

# **SAFSA**

**FROM A SOURCING PERSPECTIVE**

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Lackluster economic recovery, exchange rate instability and the commodity crisis has brought greater challenges to the supply chain than we have ever seen.

Faced with enormous pressures from management to reduce costs and to continue to increase speed to market, sourcing executives have continued to rely on China as our primary source of supply.

# The Current Situation

Despite our best efforts to diversify our vendor matrices, China continues to dominate the apparel and footwear industries.

- The United States imports >40% of all apparel from China
- The 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup> & 9<sup>th</sup> largest exporters of apparel to the USA do not total China's performance.
- Even with more trade preference programs than the US, Europe imports over 50% of its apparel from China.
- Although over 1,000 apparel factories and textiles mills closed in 2009, China market share grew in 2009 and 2010.

# The Challenge

- Most recently, I managed the Global Supply Chain for Guess?, Inc., overseeing North America, Europe and Asia.
- With 1,400 stores in 87 countries, our global customer base had unique requirements in fit, wash and color.
- We had monthly floor sets to reset our stores and we held back 1/3 of our OTB to chase categories that were checking.
- With buys ranging from 2,200 to 5,000, we needed a vendor matrix that was fast, flexible and could interpret and execute on fashion apparel, footwear & accessories.

# The Value Proposition

- After joining in 2008 and accessing the Guess? vendor matrix , we were not unlike most fashion companies in our industry. We had nearly 60% of our production coming from South China (Guangdong Province) or Greater Shanghai.
- Considering our denim jeans were regionally sourced, our dependency on China was very unsettling.
- In addition, China was our primary supplier for >80% of our fabrics and trim, further exacerbating our reliance.
- Product costs were not the cheapest...but our non-China vendors struggled with overall execution. (wash, hand, finesse, aesthetic)

# Today Versus Tomorrow

- From the corporate perspective, I had to deliver COGS savings to increase IMU. This was my financial deliverable.
- From my personal perspective, I knew we had to rebalance our global matrix and reduce our dependency on China.
- Strategic Sourcing versus Tactical Buying
- Shifting our vendor matrix while still executing on speed, fit, innovation, multi-media embellishment, new wet & dry process technologies and more..
- This had to be done

# Our Options

## South Asia

- India, Bangladesh, Pakistan and Sri Lanka

## Regional

- Mexico, Central America, Peru, the Caribbean

## Africa

- Mediterranean area, Sub-Sahara region, Mauritius & Madagascar

## Middle East & Eastern Europe

- Turkey, Egypt, Jordan

# Our Options

## Southeast Asia

- Vietnam, Indonesia, Cambodia, The Philippines, Thailand, Malaysia, Singapore, Brunei, Laos, Myanmar

Southeast Asia has a strong, competitive source of quality textiles and apparel.

The ASEAN region has over 600 million people, is growing and committed to the apparel & footwear industries.

# Southeast Asia instead of China.. ?

- China is absolutely trading up in the value chain
- This “shift” will either move factories further north or west away from the coastal areas; or out of China.
- Outside of regional production, China “wins” the speed game. Any move away from the coast will elongate their competitive advantage.
- The ASEAN region is moving toward a single market and production base characterized by a free flow of goods, services, and skilled labor.
- Heavy investment continues in the ASEAN region, not only local money, but foreign money coming in from Korea, Taiwan, Hong Kong and ... China.

# SAFSA is an “Enabler”

- SAFSA is the **S**ource **A**SEAN **F**ull **S**ervice **A**lliance
- The program has US-government backing along with regional support.
- Fostering regional cooperation with single base of production
- The objective of the program is to to make factories and textile mills more competitive, by linking them together as a vertical operation to better service the requirements of our business.

# Looking Ahead ...

- A longer-term and strategic objective for many global sourcing executives is to generate new excitement of the ASEAN region not only as an alternative to China, but as a regional trading block to eventually reduce or eliminate trade barriers and tariffs.
- I believe, the EU will strategically embrace the ASEAN region as a trading block and begin to offer concessions by 2014.

# The Biggest Reason for the ASEAN region

To mitigate corporate risk.

Can you really afford to remain “China-centric” and not building the critical partnerships that will power your company’s supply chain for the next decade?