2016 Fashion Industry Benchmarking Study

By

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in collaboration with the

United States Fashion Industry Association

June 2016
Introduction

As we release the 2016 Fashion Industry Benchmarking Study—our third benchmarking study—we face a time of great uncertainty. Retail is changing rapidly, and companies are under intense pressure to remain relevant and deliver exciting products to consumers while struggling with declining foot traffic, global competition, and even bankruptcy. Meanwhile, there is even more uncertainty about U.S. politics as we head into the general election cycle, and the impact the outcome—whatever the outcome—will have on jobs, businesses, and consumer spending.

We want to celebrate the fact, then, that despite the uncertainty, the vast majority of participants in our study are optimistic about the five-year outlook for the fashion industry. In fact, 92 percent said they are optimistic or somewhat optimistic—a record high since we began conducting the study in 2014!

The following pages contain more fascinating results. I want to highlight the fact that the Trans-Paciﬁc Partnership (TPP) remains at the top of mind, with 92 percent of respondents saying the agreement will impact their business practices—once it goes into effect, of course. However, now that the text is released, we finally have more insight into how specific provisions will be used by brands and retailers—or not.

This year, we also take a look at ethical sourcing practices. As USFIA’s new chairman, Michael Singer, Vice President of Customs & Social Compliance at Macy’s, told WWD in May, “It’s important that companies begin to look at supply chains [more deeply] and develop a transparency map to know where their raw materials are coming from and where their products are actually being made, not just where they are assembled, but where their raw materials are coming from...It’s going further than Tier 1.” Our report examines how these issues factor into sourcing decisions, and provides guidance as we plan to put even more focus on providing ethical sourcing resources.

This year, we also draw comparisons to the earlier studies, providing insight on how the industry is evolving. (And like we found the past two years, as the industry continues to globalize, we still need fewer trade barriers, not more!)

Thank you to the 30 executives, both members and non-members, who participated, and especially to Dr. Sheng Lu at the University of Delaware for helping us develop the questions, crunch the numbers, and deliver the final report for the third year in a row. We would not have this valuable information without you.

We hope you find this information valuable, too, and as always, please feel free to contact us with any questions.

With best regards,

Julia K. Hughes
President
United States Fashion Industry Association (USFIA)
Executive Summary

Overall, respondents remain optimistic about the five-year outlook for the U.S. fashion industry. “Market competition in the United States” is ranked the top business challenge this year, which, for the first time since 2014, exceeds concerns about “increasing production or sourcing cost.”

- Respondents remain positive about the five-year outlook for the U.S. fashion industry, with 92 percent optimistic or somewhat optimistic, a record high since we began conducting the study in 2014.
- This optimism creates new demand for human talent, with 83 percent 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 percent rate cost as their greatest or second-greatest business challenge in 2016, down from 43 percent in 2015 and much lower than 81 percent in 2014. Additionally, 77 percent report rising costs as one of the top three restraints on increased profitability in 2016, down 12 percentage points from 2015.
- Labor cost remains the No. 1 factor driving up U.S. 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.

U.S. fashion companies are more actively seeking alternatives to “Made in China” in 2016, but China’s position as the No.1 sourcing destination seems unlikely to change anytime soon. Meanwhile, sourcing from Vietnam and Bangladesh may continue to grow over the next two years, but at a slower pace.

- 100 percent of respondents source from China in 2016. Although 61.5 percent expect to reduce sourcing from China in the next two years, only 4 percent expect a strong decline.
- Respondents appear to be more conservative about Vietnam’s growth potential in the next two years. Although 61 percent plan to somewhat increase sourcing from the country, only 4 percent expect a strong increase, which is a substantial drop from 21.4 percent in last year’s study. The result reflects U.S. fashion companies’ concerns about the uncertainty surrounding the ratification of the Trans-Pacific Partnership (TPP) and concerns about Vietnam’s ability to meet TPP’s strict “yarn-forward” rules of origin.
- Bangladesh is back! Bangladesh is the 5th-most-popular sourcing destination this year, with 70 percent usage rate, a significant increase from 10th place and 50 percent 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 the 42.3 percent expecting an increase in 2015.

U.S. fashion companies continue to expand their global reach and maintain truly global supply chains. Respondents’ sourcing bases continue to expand, and more countries are considered potential sourcing destinations. However, some companies plan to consolidate their sourcing 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 countries in last year’s study. And while 90 percent plan to adjust their sourcing base in the next two years, companies are divided on whether to further diversify (44 percent) or consolidate (30 percent).
• 52 percent report sourcing from 10+ different countries or regions in 2016. In general, larger companies have a more diversified sourcing base than smaller companies. Additionally, retailers and fashion brands are also skewed in favor of a more diversified sourcing base than importers/wholesalers and manufacturers.

• 100 percent of respondents source textile and apparel products that contain inputs from multiple countries, compared to zero percent sourcing products made wholly in one single country.

• “China Plus Many” has become a commonly adopted sourcing strategy. In fact, 77 percent say “Made in China” accounts for less than 50 percent 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 percent of a company’s sourcing portfolio, while most other countries and regions account for less than 10 percent.

• 52 percent of respondents source from the United States, with no change from last year. “Made in USA” typically accounts for less than 10 percent of a company’s sourcing portfolio, and companies do not see “Made in USA” a major replacement for “Made in China.”

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

Today, ethical sourcing and sustainability are given more weight in U.S. fashion companies’ sourcing decisions. Respondents also see unmet compliance (factory, social, and/or environmental) standards as the top supply chain risk.

• 89 percent say ethical sourcing and sustainability have become more important in their company’s sourcing decisions in 2016 compared to five years ago.

• 33 percent rate “unmet social and environmental compliance” as having a high or very high impact on their supply chain, much higher than concerns for other supply chain risks such as “labor disputes,” “political unrest,” and “lack of resources to manage supply chain risks.”

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

• The TPP region is already a critical sourcing base for U.S. fashion companies. This year, respondents source from eight TPP partners: Vietnam, Mexico, the United States, Malaysia, Canada, Peru, Singapore, and Japan, an increase from five TPP partners last year.

• 92 percent say TPP will impact their company’s business practices in the next five years, an increase from 80 percent in the 2015 study.

• 77 percent say their company has already started analyzing TPP and discussing its impact. And, 62 percent say their company will immediately use TPP once it takes effect.

• However, the strict yarn-forward rule of origin is a major barrier discouraging U.S. fashion companies from using the agreement. Approximately 20 percent 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 a less concern to respondents.

• U.S. fashion companies see the TPP region more as an additional sourcing opportunity rather than a replacement for existing sourcing destinations: 77 percent expect to source more textiles and apparel from TPP members in the next five years, but only 4 percent expect to source less from non-TPP members.
• 38 percent expect to strategically adjust or redesign their supply chain based on TPP in the next five years, but only 12 percent 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), U.S. fashion companies have shown more interest in sourcing from the region. In particular, most respondents see the “third-country fabric” provision a critical necessity for their company to source in the AGOA region.

• This year, respondents source from five AGOA members: Mauritius, Lesotho, Kenya, Madagascar, and South Africa.
• 57 percent say the "third-country fabric" provision is important for their company to source in the AGOA region.
• 33 percent say their company has started to source more textiles and apparel from the AGOA region, while 14 percent 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 percent of respondents are willing to make more investment, such as building factories and expanding sourcing, in the AGOA region at this point, though they recognize capacity building is critical to encourage more sourcing from Africa.

Free trade agreements (FTAs) and trade preference programs remain underutilized in 2016 and several FTAs, including NAFTA and CAFTA-DR, are utilized even less than in previous years. U.S. fashion companies also call for further removal of trade barriers, including restrictive rules of origin and remaining high tariffs.

• Of the 19 FTAs/preference programs we examined this year, NONE are used by more than 60 percent of respondents for import purposes, and only three are used by more than 40 percent.
• Even more concerning, some U.S. fashion companies source from countries/regions with FTAs/preference programs but, for whatever reason, do not claim the duty benefits. For example, as many as 22 percent and 15 percent of respondents, respectively, do not use NAFTA and CAFTA-DR when they source from these two regions.
• As many as 96 percent support or strongly support abandoning the strict “yarn-forward” rules of origin and adopting more flexible rules in future free trade agreements.
• Respondents also almost unanimously support reducing U.S. import tariff rates for apparel and apparel accessories (96 percent), extending the Generalized System of Preferences (GSP) benefits to textiles, apparel, and footwear (92 percent), and reducing documentation requirements for importing and exporting textile and apparel under free trade agreements (92 percent).
I. Business Environment in the U.S. Fashion Industry

Top Business Challenges in 2016

Figure 1: Top Business Challenges for the U.S. Fashion Industry in 2016

Table 1: Top Business Challenges for the U.S. Fashion Industry: Rank in 2016 vs. 2015

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<tr>
<td>#1 Market competition in the United States</td>
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<td>#2 Increasing production or sourcing cost</td>
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<td>#3 Investment and updating technology</td>
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<td>9</td>
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<td>#4 Compliance with trade regulations</td>
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<td>#5 Meeting consumer demand</td>
<td>3</td>
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<td>#6 Managing supply chain risks</td>
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<td>#7 Currency value and impact of exchange rates on competitiveness or profitability</td>
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<td>#8 Finding a new sourcing base other than China</td>
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<td>#9 HR issues, including talent recruitment and retention</td>
<td>13</td>
<td>4</td>
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<tr>
<td>#10 Trade protectionism risk in the United States</td>
<td>11</td>
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<td>#11 Market competition in markets other than the United States</td>
<td>16</td>
<td>5</td>
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<td>#12 Political tensions in developing countries</td>
<td>9</td>
<td>-3</td>
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<tr>
<td>#13 Economic outlook in developed economies</td>
<td>5</td>
<td>-8</td>
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<tr>
<td>#14 Economic outlook in emerging markets</td>
<td>15</td>
<td>1</td>
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<tr>
<td>#15 Trade protectionism risk in countries other than the United States</td>
<td>10</td>
<td>-5</td>
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<tr>
<td>#16 Intellectual property right protection</td>
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<td>-2</td>
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Note: Total score for each business issue is calculated based on weighted average as follows: 1st importance = 5 points, 2nd importance = 4 points, 3rd importance = 3 points, 4th importance = 2 points and 5th importance = 1 point.
To gauge the overall business environment of the U.S. fashion industry, we asked respondents to select the top five existing or potential issues that pose the greatest challenges to their businesses in 2016, and rank the issues in order of importance (Figure 1 and Table 1).

First, respondents say “market competition in the United States” and “increasing production or sourcing cost” are their top two business challenges in 2016. More than one-third of respondents rated both issues either the most or second-most important challenge of the year, far exceeding the concerns about other issues on the list. Consistent with this result, 50 percent and 77 percent of respondents, respectively, report “competition from domestic competitors” and “rising cost” as their top two restraints on increased profitability in 2016 (Figure 2). It shall be noted, however, that controlling production or sourcing cost overall is less pressing than dealing with market competition in the United States, which is a notable difference from the survey results in 2014 and 2015. It is likely that U.S. fashion companies are able to save dollars on various costs associated with sourcing and production thanks to a strong U.S. dollar against other major currencies, as well as the record lows in oil prices in the past few months.

Second, respondents express more concerns about impact of trade policies and the business environment in the international market in 2016. As shown in Table 1, this year, for the first time, the top 10 business challenges for the U.S. fashion industry includes two issues related to trade policy: “compliance with trade regulations” (rank 4th in 2016, up from 6th in 2015) and “trade protectionism risk in the United States” (rank 10th in 2016, up from 11th in 2015). A number of new trade policy changes and regulations have recently been implemented in the United States, from the implementation of Automated Commercial Environment (ACE) system for imports and new detentions of products suspected to be made by forced labor, to state laws like California’s Prop. 65 and the “Made in USA” labeling confusion, to regulatory changes in China and the European Union, to name just a few examples. More complicated trade rules could lead to these growing concerns about trade compliance. And for the first time in recent memory, the candidates for the two major presidential parties in the U.S. presidential election have made comments that are, at best, unfriendly to trade and imports, and at worst, protectionist and xenophobic, which may also add to respondents’ concerns.
On the other hand, as a reflection of the expanded global operations of U.S. fashion companies, “market competition in markets other than the United States” (rank 11\textsuperscript{th} in 2016, up from 16\textsuperscript{th} in 2015) and “economic outlook in emerging markets” (rank 14\textsuperscript{th} in 2016, up from 15\textsuperscript{th} in 2015) are factors seen as more important this year than in the past. In particular, \textbf{more than 40 percent of respondents report “competition from international competitors” one of their top three restraints on increased profitability in 2016, up 17 percentage points from last year’s survey (Figure 2).} This year, a notably higher percentage of companies have headquarters or management offices as well as sell products outside the United States (Figure 23 and 24).

\textbf{Third, internal management issues pose greater challenges for respondents’ businesses in 2016.} For example, “investment and updating technology” ranks 3\textsuperscript{rd} among the top 10 business challenges this year, significantly up from 12\textsuperscript{th} in 2015. The booming of e-commerce and growing popularity of “fast fashion” could be among the factors that push U.S. fashion companies to make more investment in technology and supply chain infrastructure. In their open-ended comments, several respondents specifically mention building capacity to handle e-commerce orders and improving speed-to-market as the two important trends for the industry in 2016. Moreover, as a result of technology upgrades and business model innovations, respondents are facing more pressures on managing human resources in 2016, including talent recruitment and retention. As one respondent commented, the “lack of talent is astounding, particularly on the technical side.”

\textit{Industry Outlook in the Next Five Years}

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\includegraphics[width=\textwidth]{Figure_3.png}
\caption{Respondent’s Five-year Outlook for the U.S. Fashion Industry}
\end{figure}

Respondents continue to hold an overall positive view of the five-year outlook for the U.S. fashion industry, with as many as 92 percent optimistic or somewhat optimistic, a record high since we began conducting the study in 2014 (Figure 3). However, outlook could be affected by uncertainty in the world economy, such as China’s economic slowdown and weak economic recovery in the Eurozone, leading some respondents to shift from “optimistic” to “somewhat optimistic” about the five-year industry outlook this year. Nevertheless, no respondents are pessimistic about the next five years.
**Demand for Human Talent in the Next Five Years**

Respondents’ optimism creates new demand for human talent. This year, 83 percent of respondents plan to hire more employees in the next five years. This is slightly lower but still close to the 85 percent in the 2015 study. As shown in Figure 4, four positions, including fashion designers, buyers and merchandisers, sourcing specialists, and social compliance specialists, could be the most in demand in the next five years, whereas respondents expect their hiring needs for sewing machine operators least likely to grow and even shrink in the same time frame. The contrasting demand for human talent between non-manufacturing and manufacturing positions reflects respondents’ business priorities in the years ahead, along with the ongoing structural adjustment of the U.S. fashion industry. Additionally, the result is a reminder that even though U.S. fashion companies may no longer focus on physically “making” apparel and other fashion products, looking at the entire the supply chain, they create many well-paid and high-quality jobs in the United States.
II. Sourcing Practices in the U.S. Fashion Industry

Sourcing Base

As the fashion industry is becoming more global and faster, it is increasingly important for companies to strike a balance between sourcing cost, speed, and flexibility. Reflecting this trend, most respondents continue to diversify their sourcing base in 2016, with 52 percent currently sourcing from 10+ different countries or regions.

This year, we observe again that larger companies in general have a more diversified sourcing base than smaller companies. Size could affect a company's sourcing decision because larger companies are inclined to reach out to more markets and carry a broader product mix, which requires the support of a more diversified sourcing base. As shown in Figure 5a and 5b, among respondents with 1,000+ employees, 40.9 percent source from 20+ different countries or regions in 2016, which is a substantial jump from 22.2 percent in 2015. In comparison, among respondents with <1,000 employees, 75 percent source from 6-10 different countries or regions.
Furthermore, results suggest that retailers and fashion brands maintain a more diversified sourcing base than importers/wholesalers and manufacturers. As shown in Figure 6, close to 80 percent of self-identified retailers and fashion brands source from 10+ different countries or regions in 2016, much higher than the 52 percent among all respondents. Additionally, 45 percent of self-identified retailers source from 20+ different countries or regions, compared with only 33 percent among all respondents.

As another reflection of the U.S. fashion industry’s growing global reach, respondents report sourcing from 56 countries in 2016, a significant increase from 41 in last year’s study (Figure 7). Consistent with the official trade statistics, China (100 percent of respondents) and Vietnam (93 percent of respondents) are the two most-utilized sourcing destinations, followed by India (81 percent), Indonesia (74 percent), and Bangladesh (70 percent). Among the top 10 sourcing destinations, nine are located in Asia, suggesting the region, as a whole, remains an unshakable dominant source of textiles and apparel for U.S. fashion companies.

On the other hand, although the relative importance of the United States as a sourcing base somewhat declined this year—slipping to the 10th place from 5th in 2015—52 percent of respondents currently source “Made in USA” products, fairly close to 53 percent in 2015. To be clear, U.S. fashion companies are not opting out of domestic sourcing.
Survey results further suggest that the Trans-Pacific Partnership (TPP) and African Growth and Opportunity Act (AGOA) regions are gaining momentum as critical sourcing bases for the industry. Today, eight of the 56 countries utilized by respondents are TPP partners: Vietnam, Mexico, the United States, Malaysia, Canada, Peru, Singapore, and Japan. This is an increase from five TPP partners in 2015. In addition, five of the 56 countries utilized by respondents are AGOA beneficiaries: Mauritius, Lesotho, Kenya, Madagascar, and South Africa. This is the same as last year. What is particularly deserving of attention is that almost all of these TPP and AGOA members are utilized at higher rates in 2016 than in 2015—for example, sourcing utilization increased 24 percentage points for Malaysia, 19 percentage points for Peru, 13 percentage points for Mexico, and 5 percentage points for Lesotho. This suggests that the signing of TPP and the 10-year renewal of AGOA have started to affect companies’ sourcing decisions. More detailed analysis on the impact of TPP and AGOA on the industry can be found in Part III of this report.

Sourcing Portfolio

This year, we asked respondents to not only list countries they source from, but also to describe the makeup of their sourcing portfolio. Results confirm that U.S. fashion companies are NOT “putting all eggs in one basket” and “China Plus Many” has become a commonly adopted sourcing strategy (Figure 8).

Although ALL respondents source from China (Figure 7), **77 percent say “Made in China” accounts for less than 50 percent of their companies’ total sourcing value or volume.** In terms of the “Many” part, Vietnam and other Asian countries typically account for less than 30 percent of a company’s sourcing portfolio, while most other countries and regions, including the United States, North America, South & Central America, Africa, and Europe, account for less than 10 percent.

*Note: Respondents were asked to select all sourcing destinations they are currently using. Utilization rate in the above figure is calculated by dividing the frequency of each country’s utilization by total number of respondents.*
This year, we again asked respondents to describe their sourcing model, and the results are highly consistent with findings in 2015 (Figure 7). "Direct sourcing from a selected supplier and mill matrix using companies' own design and selecting fabric from the mill resource" remains the most popular sourcing model in 2016, adopted by 78 percent of respondents. Additionally, 59 percent of respondents also use suppliers’ designs in 2016, up from 37 percent in 2015. In comparison, fewer respondents are directly involved in handling cut-make-and-trim (CMT) and fabric purchase.

In the comments, respondents indicate they expect suppliers to have the capacity to supply or manage sourcing for textile inputs/raw material, such as fabrics and trims. For example, one commented, "We specify fabric, our suppliers place orders with mills. We buy a package deal." Similarly, another said, "suppliers manage the fabric/raw material sourcing and we approve." A third respondent said, "We nominate all fabric and trim and have the factories purchase these items."
Last but not least, as another reflection of the global nature of today’s fashion industry, respondents say the textile and apparel products they source are typically “made in the world”:

100% of respondents source textile and apparel products that contain inputs coming from multiple countries, compared to zero percentage only source textile and apparel that are 100% made in one single country.

**Pressure of Sourcing Cost**

While rising sourcing cost remains one of the top business challenges for the U.S. fashion industry in 2016, cost pressure overall is less pressing than in previous years. As shown in Figure 10, whereas 74 percent of respondents expect either a modest or slight sourcing cost increase in 2016, none expect a substantial increase. **And for the first time since 2014, approximately 20 percent of respondents expect their sourcing cost to decline this year.** Only 7 percent of respondents expected a decline in 2015, and none expected a decline in 2014.
In this year’s survey, respondents provided their assessment on how factors impacting sourcing cost might change in 2016. **Results show that labor cost remains the No. 1 factor driving up fashion companies’ sourcing cost in 2016**, with 85 percent of respondents expecting an increase. According to industry sources, the wage level continues to rise quickly in many Asian countries where U.S. fashion companies primarily source from, such as China, Vietnam, and Bangladesh. **However, more than half of respondents expect compliance with trade regulations will drive up their sourcing cost this year, too.** This result is a reminder that more needs to be done to continue eliminating trade barriers and cutting “red tape” at borders to help companies manage and reduce cost.

Additionally, respondents are least worried about an increase in cost of raw materials, shipping, and logistics in 2016, thanks again to the strong U.S. dollar and the low oil prices. Approximately 30 percent of respondents expect these costs to even decline this year.

### Sourcing Risks

As managing supply chain risks becomes increasingly critical for fashion businesses, this year, we asked respondents to identify and rate the impact of specific risks. As shown in Figure 12, **“Unmet compliance (factory, social and/or environmental) standards” is the top supply chain risk, with 33 percent of respondents rating it with high or very high impact.** For years, many U.S. fashion companies and well-known brands have made great efforts to improve their compliance with social responsibility, labor, and environmental standards. The result reveals the importance of compliance, as well as its complexity, especially when companies’ supply chains are becoming longer and ever more sophisticated.

Respondents also see “labor disputes,” “political unrest,” and “lack of resources to manage supply chain risks” having an overall medium impact on their risk this year, whereas risk from natural disasters is of the least concern.

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Note: Impact of supply chain risk is ranked based on their total score received, which is the sum of respondents’ rating.

**Emerging Sourcing Trends**

Looking ahead, several emerging sourcing trends are worth watching.

**First, U.S. fashion companies will continue to adjust their sourcing base.** As shown in Figure 13, approximately 90 percent of respondents expect to adjust their sourcing base in the next two years, although the majority will do so in a modest way. What is interesting to note, however, is that this year, U.S. fashion companies appear to be more divided on whether to further diversify (44 percent of respondents) or consolidate (30 percent of respondents) their current sourcing base. In contrast, in the 2015 study, respondents said they would diversify (56 percent) rather than consolidate (only 17 percent) in the next two years. There are several reasons behind this emerging trend. For example, as summarized in Table 2, some companies may use a more diversified sourcing base to better serve their market expansion strategy or increase flexibility, whereas others may want
to prioritize strengthening their relationships with key suppliers or improving efficiency. As one respondent commented, "(Our) focus right now is really finding efficiencies and maximizing productivity in the supply chain. While we won’t necessarily move out of any countries, we are consolidating the base within regions. The current relatively favorable sourcing environment will probably start to give way to challenges by next year, so this year we are ‘cleaning up’ in preparation for future obstacles (i.e., probably cost).”

Table 2: Benefits of Sourcing Diversification and Sourcing Consolidation: A Comparison

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<th>Benefits of Sourcing Diversification</th>
<th>Benefits of Sourcing Consolidation</th>
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<tr>
<td>• To fully take advantage of resources around the globe</td>
<td>• To take advantage of economies of scale</td>
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<tr>
<td>• To take advantage of cost-saving benefits under newly-implemented free trade agreements or trade preference programs</td>
<td>• To strengthen relationships with key suppliers</td>
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<tr>
<td>• To support new market entry/expansion</td>
<td>• To consolidate limited resources and improve efficiency of existing supply chains</td>
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<tr>
<td>• To increase flexibility in sourcing</td>
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Second, although U.S. fashion companies are more actively seeking alternatives to “Made in China,” China’s position as the No.1 sourcing destination seems unlikely to change anytime soon. As shown in Figure 14a, 14b, and 15a, this year, the percentage of respondents expecting to reduce sourcing from China in the next two years climbed to 61.5, compared with 53.3 and 50.0 in the 2015 and 2014, respectively. However, as few as 4 percent of respondents say their sourcing value or volume from China would strongly decrease through 2018. Meanwhile, U.S. fashion companies express strong interest in increasing sourcing from countries and regions other than China in the next two years, though mostly in a modest way. In particular, among respondents expecting to reduce sourcing from China, 68.8 percent plan to increase sourcing from Vietnam, 43.8 percent from Asian countries other than China and Vietnam, 43.8 percent from the AGOA region, and 37.5 percent from South and Central America, suggesting these countries and regions are among the top choices as alternatives to “Made in China.”
Figure 14a: How do you think your sourcing value (or volume) from the following countries or regions will change in the next two years?

Respondents are actively seeking new sourcing opportunities, but most companies expect only modest increase of sourcing value or volume from countries/regions other than China in the next two years.

Figure 14b: How do you think your sourcing value (or volume) from the following countries or regions will change in the next two years?

While 58% of respondents expect somewhat decrease of sourcing value or volume from China in the next two years, only 4% expect a strong decrease.
Nevertheless, statistics from the Office of Textiles and Apparel (OTEXA) at the U.S. Department of Commerce show that China remains the dominant supplier in all categories, supplying 41 percent of apparel, 38 percent of fabrics, 20 percent of yarns, and 67 percent of made-ups to the United States in 2015. The same year, U.S. textile and apparel imports from China grew 8 percent, which equals an
increase of 2,298.9 million square meters equivalent (SME). The INCREASE is only slightly smaller than total U.S. apparel imports from Mexico, the 5th-largest supplier of textiles and apparel to the United States. This is a large shoe to fill!

To add to the complexity of the situation, China is quickly growing as an apparel consumption market, with total market demand estimated to exceed the United States by 2019. Consistent with the trend, in this year’s survey, more than half of respondents report both having headquarters or management offices and selling products in China. How to deal with China as a sourcing destination will remain an ongoing debate and a test of wisdom, vision, and courage for U.S. fashion companies.

Third, U.S. fashion companies intend to source more from Vietnam and Bangladesh in the next two years, but imports from these two countries may grow at a slower pace. This year, Vietnam not surprisingly remains the second most frequently used sourcing destination among respondents (93 percent usage, up from 90 percent in the 2015 study). Vietnam is also widely considered THE largest beneficiary of the Trans-Pacific Partnership (TPP) in the textile and apparel sector, with its exports of apparel to the United States estimated to increase by $12.5 billion in 2025 as a result of the trade deal. However, this year, respondents seem to be more conservative about Vietnam’s growth potential in the next two years: only 4 percent expect a strong increase of sourcing value or volume, which is a substantial drop from 21.4 percent in the 2015 study (Figure 15b). In addition to the reported two-digit wage hike in Vietnam in recent years, the uncertainty surrounding the ratification of TPP and concerns about Vietnam’s ability to meet TPP’s strict “yarn-forward” rules of origin may also add to hesitation about further increasing sourcing from the country.

This year, Bangladesh is the 5th most-used sourcing destination (70 percent usage, a significant increase from 50 percent in the 2015 study). In 2015, U.S. apparel imports from Bangladesh also grew 16 percent in quantity and nearly 12 percent in value, making it one of the fastest-growing major apparel suppliers. However, similar to Vietnam, respondents seem to be very cautious about further increase sourcing from Bangladesh in the next two years, with only 22.7 expecting an increase in sourcing value or volume, much lower than 42.3 percent and 50 percent in the 2015 and 2014 studies, respectively (Figure 15c). Still, there is little need to worry about Bangladesh losing sourcing orders, either, because less than 10 percent of respondents expect to reduce sourcing from Bangladesh in the next two years. Based on the results, it is likely that sourcing from Bangladesh will stay stable through 2018.

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5 The same as above.

Fourth, Myanmar, Ethiopia, and Cuba could provide potential sourcing opportunities for U.S. fashion companies. The U.S. relationships with countries such as Myanmar and Cuba have greatly improved in recent years. It is interesting to know whether U.S. fashion companies consider these countries to be potential sourcing opportunities, because: 1) international trade can make positive contributions to strengthening country-to-country ties; and 2) for developing countries like Myanmar and Cuba, the export-oriented apparel sector often plays a critical role in creating jobs and driving local economic growth.
Results show that just over one-fourth of respondents have already started to explore sourcing opportunities in both Myanmar and Ethiopia. Another 4 percent of respondents have started exploring sourcing possibilities from Cuba. However, none have started exploring Nepal yet, though this may change in next year’s survey if the new trade preferences for Nepal go into effect. Although these four countries are still in the nascent stage of working with U.S. fashion companies, the results suggest an encouraging start.

Fifth, ethical sourcing and sustainability will be given more weight in U.S. fashion companies’ sourcing decisions. Specifically:

89% of respondents say ethical sourcing and sustainability issues are more important in their company’s sourcing decisions in 2016, compared to five years ago. 11% of respondents report no change.

When asked why and how ethical sourcing and sustainability figure into fashion company’s sourcing decisions, respondents say:

- "Sustainability is a component of our supplier scorecard as well as a parameter needed to gain improved status as a supplier. Certifications are a sign of a progressive and compliant company."
- "They figure into sourcing decisions. Initiatives like Better Work, Better Cotton Initiative, ZDHC, Race to the Top factor in more than third-party certifications."
- “Standards/certifications allow us to have a greater degree of confidence that our sourcing partners are meeting our corporate requirements. We are now requiring our partners to meet these requirements as a condition to business with us.”
- "Customers expect social responsibility and we require our supply chain to adhere."
- "Ethical issues are a top priority, top of mind when making sourcing partnership decisions."
- "Because of customer requirement, we review and try to educate suppliers with respect to sustainable practices".
Additionally, 67 percent say the social and environmental compliance of their brands sold in multiple markets are handled both by headquarters and local offices. The rest (33 percent) say the issue is handled centrally by their headquarters (Figure 17). No respondents report having only local offices dealing with compliance issues.

![Figure 17: How does your company manage the social and environmental compliance of your brands sold in multiple markets?](image)

III. Trade Policy and the U.S. Fashion Industry

*Utilization of Enacted Free Trade Agreements and Preference Programs*

This year, we again asked respondents to tell us whether they utilize any Free Trade Agreements (FTAs) and preference programs enacted by the United States or other countries. Theoretically, FTAs and preference programs should help companies save money on import tariffs and more easily obtain access to foreign markets.

As shown in Figure 18, most of the FTAs/preference programs enacted by the United States and its trading partners remain fairly underutilized in 2016 and, as a matter of fact, many of them are utilized even less by U.S. fashion companies than last year. Specifically, of the 19 FTAs/preference programs we examined this year, NONE are used by more than 60 percent of respondents for import purposes, and only three are used by more than 40 percent. Even the two most-utilized FTAs—the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) and the North American Free Trade Agreement (NAFTA)—see a decline in utilization compared to last year’s study: CAFTA-DR is down from 70 percent to 56 percent and NAFTA is down from 67 percent to 41 percent.
Note: Utilization rate equals the frequency of each free trade agreement/preference program’s utilization divided by the total number of respondents.

Even more concerning, some U.S. fashion companies source from countries/regions with FTAs/preference programs but, for whatever reason, do not claim the duty benefits. For example, as many as 22 percent and 15 percent of respondents, respectively, do not use NAFTA and CAFTA-DR when they source from these two regions. As we mentioned in the 2015 study, some U.S. fashion companies express concerns about the strict, complicated rules of origin and heavy documentation requirements for FTAs/preference programs. Many say the duty savings are not worth the time and resources required to comply with programs and obtain the required documents from the suppliers. This year’s results suggest the problem has not improved.

It is also important to note that the lower utilization of FTAs/preference programs suggested by our results is supported by the official trade statistics. As shown in Figure 19, the share of U.S. apparel imports entering under FTAs has been declining since 2013, and dropped to 15.4 percent in 2015. This figure was not only lower than the 16.2 percent recorded in 2014, but was also the lowest since 2006. Even the absolute value of U.S. apparel imports entering under FTAs has been declining in recent years. While the total value of U.S. apparel imports increased 9.5 percent from $80.3 billion to $87.9 billion from 2011 to 2015, the value of apparel imports entering under FTAs decreased by 1.7 percent from $13.8 billion to $13.5 billion.
**Potential Impact of the Trans-Pacific Partnership (TPP)**

After more than five years of negotiation, the Trans-Pacific Partnership (TPP) was finally concluded in November 2015, and signed by the United States and 11 other countries in the Asia-Pacific region in February 2016. Now, all partners must ratify the agreement before it can go into effect.

Because the 12 TPP members altogether account for approximately 40 percent of global gross domestic product (GDP) and a third of world trade, TPP is regarded as THE most economically influential free trade agreement in history. The U.S. fashion industry is a critical TPP stakeholder, as well. In 2015, around 54 percent of U.S. textile and apparel exports (or $14.7 billion) went to the other 11 TPP partners, and 17 percent of U.S. textile and apparel imports (or $19.9 billion) came from the TPP region.\(^7\)

As mentioned in Part II of this report, among the 56 countries from which survey respondents source, eight are TPP members: Vietnam (92 percent utilization, rank #2), Mexico (63 percent, rank #6), the United States (52 percent, rank #10), Malaysia (37 percent, rank #14), Canada (26 percent rank #21), Peru (26 percent, rank #21), Singapore (4 percent, rank #41), and Japan (4 percent, rank #41). This result suggests the TPP region is already a critical sourcing base for U.S. fashion companies.

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Overall, U.S. fashion companies are very excited about the TPP and look forward to exploring the benefits after TPP’s implementation. Specifically:

92% of respondents say TPP will have an impact on their company's business practices in the next five years, increased from 80% in the 2015 benchmarking study.

77% of respondents say their company has already started analyzing TPP and discussing its business impact.

70% of respondents support the implementation of TPP as soon as possible.

62% of respondents say their company will immediately use TPP once it takes effect.

Table 3a: Impact of TPP on the U.S. Fashion Industry—Short Term

<table>
<thead>
<tr>
<th>Short term impact</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>My company will use TPP to source dress shirts from Vietnam and Malaysia once the agreement takes effect.</td>
<td>31%</td>
</tr>
<tr>
<td>My company will use the TPP Earned Income Allowance Program to source trousers from Vietnam once the agreement takes effect.</td>
<td>23%</td>
</tr>
<tr>
<td>My company will NOT use TPP within the initial 2 years after it takes effect because of the yarn-forward rules of origin.</td>
<td>19%</td>
</tr>
<tr>
<td>My company will NOT use TPP within the initial 2 years after it takes effect because of the tariff phase-out schedule.</td>
<td>4%</td>
</tr>
</tbody>
</table>

Furthermore, as summarized in Table 3a, in terms of the likely impact of TPP, the strict yarn-forward rule of origin is a major barrier, discouraging U.S. fashion companies to use the agreement. Approximately 20 percent 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 less of a concern to respondents. Additionally, around one-third of respondents say they will take advantage of the duty-free treatment provided by TPP for dress shirts coming from Vietnam and Malaysia, and another 23 percent plan to immediately use the TPP Earned Income Allowance Program.
We asked respondents how TPP might affect their sourcing decisions and business strategies in the next five years. As shown in Table 3b, one interesting result is that the majority of respondents expect to source more textiles and apparel from TPP partners (77 percent), but very few expect to source less from non-TPP members (only 4 percent) at the same time. This result implies that **U.S. fashion companies see the TPP region more as an additional sourcing opportunity rather than a replacement for existing sourcing destinations**. On the other hand, a good number of respondents expect to strategically adjust or redesign their supply chains based on TPP in the next five years (38 percent), but still very few (12 percent) seem to be willing to commit to more investment, such as building factories and opening retail stores/e-commerce, in the TPP region. The uncertainty about the ratification of the agreement could be a major factor behind companies' hesitation.

**African Growth & Opportunity Act (AGOA) After Its Ten-Year Renewal**

The African Growth and Opportunity Act (AGOA) is a non-reciprocal trade preference program that provides duty-free treatment to U.S. imports of certain products from eligible sub-Saharan African countries. Among 49 potential beneficiaries, 39 currently are eligible for the preference benefits, and 24 are further eligible for the “third-country fabric” provision, which allows for a certain quantity of AGOA apparel exports to be produced from yarns and fabrics of any origin. AGOA received new authorization in 2015, which will last for 10 years until 2025 (including the third-country fabric provision).

As mentioned in Part II of this report, respondents already source from five AGOA members, although far less often than the leading Asian suppliers. The five are: Mauritius (25 percent utilization, rank #23), Lesotho (15 percent, rank#32), Kenya (9 percent, rank #37), Madagascar (4 percent, rank #41), and South Africa (4 percent, rank #41).

**Thanks to the 10-year extension of AGOA, U.S. fashion companies have shown more interest in sourcing from the region. In particular, most respondents (57 percent) see the “third-country fabric” provision as a critical necessity for their company to source from the AGOA region.** This is understandable because AGOA members are developing countries that still have very limited capacity to manufacture most capital- and technology-intensive textile raw materials. The “third-country” fabric provision allows both U.S. fashion companies and African apparel producers to source needed textile inputs in a more cost-effective and flexible way. Specifically:

<table>
<thead>
<tr>
<th>Impact for the next five years</th>
<th>Response in 2015</th>
<th>Response in 2016</th>
<th>2016 vs 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the next five years, my company willsource more textiles and apparel from TPP members.</td>
<td>72%</td>
<td>77%</td>
<td>5%</td>
</tr>
<tr>
<td>In the next five years, my company willsource less textiles and apparel from non-TPP members.</td>
<td>7%</td>
<td>4%</td>
<td>-3%</td>
</tr>
<tr>
<td>In the next five years, my company willmake more investment in TPP members, such as building</td>
<td>10%</td>
<td>12%</td>
<td>1%</td>
</tr>
<tr>
<td>factories or opening retail stores/e-commerce operations.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In the next five years, my company willstrategically adjust or redesign the supply chain</td>
<td>45%</td>
<td>38%</td>
<td>-6%</td>
</tr>
<tr>
<td>based on TPP.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3b: Impact of TPP on the U.S. Fashion Industry—Next Five Years
57% of respondents say the "third-country fabric" provision is important for their company to use AGOA for sourcing.

33% of respondents say their company has started to source MORE textiles and apparel from the AGOA region.

14% of respondents say their company will strategically adjust or redesign the supply chain based on AGOA in the next five years.

Only 14% of respondents say their company has made or will make more investment in AGOA members, such as building factories and expanding sourcing capacities. However, capacity building is critical to encourage more sourcing from the AGOA region. According to survey respondents:

"(We) will go with current partners who are building factories in Africa"

"Until fabric is vertical in region, lead times prevent growth...(then we will source from AGOA)"

"Least developed countries require significant time and investment so it’s challenging to source high quality fashion forward products in AGOA"

Still, even with the 10-year AGOA extension, very few respondents (14 percent) are willing to make more investment, such as building factories and expanding sourcing capacities, in the AGOA region at this point, although companies recognize that capacity building is critical to encourage more sourcing from Africa. In the long run, it will be interesting to see whether a growing sourcing volume from Africa (by taking advantage of the “third-country fabric” provision) can create more incentives for U.S. fashion companies or other stakeholders to build more textile mills in Africa. If manufacture of yarns and fabrics can be localized, “Made in Africa” surely will become more competitive in the world marketplace.
Other Trade Policy Priorities

![Figure 20: Trade policy initiatives by respondents’ supporting rate (from highest to lowest)](image)

Note: The rank is based on a weighted average score calculated for each trade policy initiative in the following way: Strong support=2 points, support =1 point, Hard to say/Neutral = 0 point, Oppose = -1 point and Strongly oppose =-2 points.

In addition to TPP and AGOA, respondents were surveyed about their views on additional, specific trade policy initiatives (Figure 20). Results show that four trade policy priorities receive almost unanimous support among respondents:

**96%** of respondents support or strongly support abandoning the strict “yarn-forward” rules of origin and adopting more flexible rules in future free trade agreements.

**96%** of respondents support or strongly support reducing U.S. import tariff rates for apparel and apparel accessories.

**92%** of respondents support or strongly support extending the Generalized System of Preferences (GSP) benefits to textiles, apparel, and footwear.

**92%** of respondents support or strongly support reducing documentation requirements for importing and exporting textile and apparel under free trade agreements.
In comparison, respondents are most divided on the following two policy initiatives:

54% of respondents support and 23% oppose
"Include clause addressing “currency manipulation” in any future free trade agreement established between the United States and its trading partners"

61% of respondents support and 12% oppose
"Include environment standards in any future free trade agreement established between the United States and its trading partners"

VI. Respondents' Profile

Figure 21: Respondents' business type
Figure 22: Respondents' Business Size

More than 1,000 employees
84%

101-500 employees 4%
501-1,000 employees 8%
Less than 100 employees 4%

Figure 23: Location of respondents' headquarters or management offices

Reflecting the global nature of the fashion business, more respondents report having headquarters or management offices outside the United States in 2016.

United States 100% (2015), 100% (2016)
China 66% (2015), 88% (2016)
Western Europe Asia (Excluding China) 46% (2015), 46% (2016)
Canada 15% (2015), 15% (2016)
South or Central America 15% (2015), 15% (2016)
Mexico 12% (2015), 12% (2016)
Eastern or Central Europe 4% (2015), 4% (2016)
Africa 4% (2015), 4% (2016)
This benchmarking study was based on a survey of 30 executives at the leading U.S. fashion companies from March 2016 to April 2016. The study incorporates a balanced mix of respondents representing the various types of businesses in the U.S. fashion industry today. Approximately 80 percent of respondents are self-identified retailers, 67 percent self-identified brands, 69 percent self-identified importers/wholesalers, 27 percent self-identified manufacturers/suppliers, and 4 percent provide various fashion related services (Figure 21).

In terms of business size, 92 percent of respondents have more than 500 employees, including 84 percent with more than 1,000 employees (Figure 22). This suggests that the findings well reflect the views of the most influential players in the U.S. fashion industry.

Additionally, 100 percent of respondents represent companies with headquarters or major management offices located in the United States. This year, over 65 percent of respondents report also having headquarters or major management offices located outside the United States, including China (65 percent), Western Europe (46 percent), Asia other than China (46 percent), Canada (15 percent), South and Central America (15 percent) among others (Figure 23). In addition to 100 percent selling products in the United States, over half of respondents report also selling products in Canada, Western Europe, Mexico, and Asia (Figure 24). Overall, respondents report a noticeably higher percentage of overseas operations this year than in the past. These patterns reflect the global nature of fashion business today and the ever-closer connection of the U.S. fashion industry with markets and supply chain partners around the world.
About Dr. Sheng Lu

Dr. Sheng Lu is an assistant professor from the Department of Fashion and Apparel Studies at the University of Delaware. With over 50 publications in academic and trade journals, Sheng’s research focuses on the economic and business aspects of the global soft-goods industry (textile, apparel and related retailing), including international trade, trade policy and the governance of global apparel value chain. Sheng received the 2014 Rising Star Award from the International Textile and Apparel Association (ITAA) in recognition of his research and teaching excellence. He is also the recipient of the Paper of Distinction Award both at the 2014 and 2015 ITAA annual conference for his study on the textile and apparel specific-sectoral impact of the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP). Sheng received his Ph.D. from the University of Missouri in Textile and Apparel Management in 2011. From 2009 to 2010, Sheng worked with the U.S.-China Business Council in Washington D.C., conducting policy analysis and market research for U.S. multinationals having business with China. From 2011 to 2015, Sheng was an assistant professor in the Department of Textiles, Fashion Merchandising and Design at the University of Rhode Island.

More Information: [http://shenglufashion.wordpress.com](http://shenglufashion.wordpress.com) and [https://www.fashion.udel.edu/people/faculty/shenglu](https://www.fashion.udel.edu/people/faculty/shenglu)

About the United States Fashion Industry Association (USFIA)

The United States Fashion Industry Association (USFIA) represents the fashion industry: textile and apparel brands, retailers, importers, and wholesalers based in the United States and doing business globally. Founded in 1989 as the United States Association of Importers of Textiles & Apparel with the goal of eliminating the global apparel quota system, USFIA now works to eliminate the tariff and non-tariff barriers that impede the industry’s ability to trade freely and create economic opportunities in the United States and abroad. Headquartered in Washington, D.C., USFIA is the most respected voice for the fashion industry in front of the U.S. government as well as international governments and stakeholders. With constant, two-way communication, USFIA staff and counsel serve as the eyes and ears of our members in Washington and around the world, enabling them to stay ahead of the regulatory challenges of today and tomorrow. Through our publications, educational events, and networking opportunities, USFIA also connects with key stakeholders across the value chain including U.S. and international service providers, suppliers, and industry groups.

More Information: [www.usfashionindustry.com](http://www.usfashionindustry.com)