US fashion firms share sourcing trends and strategies

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Concerns about market competition in the United States have for the first time surpassed worries about rising production and sourcing costs, according to the latest five-year outlook for the US fashion industry. The 'China Plus Many' model, growth in Vietnam ahead of the Trans-Pacific Partnership, and new sourcing destinations like Myanmar and Cuba are also covered.


Survey respondents confirm they have started to explore sourcing opportunities in Myanmar

The just-released Fashion Industry Benchmarking Study surveys executives from leading textile, apparel, and fashion brands, retailers, importers and wholesalers about the business outlook, sourcing practices, utilisation of Free Trade Agreements and preference programmes, and views on trade policy.

Published by the United States Fashion Industry Association (USFIA), the report found that despite challenges including intense pressure on retailers to remain relevant and uncertainty in US politics, the vast majority of respondents (92%) are optimistic about the five-year outlook for the US fashion industry – a record high since the study first launched three years ago.

Importantly, this optimism creates new demand for human talent, with 83% planning to hire more employees in the next five years. Fashion designers, buyers and merchandisers, sourcing specialists, and social compliance specialists will be most in demand.

Controlling production or sourcing cost overall is less pressing this year. Just 33% rate cost as their greatest or second-greatest business challenge in 2016, down from 43% in 2015 and much lower than 81% in 2014. Additionally, 77% report rising costs as one of the top three restraints on increased profitability in 2016, down 12 percentage points from 2015.

Labour cost remains the number one factor driving up US fashion companies' sourcing cost in 2016. What is noteworthy is that over half of respondents also expect compliance with trade regulations will drive up their sourcing cost this year, too.

The benchmarking study was conducted between March 2016 and April 2016 in conjunction with Dr Sheng Lu, assistant Professor at the University of Delaware's Department of Fashion & Apparel Studies.

Of the 30 executives who took part, 92% have more than 500 employees in their companies, while 84% have more than 1,000 employees – suggesting that the findings reflect the views of the most influential players in the US fashion industry.

Sourcing trends

When it comes to sourcing practices, US fashion companies are more actively seeking alternatives to 'Made in China' in 2016, but China's position as the number one sourcing destination seems unlikely to change anytime soon.

All respondents said they source from China – and while 61.5% expect to reduce sourcing from China in the next two years, only 4% expect a strong decline.

Meanwhile, sourcing from Vietnam and Bangladesh may continue to grow over the next two years, but at a slower pace.

Although 61% of respondents plan to source more from Vietnam in the next two years, only 4% expect a strong increase, which is a substantial drop from 21.4% in last year's study. The result reflects concerns about the uncertainty surrounding the ratification of the Trans-Pacific Partnership (TPP) and Vietnam's shortfall in meeting TPP's strict 'yarn-forward' rules of origin.

But Bangladesh is the 5th most-popular sourcing destination this year, with 70% usage rate, a significant increase from 10th place and 50% usage rate in 2015. However, respondents seem to be more cautious about further increasing sourcing from Bangladesh over the next two years, with only 22.7% expecting an increase, much lower than 42.3% expecting an increase in 2015.

While most US fashion companies also continue to expand their global reach and maintain truly global supply chains, some companies say they plan to consolidate their sourcing bases in the next two years to strengthen key supplier relationships and improve efficiency.

Respondents report sourcing from as many as 56 countries or regions in 2016, a significant increase from 41% in last year's study. And while 90% plan to adjust their sourcing base in the next two years, companies are divided on whether to further diversify (44%) or consolidate (30%).

Retailers and fashion brands are skewed in favour of a more diversified sourcing base than importers/wholesalers and manufacturers.

'China Plus Many' has become a commonly adopted sourcing strategy. In fact, 77% say 'Made in China' accounts for less than 50% of their company's total sourcing value or volume. In terms of the 'Many' part, Vietnam and other Asian countries typically account for less than 30% of a company's sourcing portfolio, while most other countries and regions account for less than 10%.

Unchanged from last year, just over half of respondents source from the United States, with 'Made in USA' typically accounting for less than 10% of a company's sourcing portfolio.

Looking at new and buzzworthy potential sourcing destinations, one-quarter of respondents have started to explore sourcing opportunities in Myanmar and Ethiopia, while 4% have started to evaluate Cuba.

Not surprisingly, ethical sourcing and sustainability are given more weight in US fashion companies' sourcing decisions. Respondents also see un-met compliance (factory, social and/or environmental) standards as the top supply chain risk – exceeding concerns for other supply chain risks such as 'labour disputes,' 'political unrest,' and 'lack of resources to manage supply chain risks.'

Trade policy and the US fashion industry

Overall, US fashion companies are "very excited" about the conclusion of the Trans-Pacific Partnership (TPP) negotiations and look forward to exploring the benefits after TPP's implementation.

But free trade agreements (FTAs) and trade preference programmes continue to remain underutilised in 2016 and several FTAs, including NAFTA and DR-CAFTA, are utilised even less than in previous years.

This year, respondents source from eight TPP partners: Vietnam, Mexico, the United States, Malaysia, Canada, Peru, Singapore and Japan, an increase from five last year. 92% expect TPP to impact their company's business practices in the next five years, and 77% say their company has already started analysing TPP and discussing its impact. And 62% say their company will immediately use TPP once it takes effect.

However, the strict yarn-forward rule of origin is a major barrier discouraging US fashion companies from using the agreement. Around 20% of respondents explicitly say they will NOT use TPP within the initial two years after it takes effect because of the yarn-forward rule.

In comparison, the TPP tariff phase-out schedule seems to be of less concern.

US fashion companies see the TPP region more as an additional sourcing opportunity rather than a replacement for existing sourcing destinations: 77% expect to source more textiles and apparel from TPP members in the next five years, but only 4% expect to source less from non-TPP members.

38% expect to strategically adjust or redesign their supply chain based on TPP in the next five years, but only 12% plan to invest more in the TPP region, such as building factories or opening retail stores/e-commerce.

Thanks to the 10-year extension of the African Growth and Opportunity Act (AGOA) last year, US firms are also showing more interest in sourcing from this region. In particular, most respondents see the 'third-country fabric' provision as key for sourcing here.

This year, respondents source from five AGOA members: Mauritius, Lesotho, Kenya, Madagascar, and South Africa. 33% say their company has started to source more textiles and apparel from the AGOA region, while a 14% further say their company will strategically adjust or redesign the supply chain based on AGOA in the next five years.

However, even with the 10-year AGOA extension, only 14% of respondents are willing to make more investment, such as building factories and expanding sourcing, in the AGOA region at this point.

FTAs/preference programmes

Free trade agreements (FTAs) and trade preference programs remain under-utilised in 2016 and several FTAs, including NAFTA and DR-CAFTA, are utilised even less than in previous years.

Of the 19 FTAs/preference programmes examined in the study, none are used by more than 60% of respondents for import purposes, and only three are used by more than 40%.

Even more concerning, the researchers say, some US fashion companies source from countries/regions with FTAs/preference programmes but, for whatever reason, do not claim the duty benefits.

For example, as many as 22% and 15% respondents, respectively, do not use NAFTA and DR-CAFTA when they source from these two regions.

Respondents also almost unanimously support reducing US import tariff rates for apparel and apparel accessories (96%), extending the Generalized System of Preferences (GSP) benefits to textiles, apparel, and footwear (92%),and reducing documentation requirements for importing and exporting textile and apparel under free trade agreements (92 %).

Click on the following link to read the survey in full:

2016 US Fashion Industry Benchmarking Study