With the economy in some Chinese regions in danger of overheating, labour costs and other expenses going up and worker availability decreasing, companies in the sports and outdoor apparel and footwear sector are keener than ever before to find outsource manufacturing partners in alternative locations.

Options outside China

There is more to global sourcing than China. Apparel manufacturers such as Bangladesh-based Viyellatex Group believe they are in a good position to benefit from changes in the global sourcing strategies of big sports brands. Viyellatex, which already has Puma and Esprit as customers, is to start manufacturing goods for adidas this year. Its chairman, David Hasanat, told media in Bangladesh on making the announcement that production will focus mainly on T-shirts, polo shirts and basic sports shirts, but he says investment by a prestigious brand such as adidas in the garment manufacturing industry in Bangladesh would make it difficult for mid-tier brands to "question the image and performance of Bangladesh" in future.

It's an interesting phrase. Buyers and compliance officers visiting Bangladesh in recent years have raised serious concerns about the treatment of workers, and the particularly painful subject of child labour has definitely come up. The most recent figures from the International Labour Organisation (ILO) indicate that 13.4% of Bangladeshi children aged between five and 14 are working, and a 2009 Unicef report suggests that 13% of boys and 9% of girls in the country fail to enrol at primary school. Viyellatex, in line with United Nations policy, has made eight public pledges in the area of worker relations, including a promise not to use child labour. Other commitments are to make sure employment is "freely chosen", to have safe and hygienic conditions in the workplace, fair wages, fair working hours and no discrimination.

Close to home

While the Dhaka-based company is clearly working hard to distance itself from the more questionable aspects of the Bangladeshi apparel industry's past, it also has China in its sights. Ahasan Kabir Khan, managing director of one Viyellatex company, Interfab Shirt Manufacturing, is on record as saying availability and affordability of labour is a big advantage for his country, pointing to the distance from home (often hundreds of kilometres) that many Chinese manufacturers require their workers to live and the high numbers who fail to return from their rural homelands to the industrial cities near the east and south coasts of China after



Manufacturers are beginning to look further afield than China.

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Sales of garments, footwear, hats and knitwear in China are more than double the combined turnovers of Nike, adidas and Puma. adidas

holidays such as Chinese New Year (February 3 this year). "Employees prefer to work in factories near their homes," Mr Khan insists.

Outsource manufacturing partners and government agencies in Thailand, Indonesia, India, Pakistan, the Philippines, Malaysia, Sri Lanka, Cambodia and Vietnam are pushing similar arguments in favour of their countries, insisting their offerings are cheaper and more reliable. Indonesia's industry ministry had estimated that the country's textile exports would have reached $10 billion in value in 2010. The industry was the second-biggest earner of foreign exchange for Indonesia in 2009, with exports worth $9.2 billion. The ministry has calculated that around 1.3 million people now work in the Indonesian textile industry. Recent developments in Cambodia include a new factory for producing sports footwear on behalf of adidas and other brands set up by Taiwanese group Pou Chen International on 40,000 square-metres of land outside the capital, Phnom Penh. When production reaches full capacity, this new facility will employ around 10,000 Cambodian workers.

China challenges

Each of these alternative locations presents its own particular challenges. Perhaps it's the case that if big multinational brands can do business in China, they believe they can do business anywhere and that establishing the necessary partnerships in new countries, building relationships with new political contacts and integrating new logistics and infrastructure considerations into their sourcing policies is something they will be able to take in their stride. China presents challenges, too, and always has. Apart from the economic pressures mentioned above, the *People's Daily* said at the end of December 2010 that China had launched a campaign to combat corruption in business, confirming that, in the previous year, more than 3,000 people across the country had been found guilty of offering bribes in the course of carrying out business activities.

The big players in the sports industry have made no comment about this and, in spite of everything, are certain to keep China as a hugely important manufacturing source; they recognise and respect the important role China now plays in this globalised industry. Plus, China is an important consumer market for them now and none of them would want to endanger their standing there. The National Bureau of Statistics has confirmed figures that show that, during the first eleven months of 2010, large companies achieved sales of garments, footwear, hats and knitwear of $77.7 billion, 24.5% higher than for the same period in 2009. To put this amount of money in context, it's more than double the combined full-year turnovers in 2009 of Nike, adidas and Puma.

No one wants to upset Chinese manufacturing partners, authorities or consumers. But the immediate challenges that are driving brands and their suppliers to look elsewhere are real. Lead times are an issue at the start of 2011, with brands being urged by their textile suppliers to submit forecasts and orders earlier than usual. Unlike in years gone by, Chinese manufacturing partners were saying of orders placed at the end of 2010 that it would be April this year before they could deliver. This is causing an almighty headache for ingredient brands and other suppliers at the moment.

Price increases are another part of this: Chinese partners want more money and more

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time to turn orders around these days. There have, for example, been major changes in the price of raw materials used to make sports and outdoor apparel products. The price of polyester at polymer level has risen across the globe in recent months, but while the price rose by 34% in North America in the second half of 2010, we have seen reports that suggest the rise in price of the polymer in China over the same period was almost 70%. Meanwhile, cotton prices have doubled and finished product brands are changing blend percentages to use less cotton as a result. This, in turn, has increased the demand for polyester and pushed the price of that material up, too, making the circle ever more vicious.

Pressure on raw materials

This situation seems unlikely to improve in the months ahead; if there are fibre manufacturers who are in a position to increase substantially their capacity to produce, we have yet to hear about it. Specific to China, we have heard that restrictions on energy supply have affected capacity in recent months, with producers finding themselves unable to run flat out no matter how much they would like to, no matter how well they have done in retaining their workforce and no matter how high the demand from their customers.

"Even the very biggest names in the industry are being told there is no extra capacity in China at the moment," a senior person at one ingredient brand has told us. "And this has come at an interesting time because orders at the start of 2011 are definitely going up. Brands want to place more orders, but this growth has come too quickly for manufacturing suppliers in China to build their raw material supplies and their labour force back up again. So, inevitably, business will have to move out of China. I know some is going to Vietnam and that the levels of flexibility and quality on offer there are good. But I also know that some business is coming back, if not all the way to western Europe, then at least to Turkey."



China will continue to be an important market for all major sports brands. Adidas has chosen Beijing as the location of its biggest global brand centre.
adidas

A Turkish manufacturer, Barco, has confirmed that this is true, but insists that the change is likely to be a short-term one only. Barco's leadership team has a degree of sympathy with counterparts in China, saying that any Turkish company would have struggled just as much to cope with the ups and downs of the market over the last few years. "There will be some movement to Turkey this year, but it will not be huge, and I have to say I'm glad about that," a spokesman says. "We have some capacity possibilities in eastern Turkey, but it would not take too much extra volume to cause capacity problems for us too."

The need for sourcing professionals to keep searching for good locations and to spread their nets more widely than ever before seems clear.



An apparel factory in Cambodia. The textile industry is of vital importance in many countries in the developing world.
International Labour Organisation/K. Cassidy

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