

## Prime Source Forum 2007

Prime Source Forum 2007 played host in Hong Kong to some 320 delegates from 23 countries and regions. They heard, shared experiences and networked in 7 discussion panels with the 37 speakers – all leaders of the global textile and apparel industry.

Master of ceremonies, **Andrew Kahn**, Chairman of Kahn Lucas Lancaster Inc. set the tone of the forum by stating that change is what it is all about today. **Bob Zane**, Chairman of the United States Association of Importers of Textiles and Apparel (USA-ITA) echoed this point when he said he had seen more changes in the past 18 months than in the past five years.

### Keynote Address

In his address “An Industry in Transition”, **Paul Charron**, Chairman Emeritus of Liz Claiborne emphasised the point. Only with change can a company move ahead. The shelf life of a good item is only three weeks; hence the need for a constant flow of new ideas. The world is moving away from generalisation; standing for everything in the age of specialisation will lead to the risk of standing for nothing. The consumer is the ultimate leader; understand the customers, get close to them and good things will happen. You must offer the right product at the right place and the right time. Constantly search for a better way, carry out relentless cost management – *not cost cutting*, re-allocate the money to new places by taking thoughtful risks. You must, however, have the best people or you cannot carry out the changes.

### Session I - The Sourcing Environment

**Gary Ross**, Corporate Vice President/Global Manufacturing and Sourcing of Liz Claiborne Inc, compared the fashion apparel industry to the food industry. It needs to be fresh and it has a shelf life. We have to work smarter and faster. He who is fastest is the winner. A great product is one delivered on time and that delights the consumers.

Consolidation will take place on all fronts and levels - be it retail, wholesale, factories, vendors, claimed **Thomas Glaser**, President, Supply Chain European/Asia of VF SAGL pointed out. Aligning and collaborating with global vendors working towards a common goal is a necessity. It is not them and us anymore. Partnership is the way forward.

In order to be better faster and cheaper, the only way is to keep it simple and do it right the first time, advised **Kenneth Wang**, Managing Director of Sterling Products Inc. To reduce cycle time, have the designers work with the factory team to ensure that the product is produced correctly and cut approvals to a minimum.

Price, quality and on time delivery are the basic requirement, said **Edgar Tung**, Director of Sales of Esquel Group of Companies. Esquel believes in achieving quality through having control of the entire process. There is room for improvement if trust and collaboration can be developed between buyers and vendors. Buyers need to listen to the suppliers as well as the consumers. Solid long-term relationship between buyer and vendor is key to success in today's environment.

**Glen Tinton**, Head of Sourcing, Marks and Spencer Ltd, identified quality, value and trust as being the core values that differentiates M&S. Encouraging consumers to care about the way products are made, the company have introduced a new campaign “Look behind the Label”. Environment and social compliance are two pressing issues that M&S had taken on. Doing nothing is not an

option.

**Simon Shephard-Walwyn**, Director of Strategic Planning for Mexx, based in Amsterdam, added that "being on time isn't enough." Suppliers also have to meet buyers' requirements on compliance with human rights and ethics, and country of origin rules; maintain a secure product through the supply chain; have strong operations and stable management; show product development ability; manage inventory, and be able to manufacture small runs at high speed. And the vendors must do all of these better, faster and cheaper than before — a mantra that was repeated throughout the forum.

## Session II - Trade Matters

This session opened with a special address by **Stuart Harbinson**, Senior Adviser to the Secretary General of World Trade Organisation (WTO), who was introduced by the moderator, **Julie Hughes**, Senior Vice President of United States Association of Importers of Textiles and Apparel

In his address, Mr Harbinson, warned that there is no protection in protectionism. Free trade is the key to the industry's future; free trade will ultimately benefit everyone. He then joined the panel for a lively debate between the panelists.

It should be a brave new world as quota should totally expire for Europe after December 2007, said **Emma Ormond**, International Trade Consultant of PricewaterhouseCoopers LLP. She said that presently we have the lull before the storm, but people will suddenly wake up and start asking for quota extensions, pick on a few things for anti-dumping, etc. Buyers must take up the responsibility to fight for a better deal, as with the case of the footwear industry. The lesson here is to get involved and you may end up better than expected.

A similar view was aired by **Brenda Jacobs**, Attorney of Sidley Austin LLP: the post-quota era will be replaced by less transparent protection activities, e.g. trade agreements, anti-dumping, customs compliance agreements and import monitoring programs, creating more challenges. The textile sector in the Doha Round is delaying duty relief. The new US congress is less interested in liberalization of trade.

The trade landscape in Asia is changing. Asian nations are not pushing the Doha Round forward because Asia is too busy, there is too much trade going on, said **Mary Kissel**, Editor, Editorial Page of The Wall Street Journal Asia. Despite bilateral agreement negotiations taking place within Asia, she felt it is not likely that an Asian trade block will appear soon.

**Peter Gabbe**, Chairman of The American Apparel and Footwear Association, speaking in his speech "Call to Arms", noted that the post quota world is a world of uncertainty because governments impose protectionism quite suddenly. Protectionism only adds cost and reduces choices for the consumers. Globalisation is unstoppable while protectionism is not. Those who resist changes shall die. The industry needs to do a better job educating the consumers and the governments around the world on the benefits of globalisation.

## Session III – Compliance, Green Issues and Social Responsibility

Compliance sounds simple but is not easy to execute, said moderator, **Michael Flanagan**, Publishing Director of Clothesource. There is a pressing need to create a meaningful audit code of conduct for all to follow to reduce redundant auditing regulations.

Factories are suffering from audit fatigue and going nowhere, said **Tammy Rodriguez**, Director of Corporate Social Responsibility, Esquel Enterprises Ltd. We have created a world of meaningless audit of code of conducts. Auditors need to understand the business to be able to have a deeper conversation with the factory team. Sometimes the approach of the audit begs lying, she commented. Auditing needs to take on a professional approach. Buyers and vendors must come together and define their partnership and define their role in compliance. "Can there not be a few global auditing firms that are acceptable to all?" she suggested.

What was good ten years ago is not good enough today. Integration of corporate responsibility into the core business functions is the way forward, said **Doug Cahn**, Principal of TheCahnGroup. Sometimes factories lack the knowledge, experience and capacity to demonstrate compliance. Therefore brands and retailers must shoulder some responsibility. Collaboration and sharing of accountability between buyer and vendor and integration between the two could be the solution.

While so many people are going without safe drinking water in the poorer countries, consumers and brands should, and are, demanding environmental concerns from their suppliers, said **Sean Cady**, Senior Manager of Environment, Health and Safety, Global Code of Conduct Department of Levi Strauss & Co. The green movement is here to stay; we must work together to reduce hazardous chemical waste.

## Session IV – Education & Training

Moderator, **Prof Angela Peers**, Principal Lecturer, International Fashion Business & Technology Centre, Department of Clothing Design and Technology of Manchester Metropolitan University said that people are the most valuable asset of a company. As the industry and technology change constantly, education also needs to change with the times, preferably one step ahead, and offer programmes of relevance. Continuing education and training is a must.

Training is about 'how' while education is about 'why'. Training is what is needed now and education is what is needed for the future, said **Prof Philip Yeung**, Executive Director of the Hong Kong Clothing Industry Training Authority. Prof. Peers summed it up nicely: we need to use education and training to capture the knowledge in the industry today to share it with the leaders of tomorrow.

**Jane Robson**, Managing Director of Next Sourcing Ltd, explained how to use education and training this way using Next Sourcing as an example. The company gives training by sending staff from the headquarter to offices to learn how to do sourcing in the other continents so as to learn how they can source the best products and negotiate the best prices with adaptation of the local know-how.

Education needs to change with the times, said **Prof Marsha Dickson**, Chairperson of Department of Fashion and Apparel Studies, University of Delaware. Students from Asia have attended European and US universities then returned to their respective countries to help build a comprehensive programme to educate and train more people in the industry. They have helped their countries' apparel industry develop.

## Session V – The Changing Role of the Retailer

Speaking as 1<sup>st</sup> Vice Chairman of the National Retailers Association, **Paul Charron** said retail markets are changing as fast as everything else in the industry. Hypermarkets, 25 years ago, did poorly in clothing sales, now they are doing volumes. In the US, there are too many stores chasing too few

customers. Consumers are cross-shopping at all price levels and there is a decline in brand and store loyalty due to an abundance of substitutes and choices. Department store sales are declining while specialty shops are going up.

Price competition is getting intensively fierce, trend and style changes are more rapid, and lead times are shorter, said **Jürgen Maas**, Vice Chairman of Foreign Trade Association and Senior Vice President, International Affairs of Metro AG. The only way to survive is precision work and scheduling. Anticipating the consumer needs is equally important. Product and sourcing know-how must be improved.

China was hardly able to clothe its people a quarter of a century ago, now she is clothing everyone worldwide. In future China will be the biggest market in the world, said **Shirley Chan**, Managing Director of YGM Trading Ltd. The demand for clothing in the developing countries is surpassing that of the developed countries.

**Devangshu Dutta**, Chief Executive of Third Eyesight, saw a shift in priorities in the past couple of years. Before it was logistics and buying structure, now it is product development process. Retailers are looking at things differently; they are perceiving suppliers as partners. The centre of gravity for manufacturing is moving East. However, there is a resistance in the West to completely let go of more responsibilities and decision-making. Like China ten years ago, India is experiencing amazing and rapid changes.

## Session VI – Technical Issues & Logistics

The fashion industry involves numerous components. Globalisation has given rise to opportunities and challenges. Technology and logistics can help the industry be better, faster and cheaper by developing true vertical supply chain integration, said **Allan Wong**, CEO of OOCL Logistics. Time, people and money management are the key points. Empowerment, collaboration and effective communication between the buying office, vendor, logistics and distribution enables supply chain integration, in which each of them can work anytime, anywhere independently yet in unison. Centralisation, collaboration, clarity, converse and control work towards a common business plan that help the industry achieve better, faster and cheaper goals. Technologies such as RFID – Radio Frequency Identification and Digital textile printing also contribute to speeding up the supply chain process.

Under the guiding hand of moderator, **Mike Fralix**, President of [TC]<sup>2</sup>, three technical specialists, **David Rode**, President of Lectra Americas Inc, **Paul Chamandy**, Vice President, New Business Development of Paxar America Inc, **Tim McCraw**, General Manager, Digital Textile Printing of Yuhan-Kimberly, Seoul, took the attendees through a lesson in their companies' latest technologies.

## Session VII – Market Issues

Moderator, **Peter Liu**, Chairman of the Textile and Apparel Committee of the American Chamber of Commerce in Hong Kong introduced the session. The two most populous countries in the world, China and India, are not only workshops for the world but they are also the future market giants. The two countries however are very different in their strengths and weaknesses. Before investing in either country for manufacturing or retailing, it is advisable to understand the dynamics at work in each place.

**Dong Tao**, Managing Director, Non-Japan Asia Economics of Credit Suisse (Hong Kong) Ltd, set the scene with a survey of the economies of China and India with detailed demographics which pinpointed the possible impact of population growth on the economies of both nations.

The domestic market in China takes 70% of the country's total textile production, said **Hu Song**, Vice President of China Textile Information Centre. Per capita consumption of fibre in China is increasing faster than its GDP growth. The availability of a complete supply chain production is very attractive to buyers in seeking vendors in China. It is not without its fair share of problems. The government is facing these problems head on.

The 11<sup>th</sup> Five Year plan of China has identified environmental and social responsibility as two priorities. It has built responsible supply chain manufacturing in its year plan pilot programme. Continuous management rather than one time audit has been initiated in these factories.

India's time is now, said **Ashok Rajani**, Chairman of the Export Promotion Committee, Apparel Export Promotion Council of India. India's domestic market has suddenly boomed and will continue so for quite some time to come. It is perhaps the fastest growing market in the world today. India is the largest democracy in the world. More than half of the population is under 20 years old and the demography for the future is projected to be quite steady. The median age in India in 2005 is 24 years old, and projected to be 27 years old in 2015 and 30 years old in 2025. This is providing an efficient labour supply as well as a ready market well into the future.

India is still at the OEM (Original Equipment Manufacturer) stage of manufacturing while others in Asia have gone up the value chain to ODM (Original Design Manufacturer) and OBM (Original Brand Manufacturer). India will follow the same path others have trod. This is the beginning of the journey, there are plenty of opportunities: do not miss them, advised **Devangshu Dutta**, Chief Executive of Third Eyesight.

Vietnam, though a smaller country, is well known in the world of apparel, said **Nguyen Duc Thanh**, Chief of Textile and Clothing Quota Administration, Ministry of Trade, Vietnam. It is at present still a cut & sewn operation. Vietnam is not China or India but it has its favourable conditions and terms which have attracted many investments in factories from neighbouring Asian countries.

## Closing Keynote Address

In the closing speech on "Lessons Learned – A Guide to the Rest of the Decade", **Kevin Burke**, President/CEO of The American Apparel and Footwear Association, echoed many of the Forum speakers by describing the global apparel industry as an "industry in transition". Managers of today's companies must be multidimensional to cope with specialisation, consolidation and diversification. The retailing industry needs to develop fresh ideas continually on product, then utilise the best technology and streamline distribution to ensure faster product delivery to the market and target to the right consumers when brand loyalty or retail loyalty is fading. In order for the industry to survive today and in the future, social and environmental compliance is key to defending the crucial element of brand reputation. Education and training should be promoted and better coordinated for the industry and policymakers. Strong partnerships and teamwork have to be developed within organisations, and with suppliers, customers, competitors, NGOs and educational institutions.

## Summary

In summary, **Bob Zane**, Chairman of the United States Association of Importers of Textiles and Apparel concluded that “Those of us who buy product would like to buy better product, faster and for less money. Those who supply product are looking at how we can give buyers more service, better product, for less money. In the midst of this the governments are trying to prevent imports coming in and protect industries that don’t exist, even though their consumers choose to buy cheaper imported goods. And even though companies are all concerned with the various aspects of social responsibility, they have yet to put together a code of conduct that they can all agree on.”

Prime Source Forum provides a platform for the textile and apparel industry of all countries in the world to not only voice their issues, perspectives and frustrations as well as discuss solutions. Judging by the success of the first two editions, it confirms the relevance and timeliness of such an event in Asia.

**Prime Source Forum 2008 will be held April 1<sup>st</sup> & 2<sup>nd</sup>, 2008.**

Written by Vicky Sung