

Most economic predictions for 2009 are bleak, which means companies selling sports and outdoor clothing, footwear and other equipment are being very careful about what they put on the shelf. Suppliers in all parts of the supply chain are preparing to modify their sourcing strategies accordingly.

Sourcing strategies change as the world becomes a tougher place

Global economic downturns affect all industries, and even though we all need clothes and shoes to wear, this industry cannot hold out hope of being an exception. Sports enthusiasts will still take to the hills and the seas, but if household budgets continue to become constrained, many will make do with last year's weatherproof jacket and shoes with two-year-old technology. These are challenging times, and the companies that continue to prosper in 2009 will be the ones that adapt, meeting customers' needs but without pushing the boat out too far. The time for taking the whole world by storm will come again—but probably not this year.

Age of enlightenment

Sourcing strategies in the industry must change to reflect this. As long ago as last summer, Liz Claiborne, one of the largest clothing companies in the world, announced a complete overhaul of its sourcing set-up. The traditional apparel industry strategy of using one central buying office to achieve economies of scale across a number of brands has had its day, Liz Claiborne feels. Its eight leading brands (including Mexx, Lucky Brand Jeans, Juicy Couture and Dana Buchman) now have the freedom to choose their own suppliers and run their own relationships with them. Chief executive, Bill McComb, described the move as "enlightened decentralisation". Meanwhile, the central purchasing team is looking much further ahead, trying to decide what the trading landscape will look like five years from now.

Five years is too ambitious for us, but we have canvassed

For New Zealand-based outdoor brand Icebreaker, sourcing partners' ability to support its commitment to social and environmental ethics is more important than their location.

 Icebreaker

opinion on what changes companies in the sports and outdoor sectors plan to make to their sourcing strategies in 2009.

Diversification plans

It's an important part of the strategy at clothing brand Land's End. Its vice-president for sourcing, Alan Kirk, explains that, across its women's, children's and men's ranges, it moves 70 million units a year. "Between 2005 and 2008," he says, "we have diversified as much as possible on sourcing, avoiding relying too much on China. China is still a great sourcing base; it's just a question of not putting all our eggs in one basket."

China is still a pivotal piece in the Land's End sourcing jigsaw, and so too, in that part of the world, are Taiwan, Cambodia and Vietnam. But the diversification programme has seen the company stretch its net in Asia to source also from garment manufacturers in countries such as the Philippines, Thailand and Indonesia.

"We're constantly looking for new destinations," he says, "but the world is pretty flat for this industry—there aren't many places that textile companies have not been in yet. Two years ago, for example, we started looking at Bangladesh and we have ongoing options there, but we're very selective over who we work with."

Each of these countries can offer Land's End good options for particular types of product, he explains. So across the board, the company is looking for the right combination of lower-cost labour, high levels of manual dexterity among the workers and manageable levels of duty for importing products to the US.

Duty bound

He continues: "This, too, is an important part of our diversification strategy. Sometimes we will take high-duty products to Nicaragua or Jordan. The labour-costs are more expensive, but we save on paying duties because of trade agreements between those countries and the US. We try to use that as much as we can."

No matter where in the world products come from, risk assessment is still at the top of the Land's End agenda, and Mr Kirk says no one throughout the whole of the chain is excluded from their responsibilities in this arena: there are monthly meetings, scrutiny of every vendor buyers work with, looking at their financials, how stable they are, who their other customers are, and so on.

"For me, this focus on stability is one of the biggest changes we've seen over these last few years," he continues. "It's always been part of it, but now we have to look to the future and ask ourselves who is still going to be around. And it's trickier than ever. You could have an excellent partner whose cash-flow is affected by one of the



Clothing manufacturer Land's End moves 70 million units a year across its brand range.

 Land's End

big banks collapsing."

He says he and his team are also spending more time these days "in the vendor base", which is allowing them to pick up on any warning signals that suggest a business may no longer be as robust as Land's End requires. But with regard to sensitive issues such as the use of child labour in the wider supply chain, he explains that, as part of the Sears Group, nothing has changed—compliance in these areas has always had the highest possible priority.

At the same time, so is checking on the environmental impact of the fabrics and components that go into his company's garments. New technology, such as ultraviolet protection and antimicrobial functionality in these products has led to more checking and more testing, Mr Kirk insists.

Legislation on lead

He offers this example. The US Consumer Product Safety Commission recently introduced new legislation on levels of lead in all children's goods that go on sale in the US. It wants the amount of lead in any product to be "as low as technology will allow". The limit on the amount of lead permissible in any product for children aged 12 or under to reduce to 600 parts per thousand by February 10 this year and to just 300 by August 14. It hopes to reduce the limit to 100 within a further two years. Any product that exceeds these limits will be treated as a banned, hazardous substance. This has sent most companies in the children's apparel



The Kingwhale facility in Taiwan, one of a small number of mills that Concept III works with.

Concept III

business racing to put together documentation that gives a complete breakdown of the make-up of all their products, including the dyes and other treatments applied to fabric and finished garments.

Kathleen Fasanella, who runs a riveting blog called Fashion Incubator, says on the subject: "All sewn products intended for use of children 12 and younger must be unit-tested for lead at this time. Third-party certification, instead of testing yourself, is not an option."

She also sounds a word of warning for producers of adult clothing, saying: "Sure, you read '12 and under' and breathe a sigh of relief thinking this doesn't apply to you, but don't be so quick. From now on, I will be recommending that everyone place a line of copy on their hang-tags and on their order-form that reads, 'This product is not intended for use by children aged 12 and under'. The reason is, you really have no assurances that it won't be. Maybe a 12-year-old is mature and likes your stuff or mom buys it and gives it to her. If you don't actively market your product as intended for adults, you may have to test your products too."

As the comments on her blog show, this matter is raising concerns right across the industry. Companies will have to invest to carry out the required testing, or run the risk of an expensive law-suit further down the line.

At Land's End, preparations are already well under way. Alan Kirk says: "We're taking it very seriously; we've invested in new equipment to check for lead, even in goods we have in stock from back orders." The impact of this on the company's approach to sourcing could be huge.

Change of outlook

The founder and chief executive of one prominent fabric supplier company, David Parkes of Concept III, believes increased concerns in the US market can help a company like his, which has made a name for itself over the care it takes in selecting the mills it works with. There was a time when it used only North American mills. It has extended this to Europe and Asia now, but its partners all have five-star research and design capabilities in addition to high quality production and environmental standards. They include Kingwhale Industries (Taiwan), Glenoit Corporation (US), Nice Gain (China), Rentex (Canada), Melba Industries (Australia), and British Millerrain (UK). Most are privately owned.

Things became "much more stringent" in the last part of 2008, Mr Parkes says, which brought about a change in outlook at several of his prominent customers who feel, in his words, that they "cannot afford to fool around with it". Others are coming to Concept III for the first time because their concerns about suppliers in other parts of the world have increased.

"This is one of the dynamics that's out there," he says, "but it's not the only one. Price is even more important than usual at the moment because of the downturn in the global economy. Price pressure is always out there. For the last few years we've come under a lot of pressure, despite economies being robust. Now retailers and brands are having to discount heavily and are telling us that they need us to hold or drop our prices for the year ahead."

Automatic response

Looking for the lowest-cost country from which to source what you need is a spiral, he says. China is still very important for companies in all parts of this industry, but an automatic answer? Mr Parkes no longer thinks so; he says a few factors that have come to the surface in recent months are affecting that. The Chinese government is offering some support in the face of the current challenges, but it's more for cleaner industries such as high-tech, which offers better revenues and higher margins than dyehouses or knitting factories. The government there, in David Parkes's view, is not driving the textile and apparel industry the way it once did. There have also been labour management issues in China.

His view is that these changes in China are helping two other important sourcing locations in Asia: Bangladesh and Vietnam. "Bangladesh is getting more attention because the prices there are good," he continues. "Everyone has been rushing to Vietnam, but the labour-base just isn't there; there is certainly a difficulty in finding people in Vietnam."

Sri Lanka is another country that he believes is receiving more attention from sourcing managers across the industry at the moment. It has "a vibrant garment industry", decent pricing, and no language problems for companies that want to work in English (something that applies to Bangladesh too). For similar reasons, he says it's impossible to discount India as having potential—if India is interested in fulfilling it. It has the people, and it has the understanding of textiles, he points out.

As far as David Parkes can tell, there is no real trend of garment manufacturers moving into Central America, but no trend away from it either, because, he says, of "the nervousness" concerning Asia that there is in the industry at the moment.

"The people I'm working with are telling me that this is what's going on," he concludes. "A year ago, everyone would have said Vietnam was the hot one for our industry, but that shows that the situation can change quickly; it shows that we're in a tough world, one in which there are powerful dynamics that are changing constantly."

Turkey's advantage

Another supplier to many brands in the performance textiles sector, Optimer, has one foot in North America and one in Turkey, giving it a broad perspective of the way these changes are affecting the industry right now. Chief executive, Karen Deniz, comments: "While we still see a great number of our customers remaining in Asia (especially China) there are those that are looking for other options because of increased prices. Prices have gone up because

of the devaluation of the renminbi, higher energy costs and transport charges."

She confirms that Turkey is becoming more appealing again for customers in the European Union owing to its proximity, favourable trade status and the recent devaluation of the Turkish lira against the US dollar. Also, because of the global economic crisis, many EU customers do not want to place large orders that demand substantial outlays of cash, she says. They would rather place smaller orders and re-order during the course of the season to ease their financial burdens and have the ability and freedom to be able to gauge market conditions in the course of a season.

And, in spite of the tentativeness that David Parkes has picked up on, she says US customers are more aggressively exploring options in Central America once again, taking advantage of shorter distances and the CAFTA free trade agreement. She agrees that India is becoming a more attractive option than in previous years as prices increase elsewhere in Asia.

No place like home

But at yarn manufacturer Aquafil, general manager, Fabrizio Calenti, says these recent changes have shown themselves most clearly in a move away from global to more local sourcing. This suits Aquafil, whose focus has always been on local and regional options in an around Italy. Remote sourcing may appear like a good option for economic reasons, Mr Calenti says, even to some of the high-end garment manufacturers that operate in Italy.



The Slam Area 51 sailing jersey, a uniquely Italian affair. Yarn and fabric manufacturers Aquafil, Dryarn and Eurojersey combined to make it possible for the sports brand to produce the new top.

 Slam

"But it brings up many issues," he warns, "such as just-in-time delivery, possible problems with letters of credit, environmental questions, and so on. I think you can see it in the spandex industry. Asian companies tried to take it over because they had a cheap manufacturing base and the margins were big. Now there are no big margins any more and the Chinese spandex industry is collapsing."

If it's true that business today is no longer a battle of brands but a battle of supply chains, Fabrizio Calenti is of the view that the supply chain that wins will be one that functions locally. Sourcing locally from customers you know well

will be very important. In this context, if he has a tip for a hot sourcing location in 2009, it must be Italy. It's an unexpected response perhaps, but he believes the textile industry in Europe, and in Italy in particular, is still worth fighting for. It is focused on the high end, so there are rewards on offer, but being able to build up trust with clients there, by knowing their tastes and requirements and reacting to them quickly will be imperative. "That's the approach we have to take," he says. "With our business model, around 85% of our business is in Italy, and we're not even looking to expand into distant markets at the moment. I saw an article recently in



Icebreaker founder and CEO, Jeremy Moon, says his company looks to build "narrow and deep" relationships with the partners in its supply base.

 Icebreaker

a US magazine in which the writer spoke about an amazing Italian coffee shop. Some customers wanted a lot of milk, some only a little. For some the milk had to be very hot, for others, lukewarm. A cup of coffee seems like a simple thing, but the coffee shop had to learn all the different tastes of the customers who went in every day. If you like, that's our approach too."

Why 'good enough' won't do

On the other side of the Mediterranean, specialist Israeli yarn manufacturer Nilit is taking a similar view. Marketing manager Oded Breier says that the companies that in the recent past turned towards Asia for cheaper solutions—for raw material and garment production sources—are now realising that the quality of the raw material and end product, in some cases, fall short of expectations. The idea among sourcing professionals that 'good enough' would do is no longer good enough, he says.

There have been logistics problems in

the flow of materials, components and finished goods between manufacturers in Asia and their customers in Europe and North America, with lead times and companies' commitment to quick response suffering. Cash-flow problems among some Asian manufacturing partners have led to delays in delivery, he argues. In some cases, the final import cost of end products has turned out to be higher than it would have been to produce the same garments locally because labour costs in the remote sourcing destination have gone up, government export tax incentives have vanished, pushing prices up, currency fluctuations have made prices much less attractive than at the time of negotiating them, and raw materials and logistics costs have gone up. Mr Breier contends that levels of awareness of environmental responsibility and workers' rights is still low in Asia.

He continues: "Due to all of the above, I think we will witness the process of de-globalisation. The economic advantages of sourcing from the Far East are shrinking. Some leading companies in the west are now trying to bring their production back home. In the current situation, this is not as expensive as it was a year ago, and offers better control on quality and lead times."

Concretely, he believes that European companies, even those who are operating at the lower end of the market, will attempt to source more in Europe, perhaps in the east of the continent, including Turkey, with Asian suppliers losing out. Something similar will happen with North American companies, who will look to Central America.

"Our company, our suppliers and our customers are currently being very cautious and watching the market very closely," he says. "There is a demand for lower prices and discounts, better payment terms, versatility in terms of logistics, as well as a wider range of products, quick response to short-notice orders, quicker stock replenishment, and smaller orders. All of this supports the idea of bringing production back home."

Beyond geography

For New Zealand-based merino wool outdoor clothing brand Icebreaker, it's possible to argue that every overseas market is quite remote. Perhaps to compensate for that, founder and chief

executive, Jeremy Moon, explains that his company's sourcing strategy has always been to have "narrow and deep" relationships with sourcing partners. Icebreaker's focus is on the qualities these partners have to offer, rather than on where in the world they operate.

"We want to know them well, and vice-versa," he says. "What's great about having deep relations with a small number of partners is that they understand the nature of our business. We have a history and are committed to working together to understand our business challenges, be it innovating a new product or coping with recessionary issues that impact us all.

Consumers may be spending less at the moment, but our outdoor merino apparel business continues to grow because our products are versatile, durable and ethical, things people want at times like this."

He insists that these aspects of choosing partners from which to source matter much more than geography to Icebreaker. The key to sourcing for Mr Moon's company is to balance "social and environmental ethics" to protect customers, the company itself, and its products. "So any supplier that is great in these two areas, and has clean new technology, is hot for us," he concludes. 