

THE ROLE OF MANUFACTURERS IN THE APPAREL SUPPLY CHAIN: THE CASE OF SOURCING FROM CHINA

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ABSTRACT

Most studies on supply chain management in the apparel industry emphasize the role of retailers, e.g. brand chain stores, department stores or hypermarkets. This project focuses on the manufacturing process, the process of creating finished products from raw materials. We conducted interviews with Chinese manufacturers, commercial intermediaries (Hong Kong and Taiwan), and western buyers. We analyzed the process from textile procurement to apparel delivery, with an emphasis on the Incoterms (International Commercial Terms) and transportation time. From 1980s, the companies in newly industrialized countries, such as Hong Kong, Taiwan, and South Korea, moved their production chain to China and became intermediaries between Chinese manufacturers and western buyers. A complete vertical integration in the industrial clusters in China can reduce the transportation time of fabric and other intermediate products. Subcontractors in China usually sell the goods on Incoterms FOB, giving western buyers the latitude to organize international transportation.

Keywords: apparel industry, textile industry, supply chain, China, transportation, manufacturer

INTRODUCTION

The apparel industry has undergone a change of actors' role and power relations among them. In the 1960s, people often bought clothes in small independent stores. Clothing manufacturers decided what to produce and supplied stores with prices mainly decided by them. Today, in most industrialized countries, the chain stores of major brands, department stores and supermarkets have become major distributors of apparel products. These distributors generally have very little own production and outsource manufacturing. Manufacturers, who are often economic minority and do not have direct access to consumer markets, rely on distributors to sell their products. To reduce production costs, many distributors outsource the production to Asia, in countries where the labor cost is lower. South Korea, Hong Kong and Taiwan were once the largest clothing manufacturers in Asia. Since 1980s, China took over. With its abundant labor, abundant natural resources and a

radical economic reform, China has now become the largest exporter of apparel products in the world.

Distributors who outsource the production focus on marketing and distribution. They emphasize increasingly on their ability of supply chain management in order to respond as quickly as possible to market demand. However, much of the production is performed by subcontractors located at the other end of the world. With maritime shipping, it takes at least a month to transport products from East Asia to Western Europe or North America.

OBJECTIVE

From conception to delivery of a product on the market, many players involved in the chain, textile manufacturers, intermediate goods manufacturers, clothing manufacturers, traders, distributors, etc.. Many professional or academic researches have already presented the strategy of distributors in terms of their responsiveness to market. Nevertheless, we still know relatively little about the contribution of other actors in the supply chain. In most research, the role of manufacturers in the chain is invisible.

Starting from 2005, apparel sourcing from China accounts for more than one-third of world's total apparel trade. The apparel industry is traditionally considered to be low-tech and labor intensive, so a common explanation for China's large market share is its abundant cheap labor. However, today quick response becomes more and more important for the fashion market. As the West being the major buyer of Chinese apparel, the long distance between production and consumption naturally increases the transportation time and cost (in most cases). So the question is why American and European companies still choose China instead of nearby countries with cheap labor as their outsourcing partners.

This paper tried to understand in the context of globalization of apparel production, what role play by Chinese manufacturers in the apparel supply chain? Do they only serve as low cost labor, and have no influence on supply chain? This research helps to understand the global apparel supply chain and complemented the role of manufacturers in the relative researches.

METHOD

The analyses were based on interviews with the actors on the field, including international distributors/retailers, independent stores, intermediaries, and manufacturers. We have interviewed enterprises in China (Humen/Dong-Guan, Shanghai, Hong Kong) and Taiwan (Taipei, Taichung). Table1 shows their roles in the industry, nationality, and scale of company. The analysis qualitative based on interviews was completed or compared with the data in the academic or professional documentation.

Table I –Companies interviewed in the apparel industry

Nationality of company \ Role in the industry	China	France	HK	Taiwan	UK	USA	Total
Distributor/ specialized chain stores	-	-	1	-	-	1	2
Distributor/ independent stores	-	3	-	-	1	-	4
Intermediary	-	-	6	-	-	-	6
Manufacturer/ several factories in different cities	5	-	-	3	-	-	8
Manufacturer/ only one factory	2	-	-	-	-	-	2

Source: Wang L.-Y. (2008)

The interview was composed of two sets of questions. First, we asked the respondent to tell us the position of his company in the industrial structure, their relations with other actors in the industry, their products, the company's history and the development perspective of company.

Then we went on with a semi-structured interview. The respondent was asked to reply a set of predetermined questions about the management of their transportation activities. According to what we found interesting in their responses, we asked them some more questions to understand their logic to manage the production and transportation.

By depth interviews and observation, this study complemented most of researches about supply chain using quantitative method.

RESULTS

Figure 1 shows the structure of apparel industry. The functions of distributors/retailers, intermediaries, and manufacturers are segmented and linked by commercial contracts.

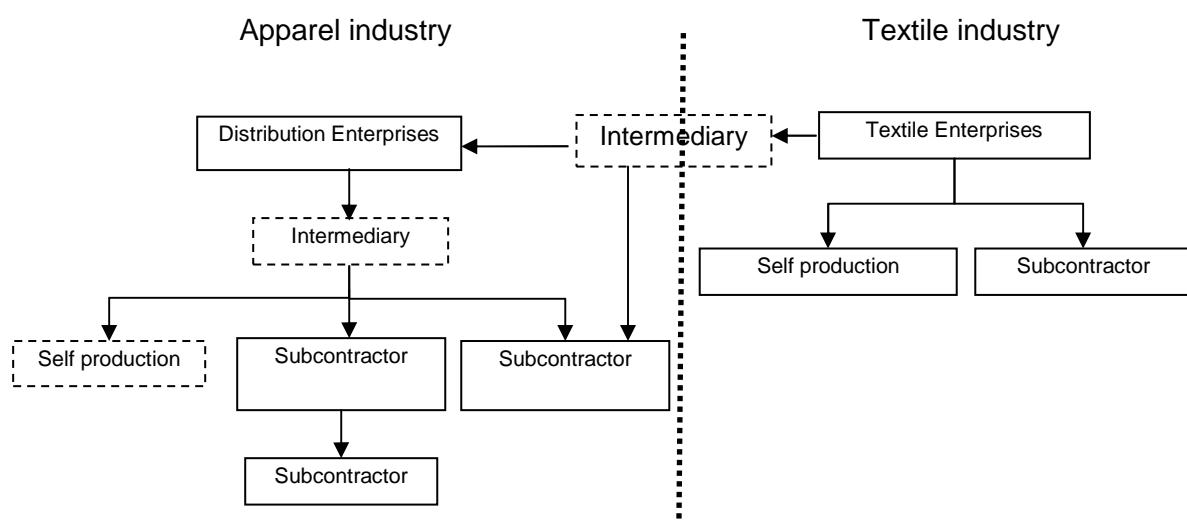


Figure 1 –Structure of textile and apparel industry. Source: by the author (2010)

The structure of textiles and apparel industry can be illustrated by Figure 1. Textile industry is the upstream of apparel industry. Most companies have their own production factories. Each process is realized in different factories. Part of the production or processes may be outsourced. Clothing manufacturers purchase fabrics directly from textile enterprises or through intermediaries. The procurement of fabrics may be led by distribution enterprises or by manufacturers. If the fabrics are chosen by the buyer (distribution enterprises), intermediaries will pass the instructions of the buyer to the manufacturer and is responsible to check if the production follows the instruction.

When the production of garment moved to China, many Western buyers still purchased from companies of Taiwan, Hong Kong and South Korea. Part or all production is done in the factories located in China. Figure 2 shows the amount of apparel exports from China and from Taiwan, Hong Kong and Korea. We can see a kind of substitution from this figure. Gereffi (2005) estimated that about two-thirds of China's apparel exports are handled by enterprises of Taiwan, Hong Kong and Korea. According to WTO (2008) statistics, the first importers of China's clothes in 2007 are the EU-27 (20.1%), United States (19.1%), Hong Kong (15.1%), Japan (8.4%) and South Korea (4.6%), We may suggest that the importation to Hong Kong are to re-export to other areas.

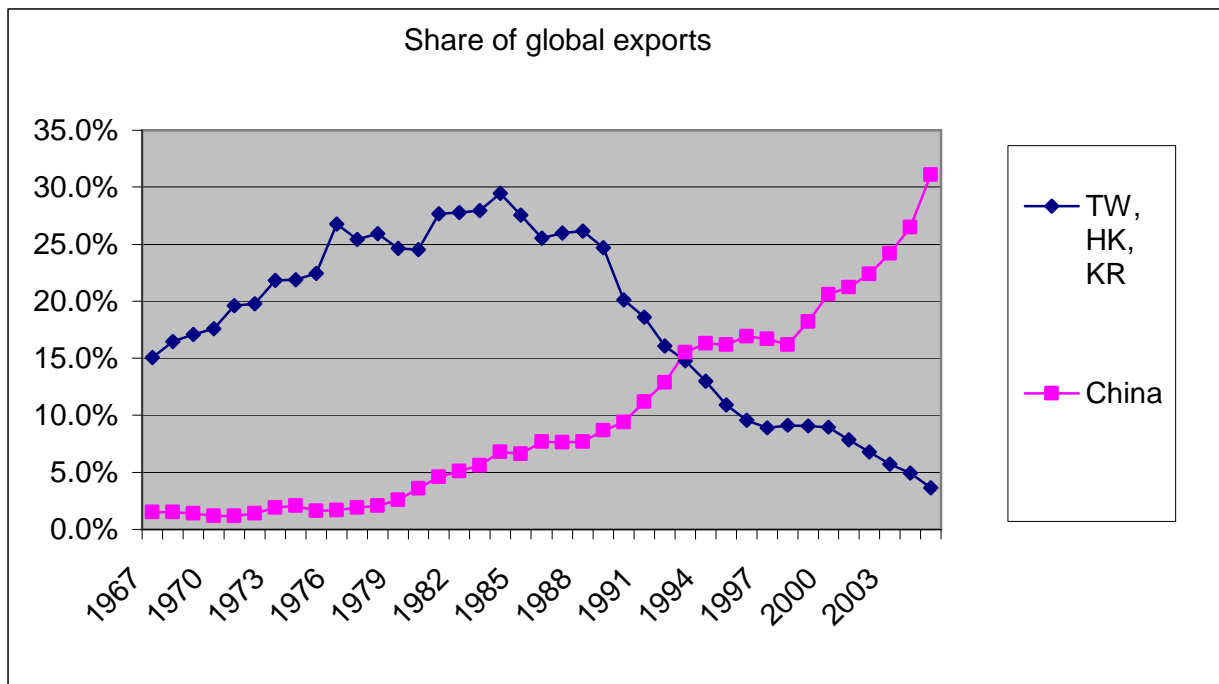


Figure 2 –Proportion of Taiwan, Hong Kong, Korea and China’s exportation (1967-2006),

Source: CHELEM Database, CEPII

The apparel industry in China adopted the manufacturing model used in newly industrialized Asian countries including Hong Kong, Taiwan and South Korea. From 1980s, the companies in these countries moved their production chain to China and became intermediaries between Chinese manufacturers and western buyers. Several years later, textile industry was also gradually established in China. Unlike in Hong Kong and Taiwan, China also enjoys

domestic supplies of natural materials, like cotton and silk, which gives it an advantage in developing a textile industry. A complete vertical integration is realized in many Chinese coastal industrial clusters. The manufacturers and the commercial intermediaries take care of everything from textile procurement to apparel making instead of handling only the final stage, hence greatly reduce the transportation time and cost in the process. This gave them a lead over competitors in others countries who don't have such integration. We suggest that this efficiency and the resulting improvement in the performance of retailers' supply chain is a key in helping China respond to the needs of quick response of western buyers.

Incoterms (International commercial terms) in an international trade contract decided the division of the responsibility and the cost of freight, and also indicate by whom organizes the transportation activities. Responsibility accompanied the possibility of profit. When an enterprise takes on more responsibilities on transportation, it also means they can choose the organization of transportation according to their strategy.

According to the results of interviews, FOB (Free On Board) and CIF (Cost, Insurance and Freight) are the two most commonly used incoterms in apparel products procurement. FOB means that the responsibility of the seller (manufacturer) limited to the side of boat at export port. CIF means that a seller needs to pay international shipping and insurance costs. According to the 2005 and 2008 data, about 90% of China's apparel export sells with FOB contracts. These data show that FOB export occupies a substantial part of China's apparel exports. The organization and cost of international transport is responsibility of foreign buyers, which means manufacturing products is shipped by sellers from the factory to Chinese ports, and after that, the selection of shipping companies and the payment of expenses are the responsibility of foreign buyers. The actual situation is that the factory usually sends the goods to the freight forwarder designated by buyer. It's a result of evolution that FOB occupies a large proportion of the total export. To have more effective control over their supply chain logistics, foreign buyers gradually tend to use FOB contract procurement.

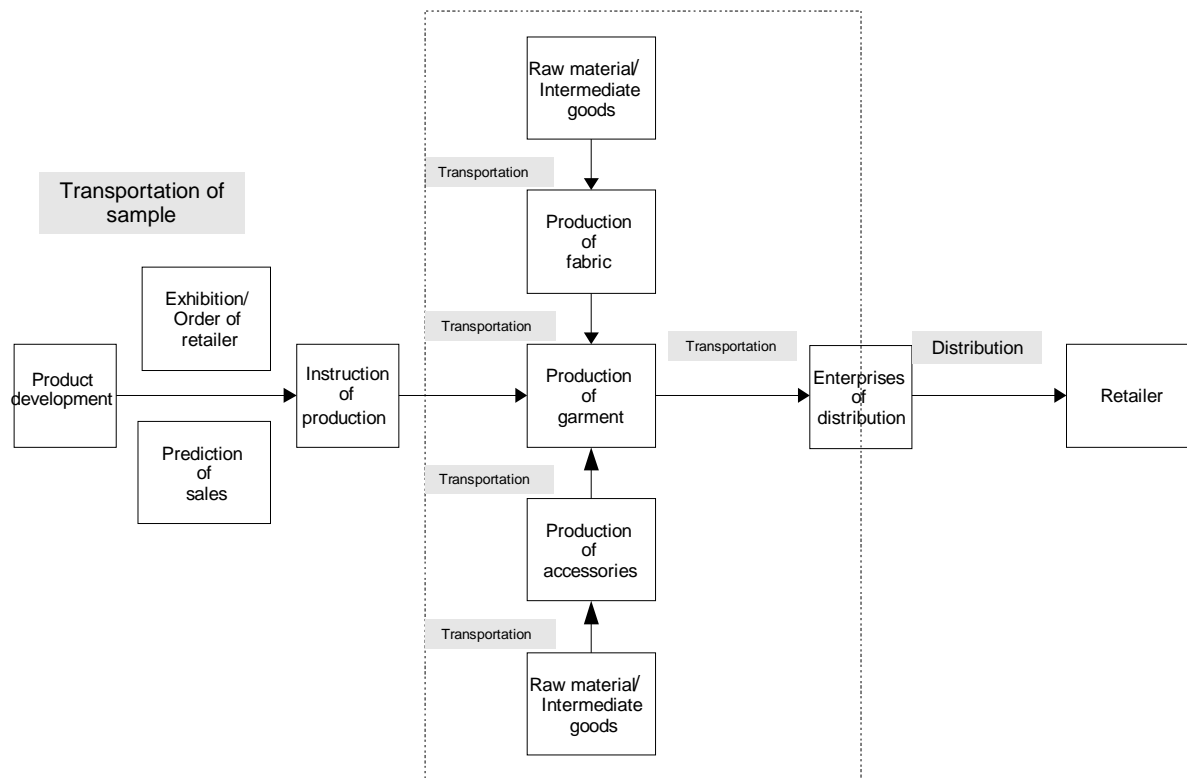


Figure 3 –Proportion of Taiwan, Hong Kong, Korea and China's exportation (1967-2006).

Source: Wang L.-Y. (2009)

The figure 3 shows the transportation activities from product development to retail. A lot of transportation and logistics activities are required in the manufacturing process. Unless the buyer has special instruction for textile and accessories procurement, the manufacturers tend to purchase from the factories in the same industrial district. This shortens largely the time to wait for the fabric and accessories. The Chinese apparel industry has a great advantage of mature industrial chain, which increases largely their competitiveness.

We took an example of a garment enterprise in London (Berger, 2006). This enterprise outsources their apparel manufacturing to Romania. The enterprise needs to import the fabric and accessories from East Asia to Romania. From the order of fabric to the finished garment, it takes three months. If this enterprise outsourced the production in China, because the transportation time of intermediate goods is largely economized, the delivery from China by maritime shipping would not be slower than the delivery from Romania by air. We think that's why even China is far from its European and American markets, but Chinese apparel export occupies still greater and greater share in the world.

CONCLUSION

Because of a mature industrial chain from upstream to downstream in China, it saves a lot of time and cost of transportation in the manufacturing process. Therefore, Chinese apparel products can have a strong competitive edge in the modern clothing market where the rapid delivery is essential.

European and American clothing companies still dominate most of the international transport of goods even after the relocation of production. On the contrary, although China has more than one-third share of the global apparel exports as well as in many other manufactured products, their participation of international transportation activities are still rare. In the case of outsourcing from China, we find that the large distributors mostly purchase with FOB contracts. Buying FOB allows them to organize the transport chain from the port of the manufacturer's country. Chinese manufacturers sell FOB left the latitude to distributors to organize the international transport of finished products. Their responsibility of transportation is limited to local transportation to the place designated by the distributor. Manufacturers, like intermediaries, involved very little to the organization of international transport.

This research is complementary to current supply chain management studies by highlighting the role of manufacturers in the apparel supply chain. It tries to show that cheap labor alone is not sufficient in explaining the rapid growth of Chinese apparel industry. The advantage of supply chain may be the most competitive factor of Chinese apparel products.

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