

# **A balanced apparel sourcing strategy**

by

*Malcolm Newbery, September 2018*

## **The global location of garment sourcing**

We all know where most of the world's apparel is produced. Wherever you live, but particularly in North America or Western Europe, you only have to look at the country of origin label to see that it is (in approximate ranked order). In just-style's new re:source database subscribers can find the figures for this overview, and many subdivisions of clothing sourcing

1. Asia, China
2. South East Asia (Vietnam, Thailand, Indonesia, Cambodia, Philippines)
3. Indian sub-continent (India, Pakistan, Sri Lanka, Bangladesh)
4. Turkey (mostly to Western Europe)
5. Central America (mostly to USA)
6. Eastern Europe (mostly to Western Europe)
7. Africa (but most of that is from North Africa, Morocco, Tunisia, Egypt))
8. South America (mostly internally to other parts of South America)

But what are the considerations that should drive these sourcing decisions? I have been active, as a commercial supply chain management consultant, in sourcing supply chain decision making for a long time. I wrote about it for Textile Outlook International as long ago as September 1993. At that time, in an article entitled "A balanced sourcing strategy" the main points that were made were that

- ❖ Asian companies were increasing their penetration of the European markets
- ❖ But that there were cost advantages in near-sourcing (North Africa and Eastern Europe) as a consequence of lower transport costs and duties
- ❖ And that the market is not "one market". It is really four markets
  - Branded classics
  - Branded fashion
  - Own label classics
  - Own label fashion (today we would call it fast fashion)

Those markets were then further subdivided by work content (the number of minutes of sewing work involved in making the garment), and garment complexity to derive a theoretical view of the suitability of low cost country sourcing (as shown below)

### Suitability of using low cost country sourcing

		Work Content		
		Low	Medium	High
Complexity	High	X	X	?
	Medium	X	?	✓
	Low	?	✓	✓

Source: Malcolm Newbery Consulting Ltd.

Low cost countries have advantages (labelled in the Figure with a tick) when the work content is medium to high and the complexity is medium to low. High cost countries can defend their position better when the work content is low to medium, and the complexity is high to medium (labelled with a cross).

The question mark denotes an area of uncertainty, which could swing in either direction. That tends to mean that low cost countries are good at garments such as

- ❖ Shirts and blouses
- ❖ Bras and other lingerie
- ❖ Unstructured jackets and trousers

High cost countries can defend better in

- ❖ Men's and women's tailoring
- ❖ Technical garments (such as performance outerwear)
- ❖ Knitwear
- ❖ Other machine, rather than sewing, based garments such as hosiery

## **Total sourcing considerations, and the “balanced scorecard”**

The article at that time explained a then relatively recent concept, total sourcing decision making, in which an importer was supposed to consider four factors

1. The business strategy and effect on the consumer of where the garment was made
2. The total sourcing costs
3. Infrastructure considerations
4. Attitudes of the work force (work ethic and quality) the government (social and political stability, not to mention corruption), and other macro-economic factors

Eight factors were listed in a “virtuous circle” of time and service

1. Reliability
2. Flexibility
3. Quality
4. Rectification
5. Raw material choice
6. Raw material availability
7. Distribution sophistication
8. Transport time

This is an early example of what today we would call “the balanced scorecard” approach

Today at just-style we believe there are 10 factors to be included in the balanced scorecard. They are:-

1. Cost
2. Quality
3. Reliability
4. Experience of the supplier
5. Speed to market
6. Manufacturing skills
7. Additional services skills
8. Access to fabrics
9. Financial stability
10. Political stability

That is quite a list. Ten subjects to consider when making a sourcing decision. In my consulting business, I use the “balanced scorecard” approach to help my clients make these decisions.

A summary example of it is often called the **Balanced Scorecard map**.

**“Balanced scorecard” map**

<b>Factors from above list</b>	China	Bangladesh	Turkey	Romania	Morocco	Honduras	Colombia
1	5	9	4	4	3	8	6
2	5	4	6	7	8	4	3
3	7	3	8	8	8	6	4
4	8	5	8	7	7	4	3
5	5	3	7	8	8	6	4
6	7	6	7	7	7	5	4
7	8	3	9	7	6	5	3
8	9	4	9	6	6	4	3
9	8	4	8	7	6	3	3
10	8	4	6	7	4	4	2
<b>Total</b>	70	45	72	68	63	49	35

Source: Malcolm Newbery Consulting Ltd.

It must be continually in the buyer’s mind that the “balanced scorecard” is really a ranking system rather than an absolute numerical scoring system. This means that

- ❖ On cost, Bangladesh comes first, Honduras second, and Columbia third
- ❖ On reliability, those three countries come in the bottom three places

Overall, this means that the “best” places to source from, according to the balanced scorecard are

1. Turkey (72 points)
2. China (70 points)
3. Romania (68 points)
4. Morocco (63 points)

That is one Far East low cost, and three "local" higher cost source countries. But it has to be remembered that the total score of the card is un-weighted. Each criteria is regarded as having equal importance. If you weight cost as three times as important, and reliability as twice as important, then you get the same ranking

1. Turkey (88 points)
2. China (87 points)
3. Romania (84 points)
4. Morocco (77 points)

Only if you weight cost five times as important as everything else do you radically change the rankings. In that event

1. China (90 points)
2. Turkey (88 points)
3. Romania (84 points)
4. Bangladesh (81 points)
5. Honduras (81 points)

China, Turkey and Romania are still the top three, but Bangladesh and Honduras leap up the table. To me, this says that buyers do (or at least should) value the criteria other than just cost, but if so, why have Bangladesh and other rock bottom low cost countries like Vietnam been growing their exports so dramatically?

### **The importance of extra sourcing manufacturing skills**

Many companies from low cost countries are now realising and accepting that just being cheap is no guarantee that the buyer will want to work with you. The most obvious example is the world number one sourcing organisation Li and Fung. Headquartered in Hong Kong, but with international sourcing capability, it recognised a considerable number of years ago, that added value services were the way to tie the retail or brand buyer in.

Another less well known organisation selling added value services is GIA of Pakistan. Founded by a Pakistani mechanical engineer, who was schooled and worked in Germany, it was early to offer extra services it could provide to its client companies. In GIA's case, these include

- ❖ Quality control tests of raw materials
- ❖ Colour fastness tests of fabrics
- ❖ Computerised pattern making and marker facilities
- ❖ In-house design facilities

as well as the recognised and now expected work in progress (WIP) process controls, quality control of sewing, logistics and shipping services. The company has invested in an ERP system to automate the monitoring of the supply chain process in its 20 odd supplier partner factories, all local to Karachi for easy management control.

### **The development of value added services**

These days if you are an apparel manufacturer anywhere in the world, you will know one basic fact. Just turning up at the buyer's office and saying "here I am; what do you want me to make?" invites the reply "nothing, thank you; just go away". You have to turn up and say "here I am; this is what I can offer you".

So what should clothing manufacturers be offering in today's sophisticated and competitive fashion industry. Certainly not just low cost, although it still matters.

My suggestion is that every potential apparel supplier should look at themselves, and be sure they can offer the following added value services, to avoid just being seen as another CMT (cut, make and trim) manufacturer

- ❖ I can organise, buy and administer the fabric to your specification
- ❖ I can source trims (accessories)
- ❖ I can organise shipping from my end

but in addition

- ❖ I have a work in progress (WIP) system that can report exactly the status of your order
- ❖ I have computers, and reliable internet connections to communicate with you whenever required
- ❖ My designers can adapt your idea for commercial manufacture
- ❖ I have CAD/CAM systems for patterns and marker making as well as for cutting
- ❖ I can manage quality control (QC) to your instruction requirements
- ❖ I have the systems for textile labelling, barcoding etc.
- ❖ I have sophisticated packaging management, that will take work content away from your developed country expensive distribution facilities

In total, today's supplier is saying "trust me; I can take these problems off your hands". That is the sort of supplier I want to work with