions Guess expects its factories to answer are who and where its own suppliers are and how many individual sewers and production lines it has. It also wants to know whether samples and changes can be made within six weeks, and whether the producer is socially compliant.

Thomas Ruthekolck, managing director of the Corporate Service Group, part of Germany's Arcandor Group, urged retailers to establish a blueprint for a successful partnership model. He also suggested the industry develop tools to measure a supplier's performance and its contribution to a retailer's bottom line.

Speed-to-market

Western brands and retailers are shifting production out of China because of the growing need for speed-to-market. Price is no longer the only factor driving sourcing, said Josef Albert Beckmann, former president of Germany's textile and clothing association (Gesamtverband textile + mode).

Instead, companies have to work quickly and on smaller volume orders to meet changing buying patterns. "Retailers in the EU want to achieve **faster inventory turns and carry fewer SKUs**, therefore giving new opportunities to manufacturers in Egypt, Turkey, North Africa and Eastern Europe due to proximity," said Beckmann.

Steve Walton, CEO of Gieves & Hawkes, believes that proximity alone will be enough of a factor to encourage western retailers to move sourcing for the long term - even without any political influences. Knowing that the goods can be delivered quickly when new orders come in will be the decisive factor, he said.

Supply chain efficiency

Speakers agreed that there is a lot of scope for the industry to improve efficiency throughout the supply chain.

Ken Watson, managing director of Industry Forum Services, a government and industry initiative in the UK to improve the supply chain, said much of the **inefficiency comes from the poor fashion trends forecasting**. "Forty percent of the time, we have the wrong forecasts and then throw away 63% of product samples," he said.

A strong advocate of technology and speed to market, Watson continued: "Technology can make supply chains faster, cheaper and flexible enough to deliver within the season. It's not a question of taking lead times down from nine to six months or even six weeks, but within four weeks on **a consistent basis.**"

Gieves & Hawkes' CEO Walton urged delegates to take "a genuine look

at technology" to achieve greater efficiency. "Technologies do exist but somehow the industry still prefers feel and touch."



Premal Udani, Kaytee Corporation



Ken Watson, Industry Forum Services



Thomas Nelson, VF Asia



Prime Source Forum



Roger Lee, TAL Group



Thorsten Allenstein, Triumph India

Common standards

The lack of global standards for product safety and social compliance are undermining efficient procurement and are a recurring challenge for suppliers. "All my clients are in the US, but each of them has their own their social compliance requirements," commented one delegate from an Indian garment manufacturer. "We were audited several times based on various codes and auditing procedures. This was both time-consuming and costly."

Lack of leadership is the main culprit, noted Thomas Nelson, managing director of VF Asia Ltd. "No-one is leading on product safety and social compliance in the US. **Establishing standards requires a great deal of commitment** from the industry and everyone needs to lock arms with each other."

Legislation may be required if the industry is to adopt a common standard, however, warned Jürgen Maas, VP of the Europe's Foreign Trade Association based in Belgium. "Many times, a standard has to be forced on to retailers. Not everything that is in place was done voluntarily."

Emerging markets

The potential of emerging markets for the global clothing industry was an important theme during the forum. China, India and the Middle East are **experiencing positive growth** despite the current downturn and would be good retail markets, noted Kwan of Standard Chartered Bank.

Premal Udani, chairman of Indian garment manufacturer Kaytee Corporation, said India's total consumption remains strong and is expected to surge from US\$35bn in 2008 to US\$450bn in 2011, fuelled by the market's young population - 70% of Indians are aged under 35. Apparel accounts for some 12% of the market. Udani added that there is a growing trend among Indian garment exporters to look at

opportunities in the domestic market.

Speakers, however, cautioned that it would take time before emerging markets offset any decline in the global economy and more mature markets. "**China and India are still at a very early stage of retail development,**" said Thorsten Allenstein, general manager India for lingerie marker and retailer Triumph. "Organised retailers in India currently only make up of 5% of the market."

Cost is a major factor when establishing retail operations in India, he continued. "Companies need **deep pockets to establish a local set-up** and don't think retail rent is cheap. Rents in central Bombay have been as high as those of Causeway Bay in Hong Kong. They have only just recently come down to a more realistic level."

China remains a solid opportunity for international retailers, driven by ongoing urbanisation. Although China's major urban centres are the initial entry point for retailers, the development of smaller cities is becoming a reality and of growing interest. Michael Tien, chairman of Hong Kong apparel retailer G2000, said the ongoing migration from rural areas into urban cities is creating more and more cities with population of more than one million. "This is opening up tremendous business opportunities for retailers and malls."

Talent management

Asian companies, including those in the textile and apparel sector, often take **a short-term view of the talent** in the business and fail to understand that their employees' skills are key drivers of business success.

"Companies tend to look at the compensation side more than the talent side. They just want the cheapest candidate," said VF Asia's Nelson. Roger Lee, director of Hong Kong garment manufacturer TAL Group, agreed: "A few human resources departments in Asia are formally trained, but most of them don't know how to interview candidates."

As a consequence, **talent retention** poses a challenge for the industry. Professor Angela Peers, principal lecturer at Manchester Metropolitan University's Department of Clothing Design and Technology, reminded delegates that keeping talent in the business offers a better return of investment. "Companies should look inside first rather than always hiring new people, they should find the hidden talent and bring them up. The more a company develops [employees], the more likely they will stay, offering a greater return of investment."

WGSN comment

Delegates' focus on speed-to-market and the issue of transparency come as no surprise. In WGSN's Greater China Fashion Survey 2009, these themes surfaced as key concerns. In fact, a third of brands and retailers noted improvement in suppliers' ethical trading policies compared to a year ago. Additionally, 96% of manufacturers in the People's Republic of China and 74% in Hong Kong noted that speed-to-market is a top priority for their brand and retail customers, whose buying habits are changing.

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