

Istanbul sourcing conference: report

RACHEL ARTHUR, WGSN 30.07.08

Sourcing, compliance and Turkey's competitive edge were high on the agenda as industry representatives gathered for June's inaugural Istanbul Fashion, Textile and Apparel Conference. WGSN reports.

The **global economic slowdown** was one of the core subjects discussed at the inaugural Istanbul Fashion, Textile and Apparel Conference, with representatives from key European retailers all referencing how such "challenging times" are impacting the industry.

Christophe Roussel, sourcing director at Tesco, said: "[There are] a lot of uncertainties in the world we are living today... Customers are feeling poorer: energy and petrol prices have gone up, mortgages have increased, taxes have risen, **consumer confidence is lower than ever** and we have also seen food inflation for the first time in a decade."

Such changes mean **companies need to adapt their sourcing strategies accordingly**, he explained. Keynote speaker William Fung, group managing director of the world's largest sourcing company Li & Fung, agreed, drawing particular attention to the changing face of China.



Istanbul Fashion, Textile and Apparel Conference and Exhibition

"For a while the world of textile and apparel manufacturing was paralysed by the spectre of a country that was rising so quickly in Asia and had the potential to dominate and take over big sections of the market. But **China is no longer as strong a competitor as it once was**," he continued.

"[It] has become a victim of its own success," he added. The Special Economic Zones (SEZs) that were opened up on the coast in 1979, and still host most of the country's production facilities, are **now suffering from labour shortages**, said Fung. As a result they are drafting in workers from the inner provinces of the country, which in turn is creating significant political strain.

"What the government would like to see is factories located where the labour is... China's production on the coast is now being less and less competitive, and that is an interesting phenomenon. **People are no longer scared that China is the invincible competitor** they thought it was," Fung said.

Despite this, he emphasised that China shouldn't be written off. He predicted that the future strength of its interior regions should take hold within three years. It remains **a true global player** and has helped to open up the apparel industry, making it **easier for other countries to successfully compete**.

Turkey: the bridge between Europe and Asia

Turkey's competitive position in global apparel sourcing was, inevitably, at the forefront of discussions - with its **geographical location** highlighted as the country's most significant advantage.

While the theme of the two-day conference - "Bridges of Fashion" - offered a platform for discussions on "where design and production meet", it was also

Key messages

- Apparel sourcing strategies need to be adapted in light of the impact from the global economic slowdown.
- According to William Fung, group MD of Li & Fung, China is no longer as strong a competitor as it once was, as labour shortages put strain on its coastal production areas.
- Turkey's proximity to other European countries makes it key to European fast-fashion retailers and gives it a competitive advantage other than cost.
- Sezai Kaya, CEO of Hugo Boss Turkey, expects companies to opt for factory-specific rather than country-specific production in future, with the result being "100 big factory networks that dominate the market".
- Turkey could benefit from moving its production to cheaper countries and keeping its centres of development at home, similar to the strategy achieved by countries like Taiwan and Korea.
- Compliance has become such a major trend in the industry it now forms a fundamental part of a process that sees all-encompassing end-to-end costs.
- To survive beyond 2010 companies need to be agile, adaptable and aligned with the customer.

About the event

Organised by The Turkish Clothing Manufacturers' Association (TCMA), the inaugural *Istanbul Fashion, Textile and Apparel Conference and Exhibition* followed the theme of "Bridges of Fashion, where design and production meet".

The event took place on June 26-27, 2008 and aimed to bring together key global players to share information, new practices and guidelines for the future of the industry.



William Fung, group MD of Li & Fung

used to draw attention to Turkey's potential for apparel sourcing, referring to the country's oft-quoted location and position as **the "bridge" between Europe and Asia**.

Fung emphasised that Turkey's proximity to other European countries makes it **key for fast-fashion retailers** (80.4% of Turkish textile and apparel exports are destined for the European market). It can therefore compete with low-cost countries on factors other than price.

"[Turkey] represents the **ideal quick-response market**," he said. "Yes, Asia is cheaper, but after years of education about supply chain management, cheap is no longer the only thing; you have to have speed-to-market."

H&M's production manager Karl Gunnar Fagerlin agreed, highlighting that the company sources 20% of its product from Turkey, primarily for the pace at which it can turn things around.

Sezai Kaya, CEO of Hugo Boss Turkey, emphasised speed as fundamental to Turkey's competitive advantage but also suggested the country's offer of "added value" in production. According to Kaya, quality, flexibility, creativity, organic cotton, innovation, fashion, trust and leadership are all ways in which the country can compete with low-cost production countries in Asia as well as those in Europe such as Bosnia and Romania.

The country has successfully grown its market share with leading European retailers. According to Sylvie Dayi, regional director for Europe, Africa and the Middle East at **Marks & Spencer, the UK retailer now sources 29% of its general merchandise from Turkey**, up 20% since last year.



The Turkish flag

Istanbul's Bosphorus Bridge connecting Europe (left) and Asia (right)

"[Turkey] supports the principles Marks & Spencer believes in," continued Dayi. "We want to be proactive not reactive, and we want to deliver **a great product at value**."

She also added: "[Turkey] has the advantage of **a fully vertical supply base** and there are some fantastic developments. For us the region is going to grow, we definitely want to mitigate the risk of buying from further away."

Country clusters

Turkey is also becoming a major hub for European apparel production.

Istanbul is the centre of Li & Fung's operations on the continent. "Our colleagues [here] control offices in Jordan, Egypt, Morocco, Bulgaria, Romania - even in Milan and also Portugal. We feel that **Istanbul is the perfect control centre** for our apparel and textile business," explained Fung.

Kaya noted a growing trend among apparel companies for **factory-specific production** over country-specific production. The result, he said, would be "100 big factory networks that dominate the market".

Such networks will operate on a **transnational basis**, which Roussel agreed

Speakers at the event included:

Christophe Roussel
Sourcing director
Tesco

Karl Gunnar Fagerlin
Production manager
H&M

Marci Zaroff
Founder and president
Under The Canopy

Sezai Kaya
CEO
Hugo Boss Turkey

Sylvie Dayi
Regional director, Europe, Africa
and the Middle East
Marks & Spencer

William Fung
Managing director
Li & Fung

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could be an ideal situation for Turkish manufacturing companies also trying to meet lower cost requirements.



WGSN street shots, Istanbul

Roussel cited Korea and Taiwan as examples of manufacturing nations that have maintained their level of competitiveness by **moving production to cheaper countries while keeping centres of development at home.**

"What we see in Turkey is similar - moving inland [like China] but also moving out of Turkey with suppliers starting to invest in countries like Egypt," he said.

Tesco already sources in "country clusters". Its European cluster is focused on the Mediterranean Rim, with Turkey at its core. According to Roussel, this is a region Tesco intends to develop further.

Fung added: "We are very bullish about our prospects here in Turkey... unfortunately our view is not typical. **Turkey has so many advantages but it's so badly promoted,** especially in Asia - nobody talks about Turkey in Asia."

Compliance costs

Returning to the subject of cost versus value, the notion of "**Full Value Cost Analysis**" was mentioned by Kaya as a generic trend across the industry. This breaks down into three areas:

- **Direct Cost:** cut, sew, finish
- **Indirect Cost:** markdowns, samples, travel and so forth
- **Macro Cost:** human rights, working and compliance issues, the environment

Kaya said that costing models can no longer be based solely on direct and indirect costs. Compliance has become such a major trend in the industry that it now forms a fundamental part of a process that sees **all-encompassing end-to-end costs.**

Fung related this change to the way customers now look at products - their concerns have expanded to include how what they buy has been made, rather than simply the price, performance or quality.

He outlined three areas that Li & Fung consider:

- **Social compliance** focuses on the workplace. "Is it made in a sweatshop? Is the factory using under-aged labour? Are the right overtimes being paid?"
- **Environmental compliance** is becoming ever more of a focal point for Li & Fung. "Is the process polluting our waters? Is the process of making the product polluting the air?"
- **Health and safety compliance** is the third area. "Is there lead in the toys that we give to our children? Do the dyes we use cause cancer?"



Marci Zaroff, founder and president of Under the Canopy

Marci Zaroff, founder and president of US organic fibre lifestyle brand **Under the Canopy**, was the second keynote speaker to encourage attendees to become more involved in the eco-fashion movement, which she said is "not a fad" and "absolutely has staying power".

According to the Organic Exchange, the global organic market was worth \$245m in 2002 and is predicted to reach \$6.8bn by 2010.

As a result, said Zaroff, for consumers it is now more about **why wouldn't you buy organic**, rather than why would you. "[The industry is] making long-term strategic shifts and commitments," she said. **"It's now about not being left behind."**

Under the Canopy's core concept is "from farm to finished fabric", with Zaroff's own role seeing her travel to the roots of production to understand every aspect of her brand's development.

She estimated that today there are 1,500 brands and retailers offering organic cotton. In 1990 that cotton was being grown in just six countries; by 2007 it had grown to 24, yet **organic cotton still only represents 0.15% of the global cotton industry.**

Consequently, Zaroff emphasised that this is a sector of the industry very much still in its early growth stage, "so you are not getting in too late," she added.



Under the Canopy

Nonetheless, she noted that using organic cotton comes with its own, unique, set of challenges and complexities. **"Organic agriculture is a very scientific method, it is not a marketing proposition,"** she said.

Certifications that are being developed to assist with standardising the produce may help. Zaroff was on the board for **GOTS - the Global Organic Textile Standard**, launched in June 2008, that is aiming to become the globally recognised seal that consumers are trained to look for.

Six agencies in the world were involved with the process and can now certify to its level: the Institute for Marketecology (IMO), Control Union, OneCert, ICEA, Oregon Tilth and the UK's Soil Association.

Zaroff emphasised that **transparency means integrity.** The future of the

industry undeniably has to include a focus on this area to meet consumer expectations.