



UNITED STATES  
FASHION INDUSTRY ASSOCIATION

# **2017 Fashion Industry Benchmarking Study**

**By**

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**in collaboration with the**

**United States Fashion Industry Association**

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We are pleased to release our fourth annual Fashion Industry Benchmarking Study, tracking sourcing executives' plans and views on the global industry.

We see a definite shift this year across the board. There is more uncertainty about trade policy—and we're in uncharted territory, from the shock of the Trump Administration's decisions to leave the Trans-Pacific Partnership (TPP) and renegotiate others, like NAFTA, to Brexit, which will have a substantial impact on both sides of the Atlantic.

This year, sourcing executives' biggest concern is the impact of a protectionist trade policy agenda in Washington. Our results show a substantial jump, from the #10 concern last year to the #1 concern this year. This is not surprising to those of us in the Nation's Capital; we, too, are worried, and we've been actively working to keep our message in front of the Administration and Congress. But, for the past three years, trade policy just hasn't been a top concern for sourcing. So, we see this as a call to action to do even more to educate policymakers about the importance of trade for American companies, American jobs, and American families, our customers.

The survey reveals a shift in sourcing trends, as well. China remains the top supplier, and Vietnam is solidly #2—so, while the Trump Administration's decision to leave the Trans-Pacific Partnership means that the fast-paced growth we've seen in Vietnam sourcing in recent years is likely to slow, sourcing executives nonetheless see Vietnam as a critically important supplier. We are reporting a change in the sourcing trend, from "China Plus Many" to "China Plus Vietnam Plus Many." We examine how sourcing executives compare the strengths and weaknesses of major sourcing destinations; see the interesting results on page 11.

Finally, we're glad to see the results reflect the deep commitment by brands and retailers to sustainability and social compliance. After all, 87 percent of companies say social compliance and sustainability issues are more important today than five years ago—and 100 percent say they audit their suppliers. As USFIA Chairman Michael Singer of Macy's Merchandising Group said when we launched our Social Compliance and Sustainability Committee, "Environmental, social and governance issues are increasingly important for companies. This is being driven by our customers, federal and state regulations, NGOs, shareholders, and investor groups. We all need to do more to understand our supply chains and take steps to have a positive impact in the factories and communities that produce our merchandise." We're glad our survey participants are on board, too.

Thank you to the 34 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 fourth year in a row. We would not have this valuable information without you.

We hope you find this information valuable to your business and your planning. We look forward to continuing to work with you to address your concerns and support fashion made possible by global trade.

With best regards,

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

## **Executive Summary**

**While the majority of respondents remain confident about the five-year outlook for the U.S. fashion industry, the percentage of those who are “optimistic” or “somewhat optimistic” dropped to a record low since we began conducting this study in 2014. This change could be due to concerns about the “protectionist trade policy agenda in the United States” and “market competition in the United States from e-commerce,” the top two concerns this year.**

- The percentage of those who are “optimistic” or “somewhat optimistic” fell from 92.3 percent in 2016 to 71.0 percent in 2017, a record low since we began conducting this study in 2014. As many as 12.9 percent of respondents are “somewhat pessimistic” about the next five years, mostly large-scale retailers with more than 3,000 employees.
- Despite the challenges, demand for human talent in the industry overall remains robust. This year, around 80 percent of respondents plan to hire more employees in the next five years, especially supply chain specialists, data scientists, sourcing specialists, and marketing analysts.
- Cost is no longer one of the top concerns; respondents are less stressed about “increasing production or sourcing cost,” which slipped from #2 challenge in 2016 to #7 challenge in 2017. Only 34 percent rate the issue among their top five challenges this year, significantly lower than 50 percent in 2016 and 76 percent in 2015. Labor cost remains the top factor driving up sourcing cost in 2017.

**Although U.S. fashion companies continue to seek alternatives to “Made in China,” China’s position as the top sourcing destination remains unshakable. Meanwhile, sourcing from Vietnam and Bangladesh may continue to grow over the next two years, but at a relatively slow pace.**

- 91 percent of respondents source from China; while 100 percent sourced from China in our past three studies, China is still the top-ranked sourcing destination this year, and the percentage of those expecting to decrease sourcing from the country fell from 60 percent in 2016 to 46 percent this year—and many more expect to maintain their current sourcing value or volume from the country in the next two years.
- Likely reflecting the United States’ withdrawal from the Trans-Pacific Partnership (TPP) and the expectation of increasing labor costs, only 36 percent of respondents expect to increase sourcing from Vietnam in the next two years, much lower than 53 percent who said the same in 2016.
- Respondents are cautious about expanding sourcing from Bangladesh in the next two years, with only 32 percent expecting to somewhat increase sourcing there. While “Made in Bangladesh” enjoys a prominent price advantage over many other Asian suppliers, respondents view Bangladesh as the having the highest risk for compliance.

**U.S. fashion companies continue to maintain truly global supply chains.**

- Respondents source from 51 countries or regions in 2017, close to the 56 in last year’s study.
- 57.6 percent source from 10+ different countries or regions in 2017, up from 51.8 percent in last year’s survey. In general, larger companies have a more diversified sourcing base than smaller companies. Additionally, retailers maintain a more diversified sourcing base than brands, importers/wholesalers, and manufacturers.
- Around 54 percent expect their sourcing base will become more diversified in the next two years, up from 44 percent in 2016; among these respondents, over 60 percent currently source from more than 10 different countries or regions.

- The most common sourcing model is shifting from “China Plus Many” to “China Plus Vietnam Plus Many.” The typical sourcing portfolio today is 30-50 percent from China, 11-30 percent from Vietnam, and the rest from other countries.
- While Asia as a whole remains the dominant sourcing region for U.S. fashion companies, the Western Hemisphere is growing in popularity. This year, we see a noticeable increase in sourcing from the United States (70 percent, up from 52 percent in 2016) and countries in North, South, and Central Americas, which offer a shorter lead time and relatively lower risk of compliance.

**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.**

- 87.5 percent of respondents say ethical sourcing and sustainability have become more important in their company’s sourcing decisions in 2017 compared to five years ago.
- 100 percent of respondents currently audit their suppliers, including how suppliers treat their workers, suppliers’ fire safety, and suppliers’ building safety. The majority (93 percent) use third-party certification programs to audit, with a mix of announced and unannounced audits.
- As many as 90 percent of respondents map their supply chains, i.e., keep records of name, location, and function of suppliers. More than half track not only Tier 1 suppliers, suppliers they contract with directly, but also Tier 2 suppliers, i.e. supplier’s suppliers. It is less common for U.S. fashion companies to map Tier 3 and Tier 4 suppliers though, which could be because of the difficulty of getting access to related information with such a globalized and highly fragmented supply chain.

**Free trade agreements (FTAs) and trade preference programs remain underutilized, and several FTAs, including CAFTA-DR, are utilized even less this year than in previous years.**

- Of the 19 FTAs/preference programs we examined this year, only NAFTA is used by more than 50 percent of respondents for import purposes.
- Even more concerning, some U.S. fashion companies source from countries/regions with FTAs/preference programs but, for whatever reason, do not claim the benefits. For example, as many as 38 percent and 6 percent of respondents, respectively, do not use CAFTA-DR and NAFTA when they source from these two regions.

**Respondents unanimously oppose the U.S. border adjustment tax (BAT) proposal, and call for the further removal of trade barriers, including restrictive rules of origin and high tariffs.**

- 100 percent of respondents oppose a border adjustment tax; 84 percent “strongly oppose” it.
- Respondents support initiatives to eliminate trade barriers of all kinds, from high tariffs, to overcomplicated documentation requirements, to the restrictive yarn-forward rules of origin in NAFTA and future free trade agreements.
- Respondents say the “complex standards on labeling and testing”, “complex rules for the valuation of goods at customs” and “administrative and bureaucratic delays at the border” are the top non-tariff barriers they face when sourcing today.

## I. Business Environment in the U.S. Fashion Industry

### Top Business Challenges in 2017

Figure 1: Top Business Challenges for the U.S. Fashion Industry in 2017

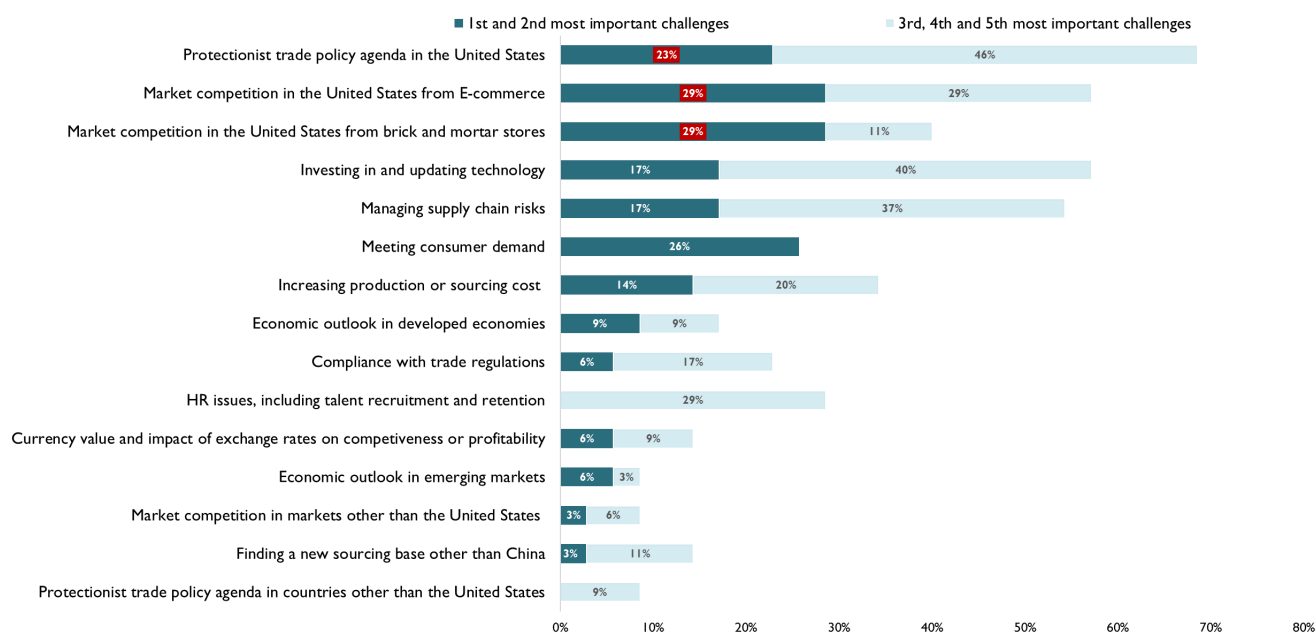


Table 1: Top Business Challenges for the U.S. Fashion Industry: Rank in 2017 vs. 2016

Top Business Challenges for the U.S. Fashion Industry in 2017	Rank in 2016	Rank in 2017 vs in 2016
<b>#1 Protectionist trade policy agenda in the United States</b>	<b>10</b>	<b>Much more important</b>
<b>#2 Market competition in the United States from E-commerce</b>	<b>1</b>	<b>No major change</b>
<b>#3 Market competition in the United States from brick and mortar stores</b>	<b>1</b>	<b>No major change</b>
#4 Investing in and updating technology	3	No major change
#5 Managing supply chain risks	6	No major change
#6 Meeting consumer demand	5	No major change
<b>#7 Increasing production or sourcing cost</b>	<b>2</b>	<b>Much less important</b>
<b>#8 Economic outlook in developed economies</b>	<b>13</b>	<b>Much more important</b>
#9 Compliance with trade regulations (such as rules of origin, requirement for restricted substances)	4	Less important
#9 HR issues, including talent recruitment and retention	9	No major change
#11 Currency value and impact of exchange rates on competitiveness or profitability	7	Less important
#12 Economic outlook in emerging markets	14	No major change
#13 Market competition in markets other than the United States	11	No major change
<b>#13 Finding a new sourcing base other than China</b>	<b>8</b>	<b>Much less important</b>
#15 Protectionist trade policy agenda in countries other than the United States	15	No major change
#16 Political tensions in developing countries	12	Less important

Note: Total score for each business issue is calculated based on weighted average as follows: 1<sup>st</sup> importance =5 points, 2<sup>nd</sup> importance =4 points, 3<sup>rd</sup> importance=3 points, 4<sup>th</sup> importance=2 points and 5<sup>th</sup> 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 2017, and rank the items in order of importance (Figure 1 and Table 1).

**First, the “protectionist trade policy agenda in the United States” is the top concern for U.S. fashion companies in 2017.** Nearly 70 percent of respondents rate the issue one of their top five business challenges this year, far exceeding concerns about other issues on the list. Notably, since we began conducting the benchmarking study in 2014, trade protectionism in the United States has consistently been a medium-ranked business challenge (rank 8<sup>th</sup> to 11<sup>th</sup>). This year’s “abnormal” result reflects concerns about the unprecedented direction of U.S. trade policy in the Trump Administration. These concerns are understandable—from pulling out of the Trans-Pacific Partnership (TPP), to threatening to levy punitive tariffs on imports from major U.S. trading partners, Trump’s trade policy has proven to be unfriendly to trade and imports, at best, and protectionist and xenophobic, at worst. Given the global nature of today’s fashion industry, the damaging impact of trade protectionism cannot be underestimated.

**Second, “market competition in the United States from e-commerce” and “market competition in the United States from brick and mortar stores and other conventional peer competitors” are the next two top concerns this year.** With similar rankings as the 2016 study, 57 percent and 40 percent of respondents, respectively, identify the two issues among their top five business challenges in 2017, and as many as one-third regard market competition either the most or second-most significant challenge this year. The results echo the trend that massive online merchants such as Amazon are imposing growing financial pressures on traditional fashion brands and retailers.

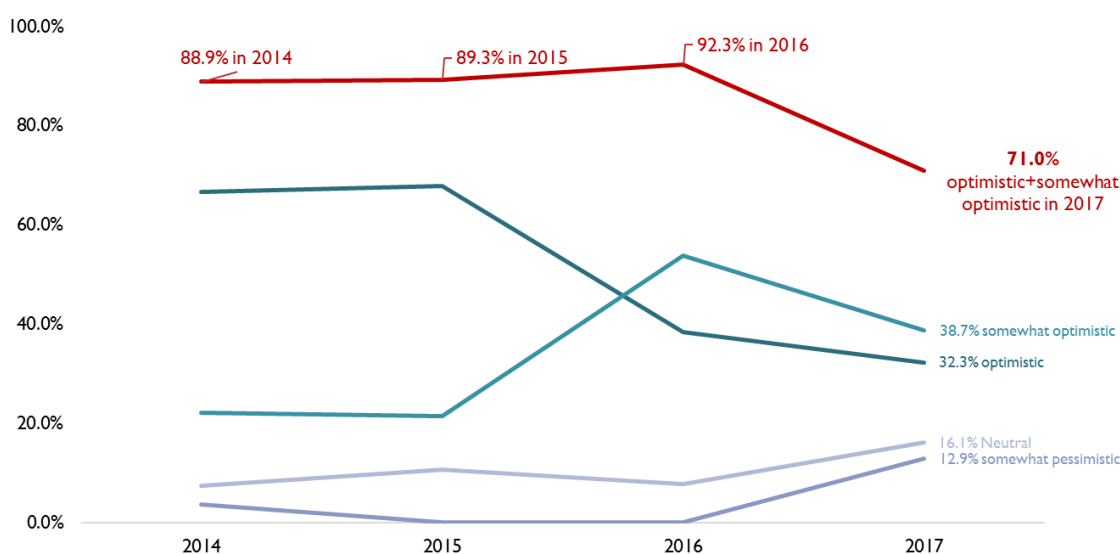
**Third, respondents are less stressed about “increasing production or sourcing cost” this year, which slipped from the #2 challenge in the 2016 survey to the #7 challenge in 2017.** Only 34 percent of respondents rate the issue among their top five challenges in 2017, significantly lower than 50 percent in 2016 and 76 percent in 2015. Related, “finding a new sourcing base other than China” also dropped from the #8 challenge in 2016 to the #13 challenge. There are two possible explanations: respondents may view protectionist trade policy and market competition as having a broader and more strategic impact on their business than sourcing or production cost, and companies may be saving money on 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 this year.

Additionally, several business challenges identified in the 2016 benchmarking study continue to be major concerns to respondents in 2017, including **“investing in and updating technologies”** (#4 in 2017 and #3 in 2016), **“managing supply chain risks”** (#5 in 2017 and #6 in 2016), **“meeting consumer demand”** (#6 in 2017 and #5 in 2016) and **“economic outlook in the developed economies”** (#8 in 2017 and #13 in 2016).

## Industry Outlook in the Next Five Years

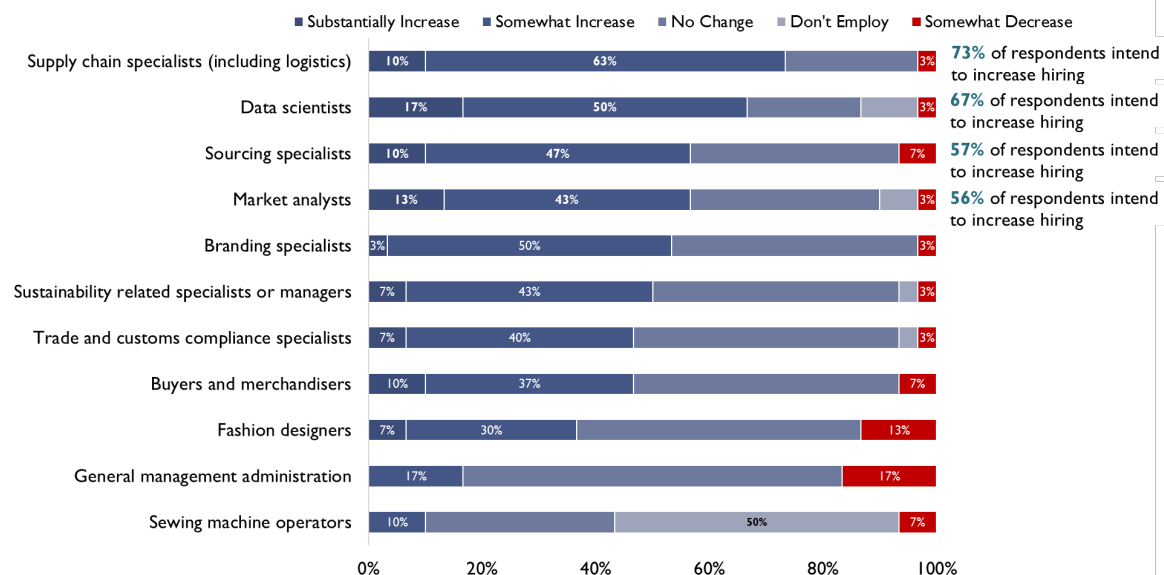
While the majority of respondents remain confident about the five-year outlook for the U.S. fashion industry, the percentage of those who are “optimistic” or “somewhat optimistic” fell from 92.3 percent in 2016 to 71.0 percent this year, a record low since we began conducting the study in 2014 (Figure 2). In comparison, 12.9 percent of respondents are “somewhat pessimistic” about the next five years, mostly large-scale retailers with more than 3,000 employees. The results are linked to the increasingly intense market competition regarded as one of their top business challenges. Plus, uncertainties in the world economy, including China’s economic slowdown, Brexit, and weak economic recovery in the Eurozone, could also lead to respondents’ relatively less optimistic outlook this year, given the increasingly global operations of U.S. fashion companies.

**Figure 2: Respondents' Five-Year Outlook for the U.S. Fashion Industry**



## Demand for Human Talent in the Next Five Years

**Figure 3: Respondents' Expected Demand for Human Talent in the Next Five Years  
(From Highest Demand to Lowest Demand)**



**Despite the increasing business challenges, demand for human talent in the industry remains robust. This year, around 80 percent of respondents say they plan to hire more employees in the next five years, compared to 83 percent in the 2016 study and 85 percent in 2015.**

However, hiring plans are quite unequal between types of positions. As shown in Figure 3, four types of positions—**supply chain specialists, data scientists, sourcing specialists, and marketing analysts**—will be the most in-demand over the next five years; companies are least likely to hire **sewing machine operators** and **general management administrators** in the same time frame.

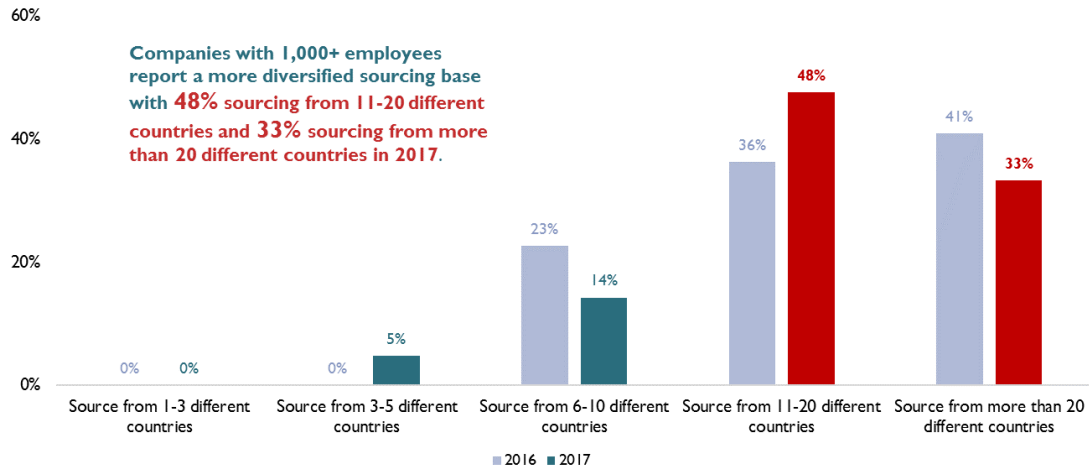
The contrasting demand for talent in non-manufacturing versus manufacturing positions reflects business priorities in the years ahead, along with the continuing structural readjustment of the U.S. fashion industry. Notably, fashion companies are increasingly looking for talent from ever more diverse educational backgrounds, such as engineering, physical therapy, and business analytics. Additionally, the result is a reminder that **even though U.S. fashion companies may no longer focus on physically sewing apparel and other fashion products, they create many well-paid and high-quality jobs in the United States.**



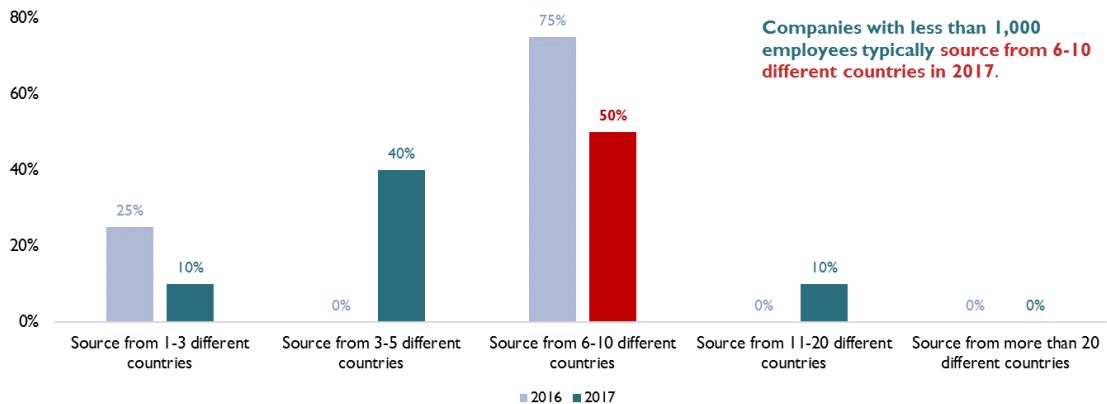
## II. Sourcing Practices in the U.S. Fashion Industry

### Diversification of Sourcing Base

**Figure 4a: How Diversified is Your Sourcing Base?**  
(Companies with 1,000+ employees)



**Figure 4b: How Diversified is Your Sourcing Base?**  
(Companies with <1,000 employees)

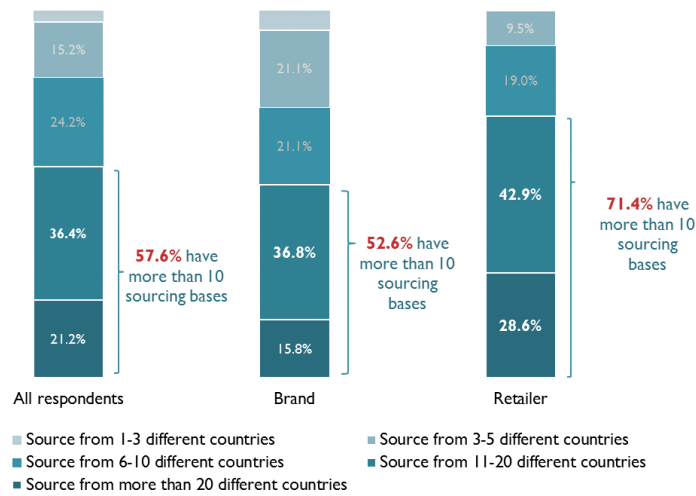


As the fashion industry is becoming faster and more global, it is increasingly important for companies to strike a balance between sourcing cost, speed, reliability, and flexibility. We see a few trends based on company size and business type.

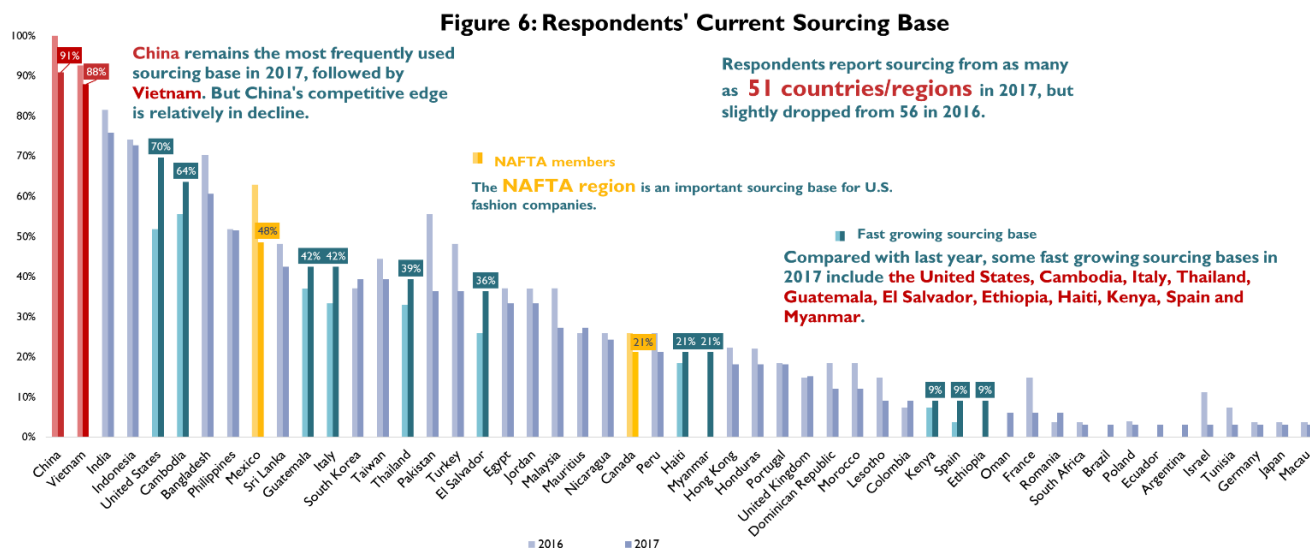
**First, most respondents continue to maintain a relatively diversified sourcing base**, with 57.6 percent currently sourcing from 10+ different countries or regions, up from 51.8 percent last year.

**Second, larger companies, in general, continue to have a more diversified sourcing base than smaller companies.** As shown in Figure 4a and 4b, companies with 1,000+ employees typically source from 10+ different countries or regions, whereas companies with less than 1,000 employees typically source from 6-10 different countries or regions. Size could affect a company's sourcing decisions; larger companies may reach more markets and carry a broader product mix, which requires the support of a more diversified sourcing base.

**Figure 5: Diversification of Sourcing Base in 2017 by Respondents' Business Type**



**Third, results suggest that retailers overall maintain a more diversified sourcing base than brands, importers/wholesalers, and manufacturers.** As shown in Figure 5, over 70 percent of self-identified retailers source from 10+ different countries or regions in 2017, much higher than the 57 percent of the total respondents. Additionally, about 29 percent of self-identified retailers source from 20+ different countries or regions, compared with only 21 percent of the total respondents.



*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.*

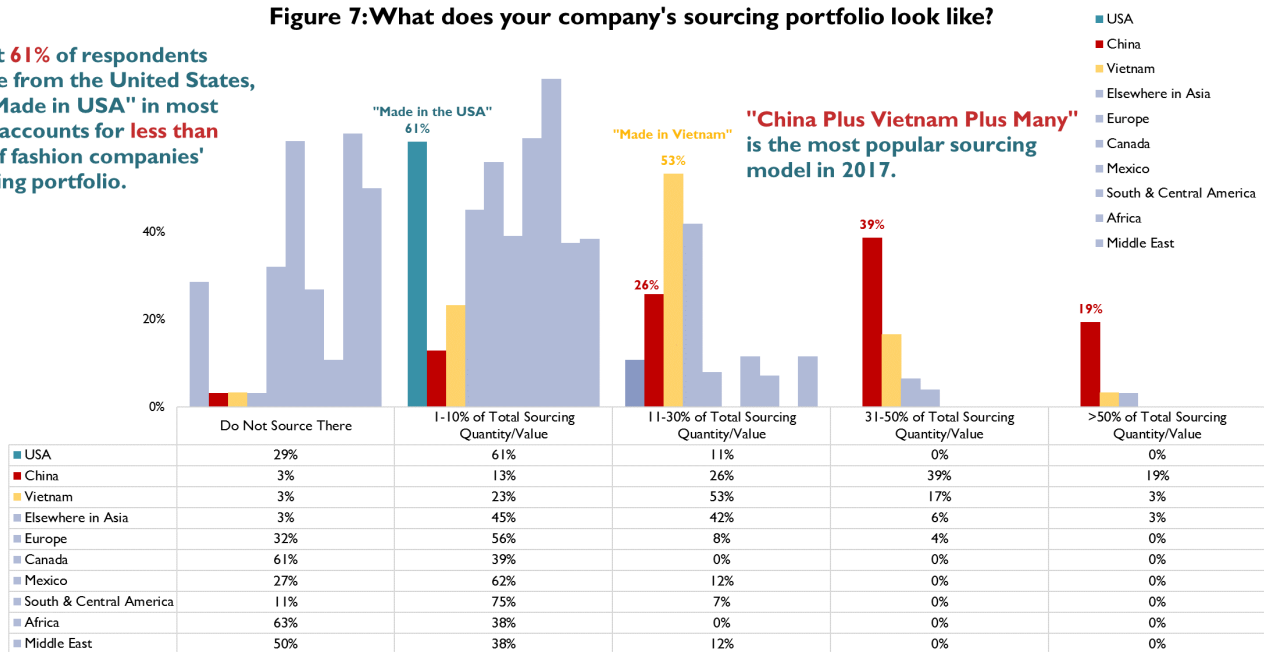
**Reflecting the U.S. fashion industry's growing global reach, respondents source from 51 countries or regions in 2017, close to the 56 in last year's study (Figure 6).** Consistent with the official trade statistics, China (91 percent of respondents) and Vietnam (88 percent of respondents) are the two most-utilized sourcing destinations, followed by India (76 percent), Indonesia (73 percent), United States (70 percent), Cambodia (64 percent), and Bangladesh (61 percent). Regarding the selection of sourcing destinations by respondents, two emerging trends are worth our attention this year:

**First, for the first time since we began conducting the survey, the utilization of China as a sourcing base dropped, from 100 percent to 91 percent this year.** Although less than five companies say they do not source from China, this change nonetheless signals a decline of China's overall attractiveness as a textile and apparel sourcing base, and suggests a shift in U.S. fashion companies' sourcing strategies.

**Second, while Asia as a whole remains the dominant sourcing region for U.S. fashion companies, the Western Hemisphere is growing in popularity.** Among the top ten most-utilized sourcing destinations this year, eight are located in Asia, with the exception of the United States (#5) and Mexico (#9). Meanwhile, there is a noticeable **increase in sourcing from the United States** (70 percent, up from 52 percent in 2016), as well as **Guatemala** (42 percent, up from 37 percent in 2016), **El Salvador** (36 percent, up from 26 percent in 2016), and **Haiti** (21 percent, up from 19 percent in 2016). Further, 50 percent and 21 percent of respondents, respectively, source from **Mexico** and **Canada**, confirming the significance of the North American Free Trade Agreement (NAFTA) region as an important sourcing base for U.S. fashion companies.

**Figure 7: What does your company's sourcing portfolio look like?**

About **61%** of respondents source from the **United States**, but **"Made in USA"** in most cases accounts for **less than 10%** of fashion companies' sourcing portfolio.



This year, we again asked respondents not only to list countries they source from, but also to describe the makeup of their sourcing portfolio (Figure 7). **Results show that U.S. fashion companies are not “putting all their eggs in one basket,” and the most common sourcing model is shifting from “China Plus Many” to “China Plus Vietnam Plus Many”:**

- **China typically accounts for 30-50 percent of respondents' total sourcing value or volume.**  
This year, even fewer respondents report sourcing over 50 percent from China (19 percent, down from 23 percent in 2016).
- **Vietnam typically accounts for 11-30 percent of companies' total sourcing value or volume.**  
Notably, all respondents but one who currently source from China also source from Vietnam.
- **For the “many” part, each additional country typically accounts for less than 10 percent of respondents' total sourcing value or volume.**

### ***Rating Sourcing Destinations***

This year, we asked respondents to rate each primary sourcing destination against three criteria with the most significant impact on companies' sourcing decisions:

- **Speed to Market:** The United States, Mexico and members of the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), not surprisingly, outperform all Asian suppliers because of geographic location. On the other hand, respondents also say the lead time is typically shorter sourcing from China and Vietnam, compared with other Asian suppliers.
- **Sourcing Cost:** Bangladesh offers the most competitive price, according to respondents, followed by members of the African Growth and Opportunity Act (AGOA) and several other Asian suppliers. In comparison, sourcing from the United States, Mexico and CAFTA-DR will incur a higher cost.

- **Risk of Compliance** (i.e., factory, social and environmental): The United States demonstrates a competitive edge against other sourcing destinations, whereas respondents say Bangladesh, Cambodia, and India are relatively high risk in terms of compliance.

**Overall, no sourcing destination is perfect.** The result, however, explains why U.S. fashion companies typically use a mixed bag of sourcing destinations to balance the needs of cost, speed, flexibility, and risk control.

**Table 2 Rating of Sourcing Base**

Sourcing base	Speed to market	Sourcing cost	Risk of compliance
USA	★★★★★	★★	★★★★★
Mexico	★★★★	★★★	★★★
CAFTA-DR	★★★★	★★★	★★★
China	★★★	★★★★★	★★★
Vietnam	★★★	★★★★★	★★★
Cambodia	★★	★★★★★	★★
Indonesia	★★	★★★★★	★★★
Sri Lanka	★★	★★★★★	★★★
India	★★	★★★★★	★★
AGOA	★★	★★★★★	★★★
Bangladesh	★★	★★★★★	★

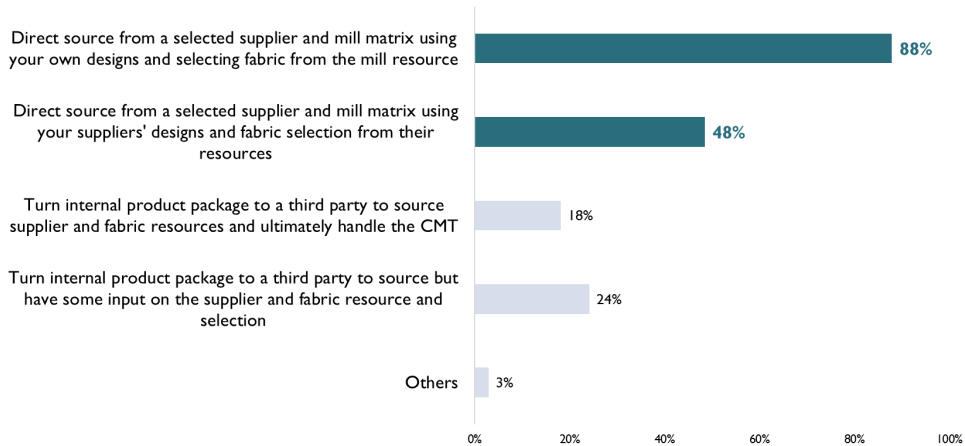
*Note: The results were based on respondent's average rating for each sourcing base. ★★★★★ means much higher performance than the average and ★ means much lower performance than the average.*

### **Sourcing Models**

The reported sourcing models are consistent with the findings in 2015 and 2016 (Figure 8). **“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 2017, adopted by 88 percent of respondents**, up from 78 percent last year. Additionally, 48 percent of respondents also use suppliers’ designs in 2017. In comparison, fewer respondents are directly involved in handling cut-make-and-trim (CMT) and fabric purchases. This shows, again, the growing expectation that suppliers have the capacity to supply textile inputs; U.S. fashion companies are likely to give more consideration to supply chain efficiency and speed to market when selecting their sourcing destinations going forward.

**Moreover, respondents say there is no significant difference in how they handle sourcing for e-commerce versus traditional brick-and-mortar businesses.**

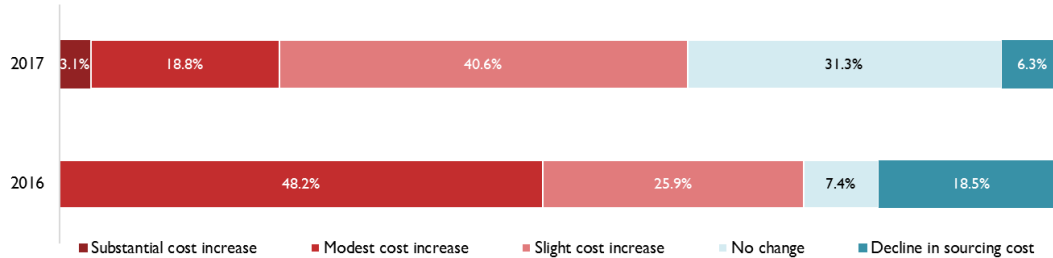
**Figure 8: How does your company source textiles, apparel and/or other fashion products? (Check all that apply)**



It is with a growing expectation that suppliers have the capacity to supply textile inputs such as fabrics in sourcing.

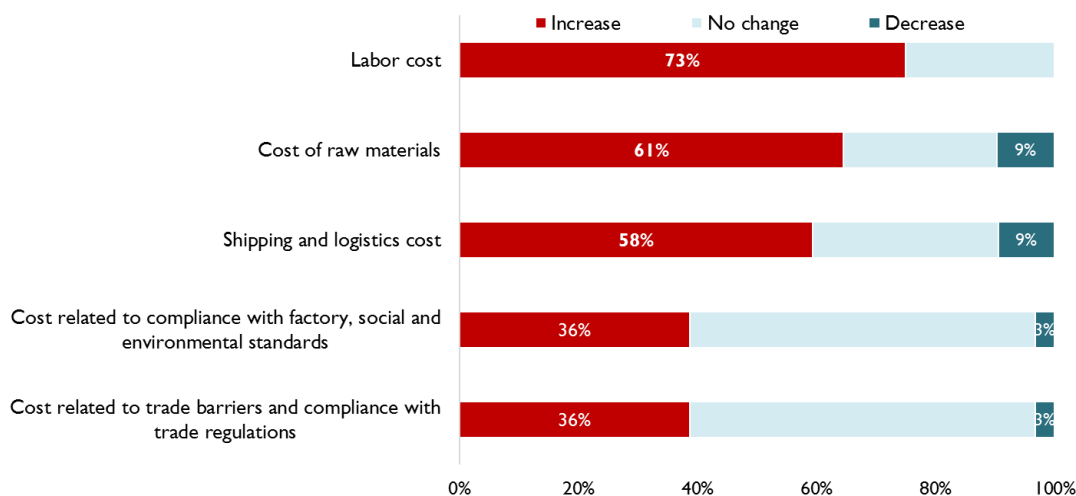
## Pressure of Sourcing Cost

**Figure 9 What is your overall expectation about sourcing cost this year?**



**59.4% of respondents expect a modest or slight increase of sourcing cost in 2017, down from 74.1% in 2016; Another 31.3% expect no change of sourcing cost this year, up from 7.4% in 2016.**

**Figure 10: How do you expect the following factors impacting sourcing cost to change in 2017?**

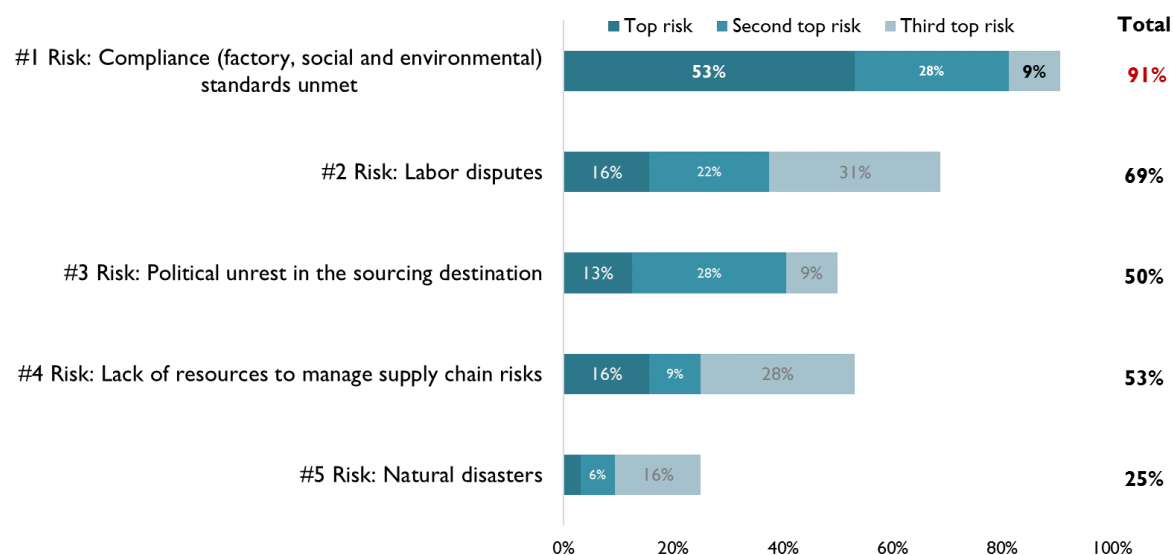


**With fewer respondents regarding increasing sourcing cost as a top business challenge, there is less cost pressure in 2017 than in previous years.** As shown in Figure 9, nearly 60 percent of respondents expect a modest or slight increase in sourcing cost in 2017, a substantial drop from 74.1 percent in 2016. Another 31.3 percent expect no change in sourcing cost this year, up from 7.4 percent in 2016, while 6.3 percent of respondents expect their sourcing cost to decline this year.

**Further, labor cost remains the top factor driving up sourcing cost in 2017**, with 73 percent of respondents expecting an increase. According to industry sources, wage levels continue to rise quickly in many Asian countries where U.S. fashion companies primarily source, including China, Vietnam, Cambodia, Sri Lanka and Bangladesh.<sup>1</sup> Raw materials and shipping fees are the #2 and #3 drivers of sourcing cost this year, with 61 percent and 58 percent of respondents, respectively, expecting their costs to increase slightly this year. Further, around one-third of respondents expect the cost associated with factory compliance, meeting social and environmental standards, and trade barriers to increase in 2017. **This is a reminder that more must be done to eliminate trade barriers and cut “red tape” at borders to help companies manage and reduce cost.**

### *Sourcing Risks*

**Figure I | What are the top three sourcing risks for your company in 2017?**



As managing supply chain risks becomes increasingly important for fashion businesses, this year, we again asked respondents to identify and rate the impact of specific sourcing risks. As shown in Figure 11, **“unmet compliance (factory, social and environmental) standards” tops respondents’ concerns, with as many as 91 percent rating it one of the top three risks in 2017.** For years, many U.S. fashion companies and well-known brands have made great efforts to improve compliance

<sup>1</sup> Donaldson, T. (2017). With China no longer cheap, wages in low-cost sourcing locales on the rise too. Retrieved from <https://sourcingjournalonline.com/china-no-longer-cheap-wages-low-cost-sourcing-locates-rise>

with social responsibility, labor, and environmental standards. The result reveals the importance of compliance, as well as its complexity, especially as supply chains are longer and more sophisticated.

Similar to the results in the 2016 survey, respondents see “labor disputes,” “political unrest,” and “lack of resources to manage supply chain risks” having an overall medium impact on their sourcing risk in 2017, whereas the risk from natural disasters is of the least concern.

*Ethical Sourcing and Social Responsibility*

87.5%

of respondents say **ethical sourcing and sustainability issues** are more important when sourcing in 2017 compared to five years ago. 12.5% of respondents report no change.

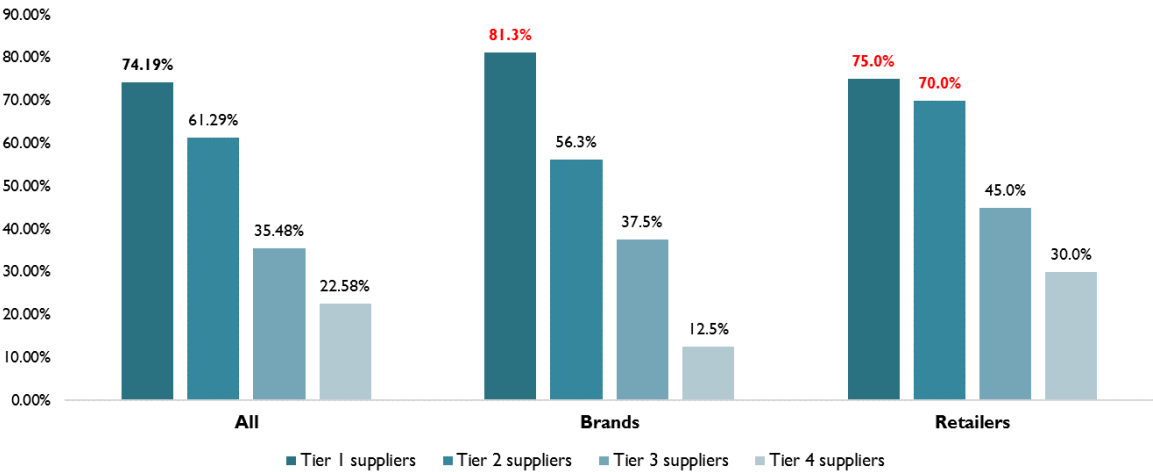
New this year, we asked respondents to provide details about how they handle social responsibility and sustainability in sourcing given the increasing attention to the issue both from within the fashion industry as well as from outside stakeholders.

**First, social responsibility and sustainability continue to grow in importance in sourcing decisions.** Nearly 90 percent of respondents give more weight to sustainability when choosing where to source now than in the past. In comparison, no company believes social responsibility and sustainability are becoming less important.

90%

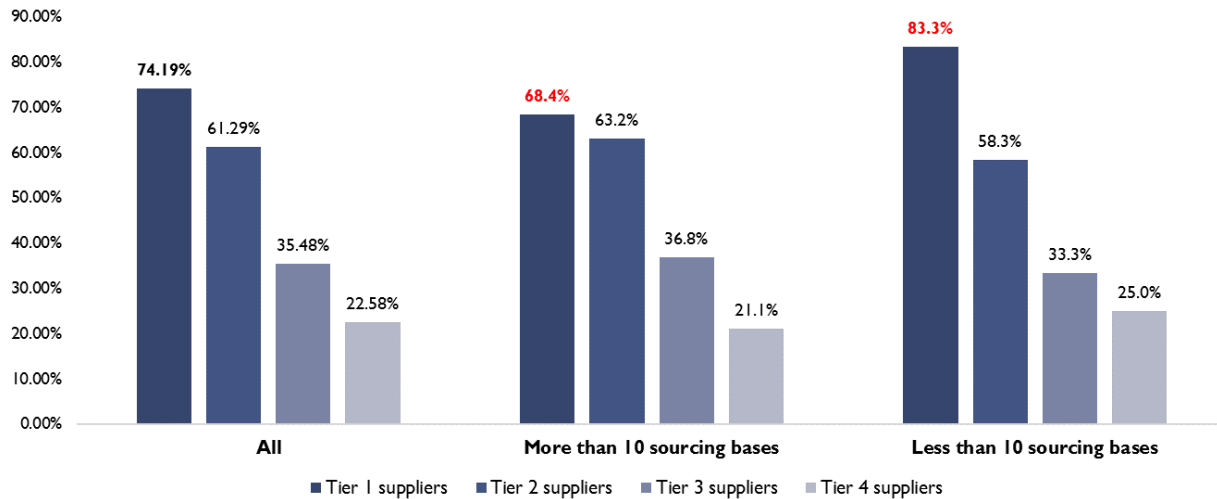
of respondents say **they map their supply chain**, i.e. keeping records of name, location and function of suppliers in 2017.

Figure 12a: How does your company map your supply chain--i.e. keeping records of name, location and function of your suppliers?





**Figure 12b: How does your company map your supply chain--i.e. keeping records of name, location and function of your suppliers?**



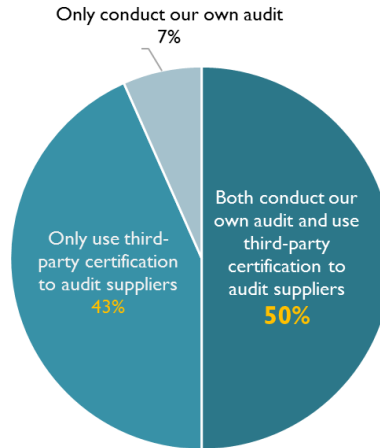
**Second, 90 percent of respondents map their supply chains, i.e., keeping records of name, location, and function of suppliers.** Notably, more than half of respondents track not only Tier 1 suppliers, suppliers they contract with directly, but also Tier 2 suppliers, i.e. supplier's suppliers. In comparison, it is less common for U.S. fashion companies to map Tier 3 and Tier 4 suppliers, which could be because of the difficulty of getting access to related information with such a globalized and highly fragmented fashion supply chain.

**Meanwhile, business type and sourcing base diversity has a direct impact on how companies map suppliers.** As shown in Figure 12a, self-identified brands are making a greater effort to monitor Tier 1 suppliers, whereas a higher proportion of self-identified retailers map Tier 2 suppliers than the average (70 percent vs. 61 percent). However, a more diversified sourcing base makes it more difficult to monitor supply chains closely; generally, fewer respondents with 10+ sourcing destinations map Tier 1 suppliers than companies sourcing from less than 10 countries or regions.

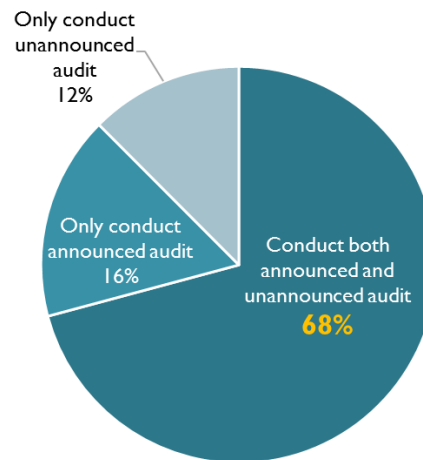
**Of note, 100 percent of respondents currently audit their suppliers.** As shown in Figure 13a-13c:

- **The vast majority (93 percent) use third-party certification programs to audit.** About half currently use both third-party certification programs and their own compliance teams.
- **Regarding the nature of inspection, 68 percent of respondents say they conduct both announced and unannounced audits.** It's less common for companies to solely conduct either announced (16 percent) or unannounced audits (12 percent).
- **Regarding the content of audit, respondents say they usually focus on three primary areas related to social responsibility:** treatment of workers (100 percent), supplier's fire safety (91 percent), and supplier's building safety (83 percent).

**Figure 13a: How does your company audit your suppliers--  
conduct own audit or use third-party certification program?**



**Figure 13b: How does your company audit your suppliers--  
conduct announced or unannounced audit?**



**Figure 13c: What do you audit?**

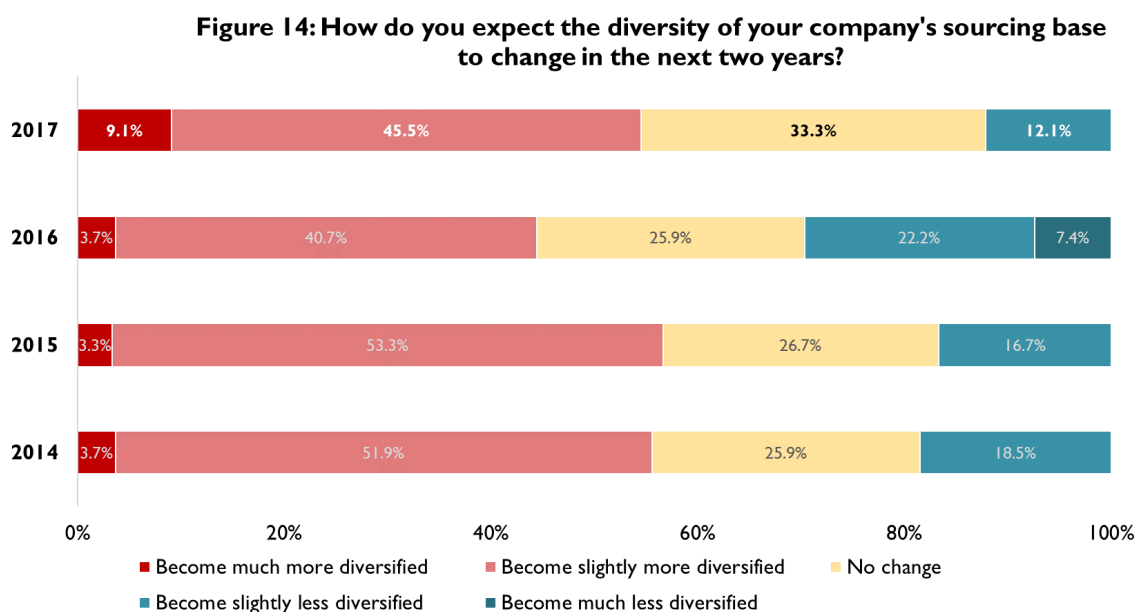


**Management of compliance varies greatly.** Specifically:

- **The size of the compliance team** ranges from only one person coordinating the third-party certification program, to a group of 35 people handling all aspects of social and environmental responsibilities.
- **Regarding the reporting structure**, one common practice is to appoint a VP of Compliance or General Counsel responsible exclusively for all sourcing compliance issues. Others delegate the duty to each department handling trade, logistics, and customs, and directors in these departments work closely to ensure compliance in sourcing.
- **Regarding the location of the compliance team**, some companies house all compliance staff members in the U.S. headquarters, whereas others heavily rely on associates located in the primary sourcing destinations, especially in Asia, to handle compliance.

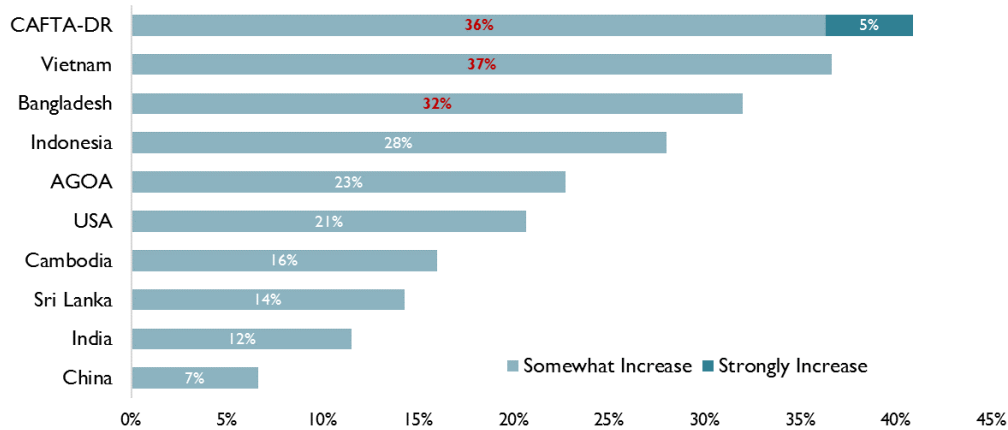
### ***Emerging Sourcing Trends***

Looking ahead, several emerging sourcing trends are worth watching:

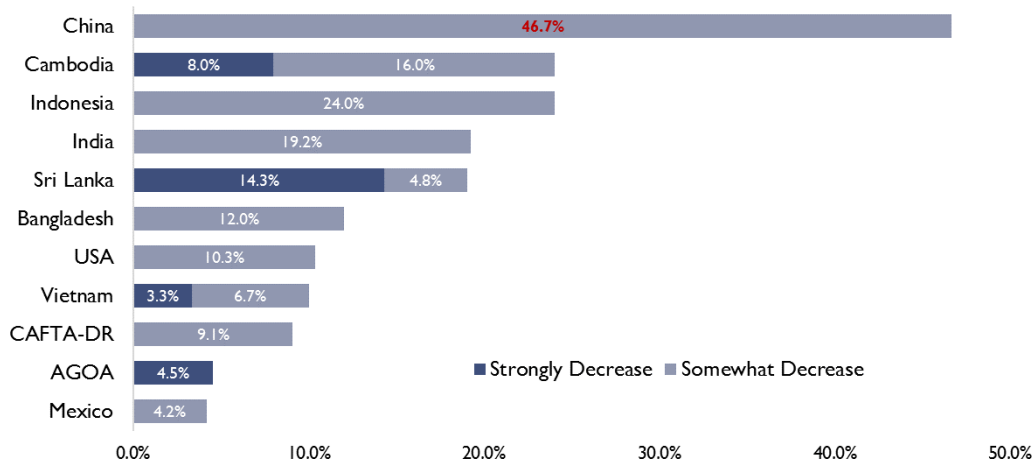


**First, U.S. fashion companies will continue to adjust their sourcing base, although the majority will do so modestly.** As shown in Figure 14, around 54 percent of respondents expect their sourcing base will become more diversified in the next two years, up from 44 percent in 2016; over 60 percent of those expecting to diversify currently source from more than 10 different countries or regions already. Given the uncertainty in the Trump Administration's trade policy agenda (Figure 1 and Table 1), companies may use diversification to mitigate potential market risks and supply chain disruptions due to protectionism. However, only 9 percent of respondents expect to diversify their sourcing substantially, and most of them are sourcing from a small number of countries (3-5 on average).

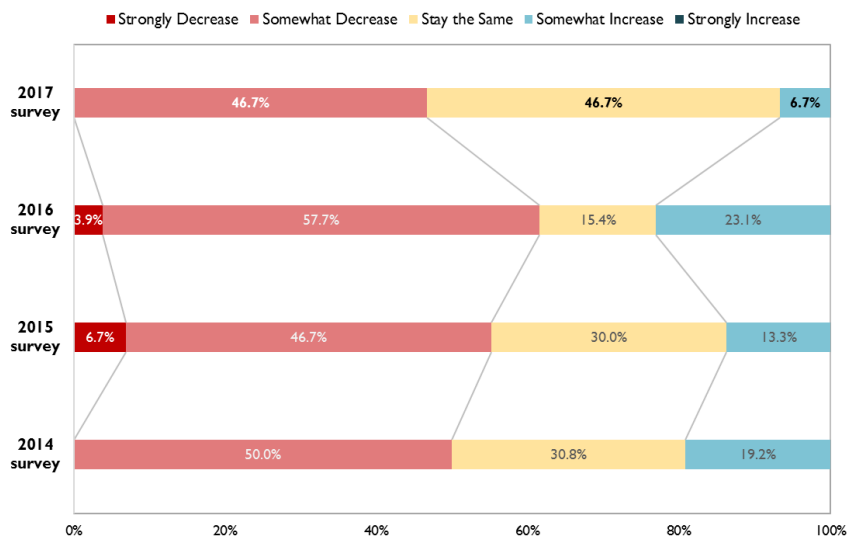
**Figure 15a: How do you think your sourcing value (or volume) from the following countries or regions will change in the next two years?**



**Figure 15b: How do you think your sourcing value (or volume) from the following countries or regions will change in the next two years?**



**Figure 16a: How do you think your sourcing value or volume from China will change in the next two years?**

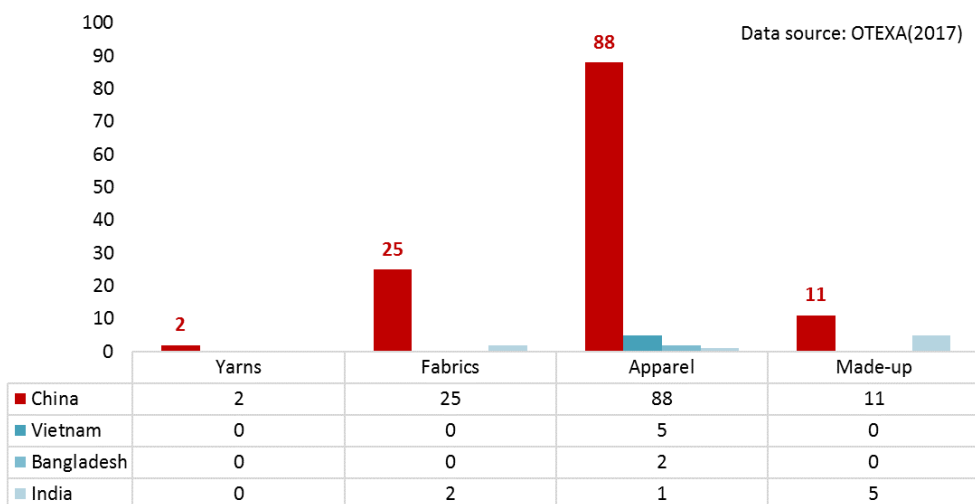


About 46 percent of respondents expect to decrease sourcing from China over the next two years, down from 60 percent in 2016. Meanwhile, half expect to maintain their current sourcing value or volume from China, a substantial increase from 15 percent last year.

**Second, although U.S. fashion companies continue to seek alternatives to “Made in China,” China’s position as top sourcing destination is unshakable.** As shown in Figure 15a and 15b, respondents plan to expand sourcing from CAFTA-DR, Vietnam, and Bangladesh moderately through 2019, but China is still dominant. About 46 percent of respondents expect to decrease sourcing from China over the next two years, down from 60 percent in 2016. Meanwhile, half expect to maintain their current sourcing from China, a substantial increase from 15 percent last year (Figure 16a).

**Many respondents attribute China’s competitiveness to its enormous manufacturing capacity and overall supply chain efficiency.** As one respondent commented, “(Chinese factories) are the giant and will remain so for the foreseeable future. We will never be completely out of China due to their speed, ease of doing business. The only thing that could change that is a protectionist agenda.” Another respondent said, “Speed to market is keeping China relevant in fashion apparel...China will remain competitive and continue to invest in technology to differentiate and compete.”

**Figure 16b: China, Vietnam, Bangladesh and India as a Top Supplier in the U.S. Textile and Apparel Import Market in 2016: Number of Products (OTEXA code)**



Consistent with the survey results, official trade statistics<sup>2</sup> likewise indicate China has no major competitors in the U.S. import market. As shown in Figure 16b:

- Of the 11 categories of yarn, China was the top supplier for 2 categories (or 18 percent);
- Of the 34 categories of fabric, China was the top supplier for 25 categories (or 74 percent);
- Of the 106 categories of apparel, China was the top supplier for 88 categories (or 83 percent);
- Of the 16 categories of made-up textiles, China was the top supplier for 12 categories (or 68 percent);

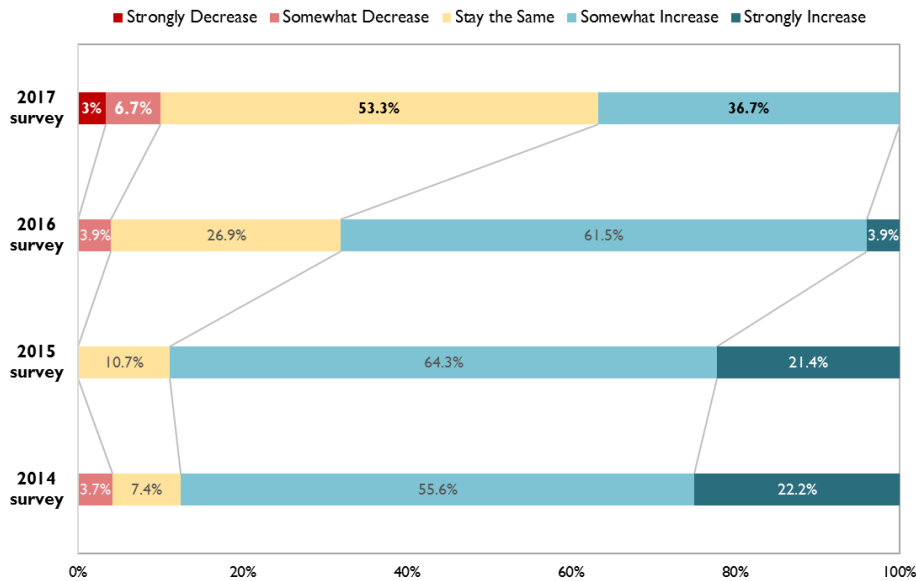
In comparison, among Asian suppliers regarded as China’s top competitors:

- Vietnam was the top supplier for only 5 categories of apparel;
- Bangladesh was the top supplier for only 2 categories of apparel

<sup>2</sup> Office of Textiles and Apparel, OTEXA (2017). U.S. imports and exports of textiles and apparel. Retrieved from <http://otexa.trade.gov/msrpoint.htm>

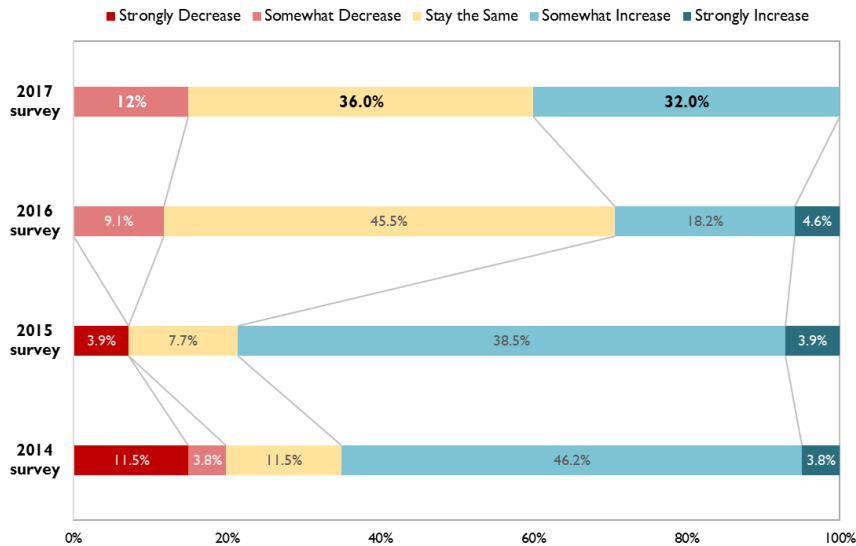
- India was the top supplier for 2 categories of fabric, 1 category of apparel and 5 categories of made-up textiles;

**Figure 17a: How do you think your sourcing value or volume from Vietnam will change in the next two years?**



Respondents are **much more conservative about increasing sourcing from Vietnam in the next two years**. Only 36.7% expect to increase, far less than 65.4% in 2016.

**Figure 17b: How do you think your sourcing value or volume from Bangladesh will change in the next two years?**



More respondents say they plan to **increase sourcing from Bangladesh in the next two years** (32.0% in 2017 vs. 18.2% in 2016), but no respondent expect a strong increase.

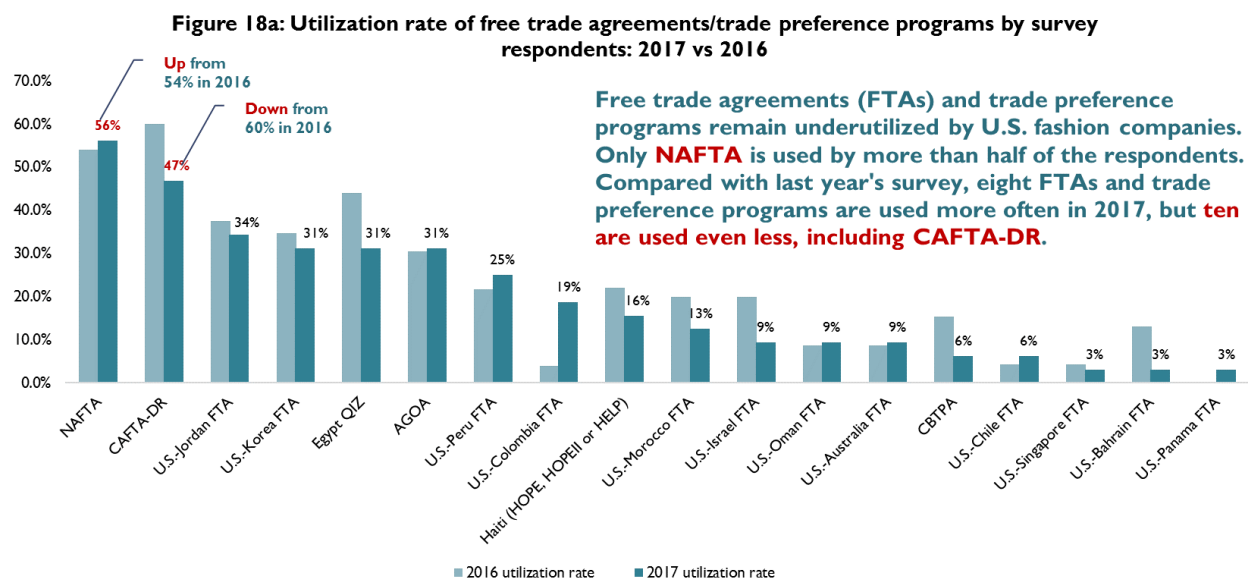
**Third, U.S. fashion companies intend to source more from Vietnam and Bangladesh in the next two years, but imports from the two countries may grow at a relatively slow pace.** This year, Vietnam unsurprisingly remains the #2 sourcing destination among respondents (88 percent usage rate). However, respondents are much more conservative about Vietnam's growth potential in the next two years, possibly due to the United States' withdrawal from the Trans-Pacific Partnership (TPP) and increasing labor costs. While those expecting to increase sourcing from Vietnam fell

sharply from 65 percent in 2016 to only 36 percent, those expecting no change climbed to 53 percent from 27 percent. **And for the first time since we began conducting the study, no respondent plans to strongly increase sourcing from Vietnam in the next two years (Figure 17a).**

This year, Bangladesh is the #7 sourcing destination, with 61 percent of respondents sourcing there, slipping from #5 (70 percent usage) in 2016. Overall, respondents are cautious about expanding sourcing from Bangladesh in the next two years, with only 32 percent expecting to somewhat increase sourcing there, and none expecting to substantially increase sourcing there. Respondents were much more optimistic about Bangladesh in 2015 and 2014 when as many as 42 percent and 50 percent of respondents, respectively, planned to expand sourcing there (Figure 17b). As shown in Table 2, “Made in Bangladesh” enjoys a prominent price advantage over many other Asian suppliers. However, respondents say sourcing in Bangladesh is high risk; since compliance is so important to companies, this risk level could be holding them back from increasing sourcing there.

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

#### ***Utilization of Enacted Free Trade Agreements and Preference Programs***



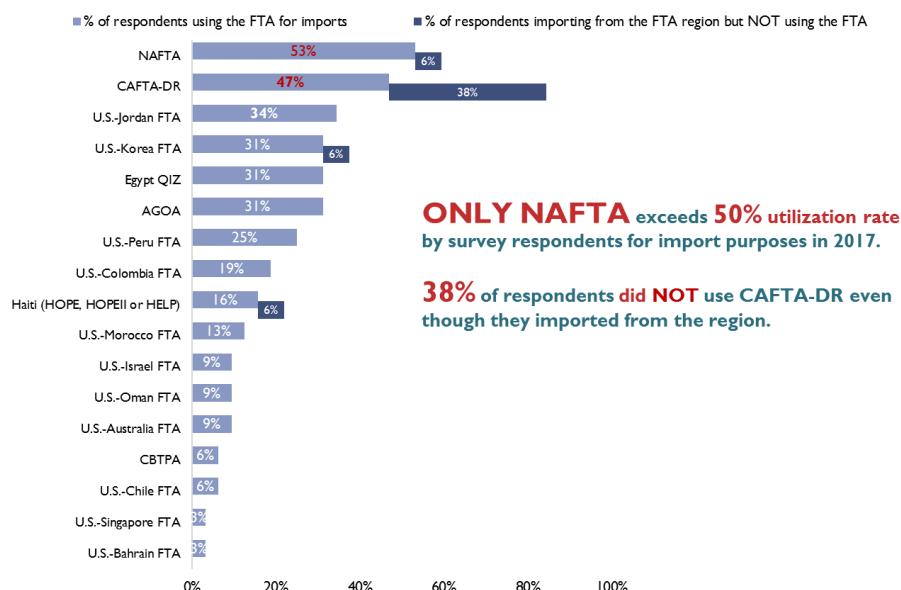
*Note: Utilization rate equals the frequency of each free trade agreement/preference program's utilization divided by the total number of respondents.*

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 18a and 18b, **most of the FTAs/trade preference programs enacted by the United States and its trading partners remain underutilized in 2017 and, as a matter of fact, many of them are utilized even less by U.S. fashion companies than previous years conducting this study.** Specifically, of the 19 duty-free programs we examined this year, **only** the North

American Free Trade Agreement (NAFTA) were used by slightly more than half of respondents. And, another top program, the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR), saw a substantial decline in usage, from 60 percent last year to just 47 percent this year.

**Figure 18b: Utilization of free trade agreement/trade preference programs for imports by survey respondents**



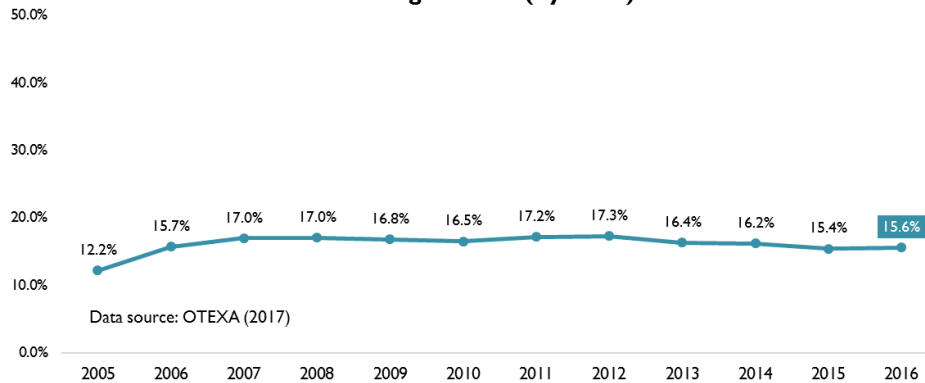
**Even more concerning, some U.S. fashion companies source from countries/regions with duty-free programs but, for whatever reason, do not claim the benefits.** For example, as many as 38 percent and 6 percent of respondents, respectively, say they do not use CAFTA-DR and NAFTA when they source from these two regions. As we mentioned in 2015 and 2016, some U.S. fashion companies say strict, complicated rules of origin and heavy documentation requirements for programs deter them from taking advantage of the duty savings. 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.

Notably, the low utilization of FTAs and preference programs is supported by the official trade statistics. As shown in Figure 19a, **the share of U.S. apparel imports entering under FTAs has been declining since 2012 and only marginally recovered to 15.6 percent in 2016 from 15.4 percent in 2015.** 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 \$77.6 billion in 2011 to \$82.9 billion in 2016, the value of apparel imports entering *under FTAs* decreased by 6.5 percent from \$13.8 billion to \$12.9 billion over the same period.<sup>3</sup> Among the FTAs in force, **NAFTA and CAFTA-DR altogether accounted for 95.5 percent of the value of total U.S. apparel imports entering under FTAs in 2016.**

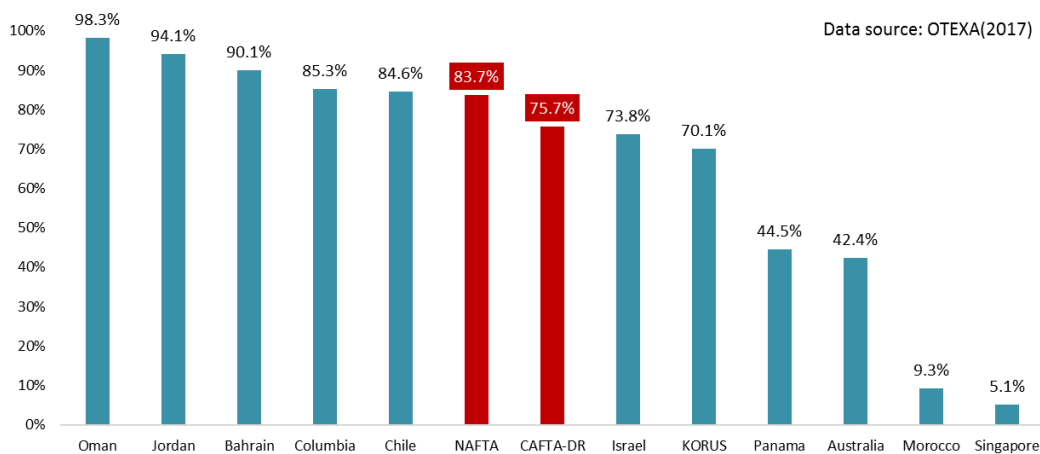
<sup>3</sup> Office of Textiles and Apparel, OTEXA (2017). U.S. imports and exports of textiles and apparel. Retrieved from <http://otexa.trade.gov/msrpoint.htm>



**Figure 19a : Share of U.S.Apparel Imports Entering Under Free Trade Agreement (By Value)**



**Figure 19b: U.S. FTA Utilization Rate for Textile and Apparel in 2016 (by value)**



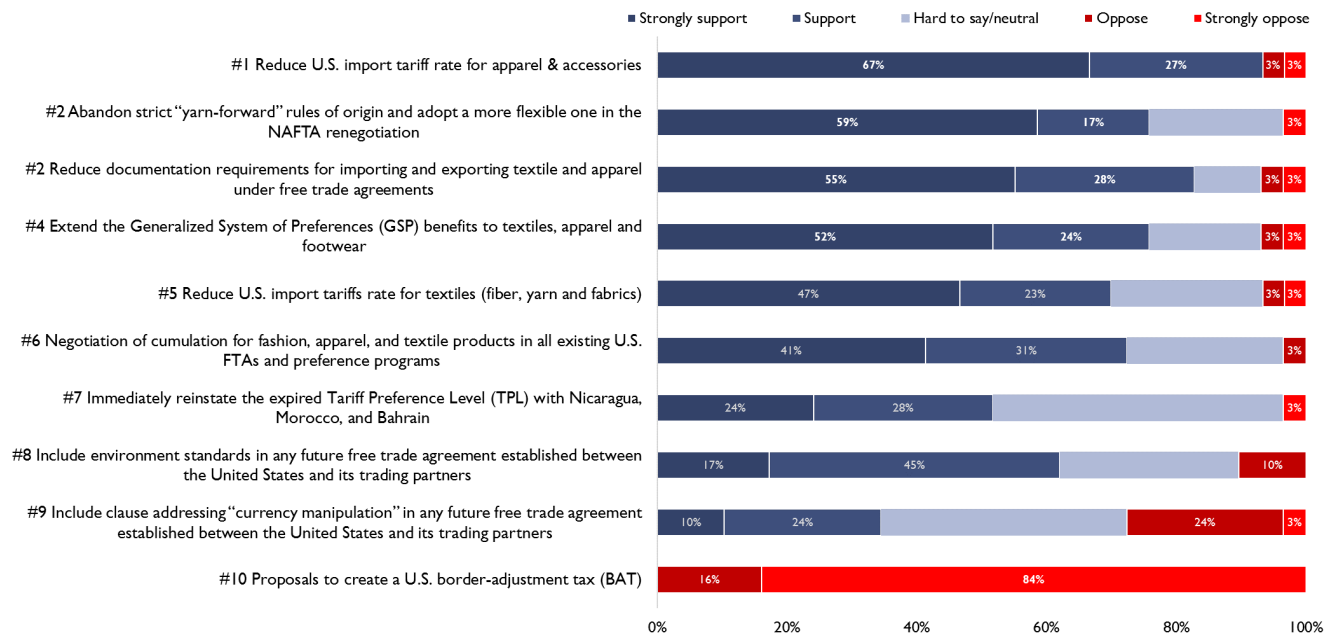
**Official trade statistics further support our findings that companies sometimes did not claim duty-free benefits of FTAs even though they imported textiles and apparel from the FTA region.** For example, in 2016, about 29.9 percent of U.S. imports of textiles and apparel from South Korea, 24.3 percent from CAFTA-DR, 16.3 percent from NAFTA, and 12.9 percent from Colombia did not take advantage of the duty-free treatment granted by the respective FTAs (Figure 19b).

**Additionally, statistics show U.S. fashion companies are using short supply lists more frequently<sup>4</sup>.** For example, in 2016, around 2.4 percent of U.S. imports of textiles and apparel entering under FTAs took advantage of a short supply mechanism, an increase from 1.2 percent in 2008. Similarly, a record high of 6.2 percent of U.S. imports of textiles and apparel under CAFTA-DR utilized the short supply list in 2016. This trend reflects the reality that some textile inputs needed to make certain garments are simply not available in the FTA regions because of the limited local textile supply capacity. **It's also a reminder that without short supply lists, we can expect that utilization of U.S. FTAs could fall even more.**

<sup>4</sup> Short supply list allows textiles not available in commercial quantities in a timely manner from within the FTA region to be sourced from a third-party country for use in qualifying textile and apparel products.

## Trade Policy Priorities

Figure 20: Trade policy initiatives by respondents' supporting rate (from highest to lowest)



This year, we again surveyed respondents about their views on specific trade policy initiatives. **First, respondents unanimously oppose the U.S. border adjustment tax (BAT) proposal; as many as 84 percent "strongly oppose" the BAT.**

# 100%

of respondents **oppose the proposal to create a U.S. border-adjustment tax (BAT)**

**Second, respondents predominantly support initiatives to eliminate trade barriers of all kinds, from high tariffs, to overcomplicated documentation requirements, to restrictive rules of origin in NAFTA and future FTAs.**

# 93%

of respondents support or strongly support **reducing U.S. import tariff rate for apparel & accessories**

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# 83%

of respondents support or strongly support **reducing documentation requirements for importing and exporting** textile and apparel under free trade agreements

# 76%

of respondents support or strongly support **abandoning strict “yarn-forward” rules of origin** and adopting a more flexible one in the NAFTA renegotiation

# 76%

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

# 72%

of respondents support or strongly support **negotiation of cumulation for fashion, apparel, and textile products** in all existing U.S. FTAs and preference programs

# 70%

of respondents support or strongly support **reducing U.S. import tariff rate for textiles**

In comparison, respondents are most divided on currency manipulation and inclusion of environmental standards in U.S. trade agreements:

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# 34%

of respondents **support** and

# 28%

**oppose**

**including clauses addressing “currency manipulation”** in any future free trade agreement established between the United States and its trading partners

# 62%

of respondents **support** and

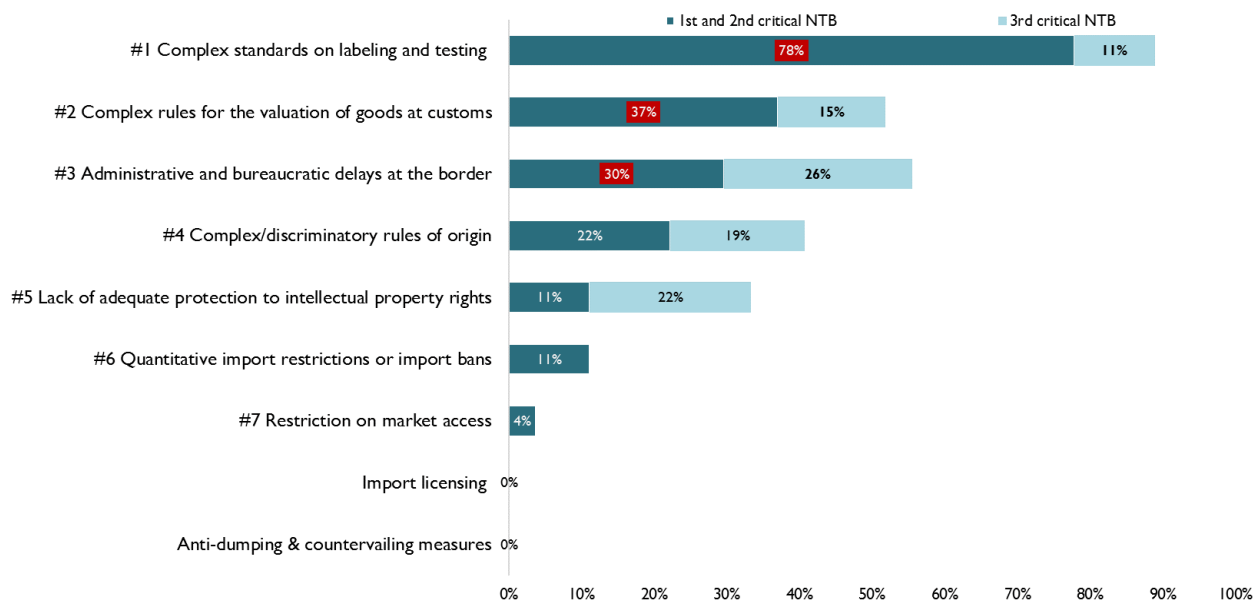
# 10%

**oppose**

**including environment standards** in any future free trade agreement established between the United States and its trading partners

## Non-tariff Barriers

**Figure 21: What are the top three non-tariff barriers (NTB) your company faces in sourcing textiles, apparel and other fashion products?**



This year, we asked respondents to identify their top non-tariff barriers. As shown in Figure 21, **“complex standards on labeling and testing”** tops concerns with as many as 78 percent of respondents rating the issue either the #1 or #2 most critical non-tariff barrier. **“Complex rules for the valuation of goods at customs”** and **“administrative and bureaucratic delays at the border”** are the next two most critical. In comparison, respondents are least concerned about import licensing and anti-dumping & countervailing measures.

## VI. Respondents' Profile

**Figure 22a: Respondents' business type**

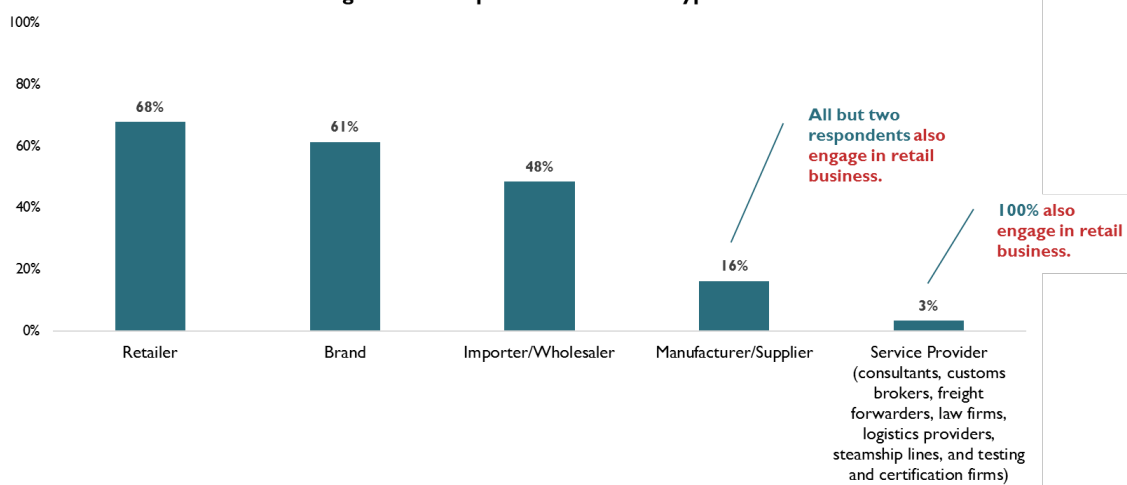


Figure 22b: Respondents' Business Size

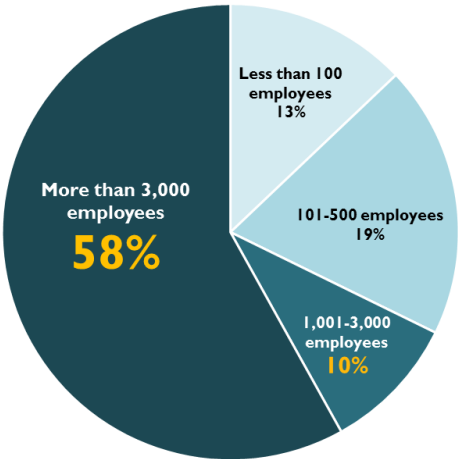


Figure 22c: Location of respondents' headquarters or management offices

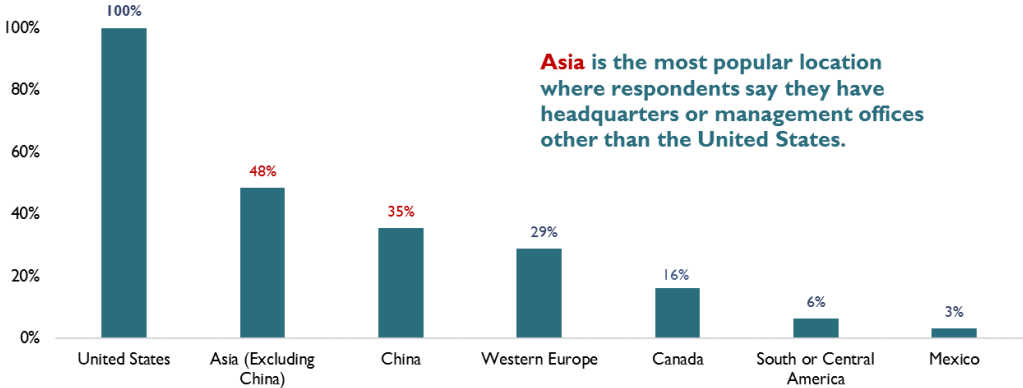
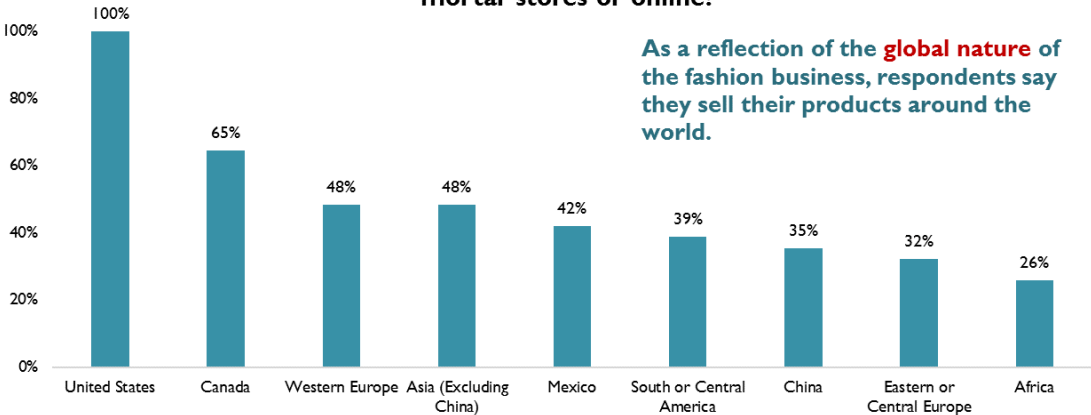


Figure 22d: Where does your company sell products, either in brick-and-mortar stores or online?



This benchmarking study was based on a survey of 34 executives at the leading U.S. fashion companies from April 2017 to May 2017. The study incorporates a balanced mix of respondents representing the various types of businesses in the U.S. fashion industry today. Approximately 68 percent of respondents are self-identified retailers, 61 percent self-identified brands, 48 percent self-identified importers/wholesalers, 16 percent self-identified manufacturers/suppliers, and 3 percent provide various fashion related services (Figure 22a).

This year, our respondents have a more balanced representation of U.S. fashion companies of all sizes, including very influential players with more than 1,000 employees (68 percent), medium-sized companies with 101-500 employees (19 percent) to relatively small companies (13 percent).

Additionally, 100 percent of respondents represent companies with headquarters or major management offices in the United States. This year, around 56 percent of respondents also have headquarters or major management offices outside the United States, including Asia other than China (48 percent), China (35 percent), Western Europe (29 percent), Canada (16 percent), South and Central America (6 percent) and Mexico (3 percent) among others (Figure 22c). In addition to 100 percent selling products in the United States, over half of respondents also sell products in Canada, Western Europe, Mexico, and Asia (Figure 22d). 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 of 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 receives 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 Trans-Atlantic 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/blog> and <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)