

Africa-Med strategic sourcing review - comparing East Africa, North Africa and Turkey

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About the author

Rupa has over 15 years' experience across various aspects of the textiles and clothing value chain. Her interest in apparel trade and economics led her to intern at the World Trade Organization (WTO) in 2002, where she participated and assisted in the trade negotiations for the second major review of the Multifibre Agreement.

In 2003, she was involved in setting up the first-ever benchmarking software tool for clothing manufacturers, as a project consultant to the United Nations agency, The International Trade Centre (ITC). She went on to serve as the ITC's advisor for textiles and clothing. In addition to facilitating public private partnerships, she also advised, designed and implemented integrated textiles and clothing sector programmes across South, Central and South East Asia, Africa, Latin America and Eastern Europe.

She is currently the managing director of Clothing Connect B.V. (www.clothing-connect.com), a specialised consulting company offering services in research, value chain analysis, market connectivity and export competitiveness programmes with development agencies worldwide.

Led by her strong belief in the empowerment of women entrepreneurs and professionals, she founded the non-profit organisation – 'SPINNA Circle' www.spinna.org with a focus on getting more women in the textiles and clothing value chain to move up the ladder. As a result, she is a signatory to several international projects.

She is a graduate of economics from St. Xavier's College, Mumbai, holds a post-graduation in textile design and development from the National Institute of Fashion Technology New Delhi, a Masters in textile management from the University of Leeds, UK and a certificate in international law from The London School of Economics (LSE).

She was recently selected as one of the 40 participants in London for the Lloyds Start up programme 2013-2014 at the School for Social Entrepreneurs (SSE), London. She is also a fellow of the prestigious Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA), London.

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METHODOLOGY AND OBJECTIVES OF THIS REPORT

Methodology and objectives of this report

This report is aimed as a tool for both buyers and suppliers to assess and compare the advantages and challenges of sourcing and manufacturing apparel in East Africa, North Africa and the Euro-Mediterranean region.

Sourcing executives have often told us that decisions need to be made at a regional level; hence this report focuses on comparing its two regions with each other and the chosen countries amongst themselves. Regional sourcing often helps benefit from economies of scale and in most cases brings down lead times. It also provides the retailer / brand with a cost effective way to set up a sourcing hub in a region and thereby strengthen its presence and knowledge of the locale and its suppliers. Many brands also play an active role in supporting the sustainable and responsible development of a transparent regional supply chain.

Lack of transparency has become of one of the core challenges in the modern sourcing mechanism. Active engagement at a regional level could act as a first step in providing solutions and finding ways to support the development of sustainable practises and help in developing stronger knowhow of the region, the people and the way of doing business.

After several discussions with stakeholders in Africa, plus retailers and brands, East Africa was selected as Region 1 for this report and the Euro-Mediterranean region including parts of North Africa was selected as Region 2.

Region 1: East Africa focuses on Ethiopia, Kenya, Tanzania and Uganda

Region 2: Euro-Mediterranean and North Africa focuses on Morocco and Tunisia and Turkey

just-style believes there are dynamic developments across the apparel sectors of these selected regions and countries, which could offer interesting sourcing opportunities for both conventional buyers as well as potential first time buyers from other regions such as the EU and parts of Middle East and Asia.

The report is categorised into four key parts:

Part 1: The value chain approach to sourcing criteria

Part 2: Sourcing from East Africa

- Ethiopia
- Kenya
- Tanzania
- Uganda
- A comparison and key highlights

Part 3: Sourcing from North Africa and Turkey

- Morocco
- Turkey
- Tunisia
- A comparison and key highlights

Part 4: Comparing the two regions and discussing possible sourcing strategies

Adopting a value chain approach

By breaking the apparel value supply chain down into four components, each component is studied in detail to derive key elements or criteria of importance for the competitiveness of a country's garment industry. These key criteria are then consolidated the 15-point sourcing criteria that we have used as the main basis of measurement across this report.

The 15-point sourcing criteria

We have ranked each country using this consistent set of criteria. In addition to just-style's research on the seven countries, a sample set of 10 senior executives from a cross-section of the fashion industry were asked for their sourcing perceptions on each of the countries. This panel of executives were asked to rank their preferences and criteria across the value chain. A further five sourcing agents and industry professionals were also interviewed for their comments and views.

To support the views from a supplier perspective, in addition to our analysts' knowledge and experience in the countries, representatives from industry associations and factory owners were also interviewed.

In some cases, anonymity was requested therefore we unfortunately cannot disclose the full list of contacts that made up our research panel.

A comparative analysis between the regions and sourcing strategies

Finally, after comparing the countries based on the 15-point sourcing criteria, we've rated the East African countries against each other and the North African countries against each other and Turkey. We have then compared the two set of regions with each other and finally looked at them from a possible regional sourcing strategy perspective.

While no one can foresee the future definitively, we believe assessing countries in this structured way can support the development of competitive, sustainable and knowledge-based sourcing strategies for brands and retailers in the fashion industry.

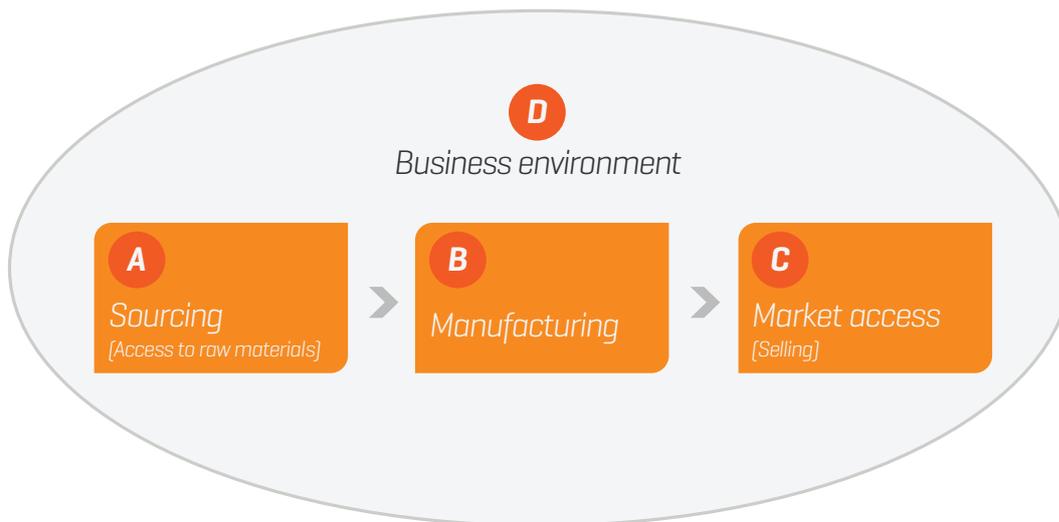
PART 1: THE VALUE CHAIN APPROACH TO SOURCING CRITERIA

Part 1: The value chain approach to sourcing criteria

Adopting a value chain approach

To compare and assess the competitiveness of each of the countries as sourcing destinations, we shall look at some of the core factors that impact the competitiveness of the garment industry. We can do this by adopting a value chain approach, dividing the value chain into four components: sourcing; manufacturing; market access; and business environment. Many factories assume that being able to manufacture well is sufficient. However, buyer requirements have changed and continue to change ever more. We will discuss buyer expectations further on in this report. Figure 4 illustrates the four key components of the value chain.

Figure 1: Illustrating the value chain and business environment



Source: just-style

A. Sourcing (access to raw materials)

This component is critical in order for a sourcing destination to offer FOB exports. Fabrics/ yarns and trims make up 60-70% of the FOB price of a garment depending on whether it is knit or woven. Without easy access to raw materials, factories would remain at the CM (Cut, Make) or CMP (Cut, Make, Pack) level of exports, thus taking a very small component share of profit. In addition, most buyers in the key importing countries of the EU and the US require FOB export as a non-negotiable criteria if choosing to place their orders. The ability to source competitively and maintain relationships with mills and fabric suppliers is a key component of the garment business today. Buyer criteria impacted by access to raw materials include:

- Lead time
- Price
- Ability to offer FOB
- Ability to develop samples
- Ability to offer value added products
- Ability to offer flexible manufacturing
- Ability to offer quick replenishment
- Import tariffs and trade agreements

B. Manufacturing

Manufacturing the garment is the core of the business. This relates to everything inside the factory and all elements related to production including any printing, dyeing and finishing. Beyond production efficiency, buyers and sourcing teams will consider management and HR policies, contracts and compliance. The level of training and skills of workers and management have a direct impact on the level of business that a factory will have. Buyer criteria impacted by this factor:

- Efficiency levels
- Price
- Labour productivity
- Factory standards, including certifications
- Social and environmental standards
- Building and fire safety
- Pattern making ability and sample development
- Ability to offer flexible manufacturing
- Ability to offer quick replenishment
- Ability to offer value added products
- Ability to offer capacity

- Knowledge of costing
- Ability to communicate (language and merchandising skills)
- Ability to offer shipment options

C. Market access

Market access is right at the top of the value chain. This will determine which buyer, which country, what size of business, what segment of business. It will also be impacted by trade agreements, the number of days required to clear goods at customs, both in country as well as in the importing country. Knowledge and connections in the target market would be an added advantage. Buyer criteria impacted include:

- Price
- Knowledge of preferential trade agreements (duty advantage)
- Lead times
- Shipping costs
- Size of orders
- Unit price of orders (value added versus basic)
- Visibility of factory in target market
- Market access skills

D. Business environment

The business environment of a country has a direct impact on its competitiveness as a sourcing destination. The majority of these factors are not controlled directly by the factory. Buyer criteria impacted by business environment:

- Reliability of business and orders
- Ability to finance orders
- Long-term presence of the company / factory in the country
- No excess costs of conducting business in the country
- Reliability concerning government policies

- Reliability and transparency of political regime
- Price stability
- Good human rights practices and legal system
- Ease of shipments
- Ease of entering the country (visas etc)

Competitiveness and sourcing criteria

To understand the importance of criteria across the value chain from a sourcing perspective, we have consolidated key issues of importance across the above value chain and ranked 15 of the key criteria for sourcing into 10 basic and five preferred criteria.

As discussed earlier, in the methodology, 15 senior executives from a cross-section of the fashion industry and eight industry professionals were asked about their sourcing perceptions and their preferences. The interviewed buyers were asked to rate the elements in order of importance for them. We call this 'The 15-Point Sourcing Criteria'. This was developed as a concept by the author's consultancy, Clothing Connect B.V., and has been used since 2013 to assess, analyse and compare supplier competitiveness within the garment industry.

Figure 2 lists the criteria and associated ratings.

Figure 2: The '15-point sourcing criteria'

Sourcing criteria	Ranking in importance	Requirement	Notes / explanation
Ability to provide FOB	1	Basic	Most buyers in EU and US need FOB as they cannot provide CM orders. This is why several agents work in countries where FOB is still difficult
Price	2	Basic	Price has to always be workable. If this factor is not in line with the company's product line, then it is a 'no go'. This does not necessarily mean it has to be the 'lowest price'. It means that the price needs to be acceptable.
Tariffs advantage (preferential agreements)	3	Basic	All buyers are eventually interested in the 'landed price', not just FOB. The tariff level to import adds up into the overall price component. So preferential tariffs play a big role in identifying countries for sourcing
Compliance / sustainability	4	Basic	Compliance and sustainability is today, a top criteria. Different buyers had a slightly different perspective on this. Especially in relation to 'what is compliance'. Company codes of conduct were mentioned as the point of comparison. Certifications such as 'BSCI' and 'SEDEX' and 'WRAP' also came up. In addition some buyers were willing to accept certifications from other brands as a starting point. But in most cases, the factory would need to work towards these required certifications. Building and fire safety are new additions to the existing social and environmental requirements. However it should be noted that the levels of requirements change based on the type of brand.

Figure 2: The '15-point sourcing criteria' (Continued)

Ability to create value added products	15	Preferred	If a factory is able to prepare higher design and value added products, this is a big advantage for buyers. All brands have a mix of products in their collections. As a result, they always need some factories able to produce higher-end product.
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Source: Clothing Connect

There were differences between the ratings provided by buyers based on the level of company (higher end, mid-market, lower end or mass), the size of company, and mix of products.

However some key elements such as quality, preferential agreements / tariffs, efficiency, reliability and ability to provide FOB came up more or less in the same place. Several criteria are linked to each other. For example, price, efficiency and tariffs are linked as they all relate to the final landed price of the product for the buyer. Similarly lead time, reliability and vertical sourcing ability are also linked together, relating to speed to market.

PART 2: SOURCING FROM EAST AFRICAN COUNTRIES

4. Compliance / sustainability

Ethiopia	Kenya	Tanzania	Uganda
<p>Social compliance:</p> <p>The majority of garment industry factories do not have any internationally recognised certifications in place. Labour laws are respected in the bigger factories, however several smaller factories operate on sub-contracted work and do not follow recognised standards. The key issue would be in terms of health and safety issues. However, the big FDI-related factories are set up with new systems and criteria. In addition to government commitment, international brands and retailers are joining hands with international organisations to set up initiatives which will focus on industrial relations and responsible sourcing</p>	<p>Social compliance:</p> <p>Social compliance is in place throughout the majority of exporting factories.</p> <p>Environmental compliance:</p> <p>Environmental awareness has developed across the industrial sector in Kenya. This is having a positive effect on personnel and management in factories who are beginning to establish a basic level of environmental standards.</p>	<p>Social compliance:</p> <p>Some of the bigger factories have put in place international standards. The smaller artisan / regional clothing manufacturers do not take these into account.</p> <p>Environmental compliance:</p> <p>This has not yet become a factor of concern in the majority of factories. However, the foreign invested factories do use energy conservation techniques.</p>	<p>Social compliance:</p> <p>The two big factories have excellent systems however the majority of smaller garment production made for the local and regional markets do not necessarily take into account international standards or norms.</p> <p>Environmental compliance:</p> <p>This has not yet become as prominent in comparison with the peer countries reviewed here.</p>

7. Lead time

Ethiopia	Kenya	Tanzania	Uganda
<p>While the general perception of buyers is that lead-time is still a big problem, changes are taking place. While the factories are not yet able to provide competitive lead times or quote easily due to the lack of access to raw materials, progress has been made in using quicker routes for shipping by air. Products can reach Djibouti straight from the export processing areas in Ethiopia within a day and then from there to Europe quite quickly. However, to the US it would still take considerable time.</p>	<p>The production and time taken within factories in Kenya is competitive, and factories can provide quotes with lead times for specific numbers of days (e.g. 90 days for products that require fabric sourcing). However, the shipping routes are not as competitive as those now being organised through Ethiopia. Due to efficiency in the system of production and skillset, Kenya comes up higher overall.</p>	<p>Lead times are still quite an issue and it is difficult to estimate the exact nature of lead times for the industry. A few factories are able to provide competitive quotes as they are vertical in nature.</p>	<p>The few key factories set up for exports conduct volume exports mainly to regional markets and to the US. They are set up competitively but are not pressured with regular orders from several different buyers. Hence their method of working doesn't require them to move the production out relatively quickly.</p>