



BUSINESS RESOURCE FEATURES

Prime Source Forum 2010: conference report

ANDREW JOBLING, WGSN 14.04.10

Global demand, protectionism and China's future role in the sourcing landscape were among the key themes to emerge at this year's Prime Source Forum.

Key themes

- ▶ Demand predictions, which are linked to economic forecasts, are pessimistic
- ▶ Emerging markets are a bright spot, with demand expected to increase further
- ▶ Fears of protectionism rising; importers say consumers should be the priority
- ▶ China facing challenges from labour shortages and rising costs, but still expected to dominate sourcing
- ▶ Other countries are competing, however - Vietnam, Bangladesh and Indonesia are all tipped to strengthen
- ▶ Sustainability needs to be integrated into business across all levels of the supply chain
- ▶ Retail opportunities exist despite (and because of) the economic crisis; Chinese online retail is surging

Sourcing and supply-chain management encompass some of the most crucial aspects of the entire apparel industry, but maximising efficiencies and responding to both challenges and opportunities is a constant struggle - not least with the current lingering effects of the global financial crisis.

Many of the current issues in the sector were discussed at the recent Prime Source Forum, which took place in Hong Kong on March 29-31. WGSN highlights some of the key themes to emerge.

Global demand

After the declines global apparel demand has suffered from recently, there have been indications that the situation is beginning to pick up again. However, that upturn is linked to the state of global economies, and the forecast for many is pessimistic.



David Dodwell

Premal Udani

"My own assessment of the last decade-and-a-bit is that we have gone through a period of unsustainable consumer bingeing," said David Dodwell, CEO of Strategic Access Ltd. "We've been addicted to heroin, were thrown cold turkey in 2007, and we've been on the methadone of stimulus packages ever since. We will have to come off that, and there will be more pain ahead."

Dodwell said the expiration of stimulus packages - and the debt levels they have created - would lead to higher taxes and lower government

About the event

Prime Source Forum, organised by APLF Ltd, is an annual event focusing on the challenges and opportunities facing the global apparel industry supply chain. It took place in Hong Kong on March 29-31; the next event is scheduled to take place on March 30 - April 1 2011.

www.primesourceforum.c...

Related reports

[Prime Source Forum 2009: conference report](#)

[IAF World Apparel Convention 2009: report](#)

[Prime Source Forum 2008: conference report](#)

spending, but there is a potential bright spot - emerging markets. Ben Simpfendorfer, chief China economist at the Royal Bank of Scotland, said that import levels across those markets had risen 5-15% over the last few years.

"China is now looking to emerging markets as well as its domestic market, not just the US and Europe," he said, although he added that the increases in emerging market imports are not enough to fully compensate for US and European declines.

Premal Udani, chairman of India's Apparel Export Promotion Council, also suggested that producers would look to the east more as those markets mature.

"Previously it has been a market for supply, but it will become a market for demand," he said. "Sixty per cent of the world's population live in Asia - we will see demand increasing here."

Protectionism fears

Despite many attempts at securing a global trade deal, the WTO's Doha round is still mired in disagreements and currently in deadlock. As a result, more regional and bilateral trade deals are being mooted, but there are growing fears of protectionism rearing its head.



Ben Simpfendorfer

Janet E Fox

Udani said that non-tariff barriers were likely to increase as major economies try to protect jobs, but what kind of measures could be introduced? Dr Jochen M Schaefer, legal counsel for the World Federation of the Sporting Goods Industry, cautioned that environmental regulations could be used as a kind of non-tariff barrier in the future, while Peter Pfneisel, president of the European Apparel and Textile Confederation, said the EU was looking at labelling that shows how much energy is used to make the garment, and that tax measures related to those energy levels could perhaps be implemented.

China's economic model, meanwhile, is also seen by Simpfendorfer as a potential catalyst to protectionist action.

"I think we're likely to see an increase in trade protectionism if China doesn't start spending more and saving less, and China keeps attracting more global share in its exports," he said.

Janet E Fox, SVP, director of sourcing at JC Penney Purchasing Corp and also chairman of the US Association of Importers of Textiles and Apparel, warned of an apparent "wave of protectionism emanating from the US", and said that protectionist policies on textiles and apparel don't save jobs but do increase prices. The issue should be about "protecting the US consumer", she said.

"From an importer's point of view, I don't think US consumers are ready to pay higher prices yet for textiles from China," she said.

China's sourcing role

China is facing a number of challenges to its sourcing position as costs rise in its traditional hubs, but how will they affect its overall position as

the dominant supplier country?



Professor Dr Helmut Merkel

Andrew Lo

"Prices are going up in China, and the purchase price in the US is going down," said Professor Dr Helmut Merkel, managing shareholder at EurAsia Global Concept Ltd. "Chinese suppliers are getting squeezed."

There are also other problems in China, notably a labour shortage. While a proportion of the migrant workers on which the coastal textile centres rely always fail to return after going home for Chinese New Year celebrations, this year the numbers returning have been even lower - a consequence of better standards of living now being found in other areas of China.

Still, the sheer size of China's textile industry, and the infrastructure developments that have grown with it, is seen as a strength that can help keep predators at bay.

"China is home to hundreds of thousands of factories and tens of millions of workers. Other countries don't have the economies to be able to absorb that," said Dodwell, although Merkel said that the future would see buyers spread their risk, placing smaller orders with quicker delivery times and later payments.

Andrew Lo, CEO of the Crystal Group, sees China's position as secure for at least the medium term.

"Will China be number one in the future? In the next 10 years, yes, even with all the cost increases," he said, although he conceded that the lower-price basics could continue to shift elsewhere.

Global sourcing strategy

Although China's sourcing dominance continues, others are developing quickly. So who will be the winners as the landscape shifts? Indonesia is tipped to be one of them, but Vietnam and Bangladesh attracted much of the attention at PSF.



PSF stage

Craig Dana

Vietnam: Named by Craig Dana, MD of Ann Taylor Sourcing Far East Ltd, as that retailer's largest growth country for the last two years, Vietnam has a low cost base, but, again according to Dana, labour

prices in the south are growing faster than productivity gains.

Lo, meanwhile, says that Vietnam will continue to grow, but "might not be able to produce at the really low end, and may have to move up the value chain a bit".

A downside for Vietnam is that when the styles change, efficiency drops - something that doesn't happen in China, said Lo. "Vietnam also can't do the complexity that China can," he added.

Bangladesh: Tipped to be a victim when quotas were removed in 2005, Bangladesh instead saw its garment industry power ahead.

Lo described Bangladesh as the most favourable country for sourcing, not necessarily for the US, but for the EU because of the duty-free GSP benefits. "Japan is also sourcing from there now, also due to duty-free," he said.

There is a downside, however. "Bangladesh has the best cost potential, but it is the hardest to start business in," said Lo, adding that he had experienced difficulty in acquiring large areas of land in the country.

Sustainable sourcing

The importance of sustainability in sourcing goes without saying, but how best to translate those words into practice? It starts by having the right attitude, says Rick Horwitch, VP solutions business development & marketing at Bureau Veritas Consumer Products Services, and can become an important part of a profitable business.



Tobias Fischer



PSF theatre

"Corporate sustainability is a fundamental business issue and, when all said and done, it is a for-profit solution," Horwitch said. Simon Weston, marketing director at Fountain Set, agreed.

"I think it's just about great business practice," Weston said. "If you have a dirty, messy factory, it will be a wasteful factory."

Tobias Fischer, regional CSR manager Far East for H&M (Far East), also said that sustainability needed to be an integral part of the business.

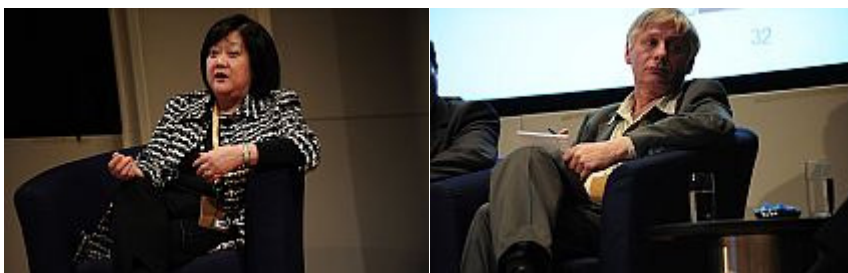
"I strongly believe you can't outsource your sustainability approach," he said. "You need to work on it internally. You can get help, but if you want to be successful, you need to integrate it into your own business."

Fischer also said that all levels of the production process needed to be shown the financial benefits of sustainability so that the brand can deliver on what it is saying on the matter.

"We need to show the supply chain there is a business case," he said.

Retail opportunities

Despite the devastation wracked by the global financial crisis, there are still chances to make progress at retail.



Shirley Chan

Henri Mura

"In this financial tsunami, we feel that some companies may be going down, but that might mean more opportunities for others," said Shirley Chan, MD of YGM Trading Ltd, who added that during difficult times, businesses can be grown more aggressively due to factors such as cheaper rents and easier-to-hire labour.

"Think about the evolution of the brand - there is always an opportunity," she said.

E-commerce, meanwhile, is a huge growth market, with China's performance proving especially eye-catching. Its online retail market doubled in 2009 to CNY250bn, according to Henri Mura, executive chairman of the VIPTEHUI Group, who said that the country has 310 million people with access to broadband - 90 million of whom have bought online in the last six months.

However, the bulk of online sales in China are through consumer-to-consumer websites such as Taobao.

"It has huge implications for how brands communicate themselves online," he said, adding that many brands were choosing to open shops on Taobao rather than launching their own branded online retail sites.

Anson Bailey, principal, business development at KPMG, meanwhile, as well as delivering a fairly bleak outlook for many retail markets, also said he was "cautiously optimistic" on modest growth in 2010, adding that Chinese companies were likely to make some interesting acquisition moves in the near future.

"Moving forward over the next couple of years, we will undoubtedly see more Chinese brands acquiring Western brands and bringing them back to China," he said, adding that European brands were likely to be favoured because of the desire for heritage.

© WGSN 2010