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FROM THE AMERICAN PEOPLE

Southern Africa Trade and Investment Hub

The good, the bad and the ugly:
what U.S. buyers want from
suppliers

August 24, 2020

SOUTHERN AFRICA **TRADE** + INVESTMENT **HUB**

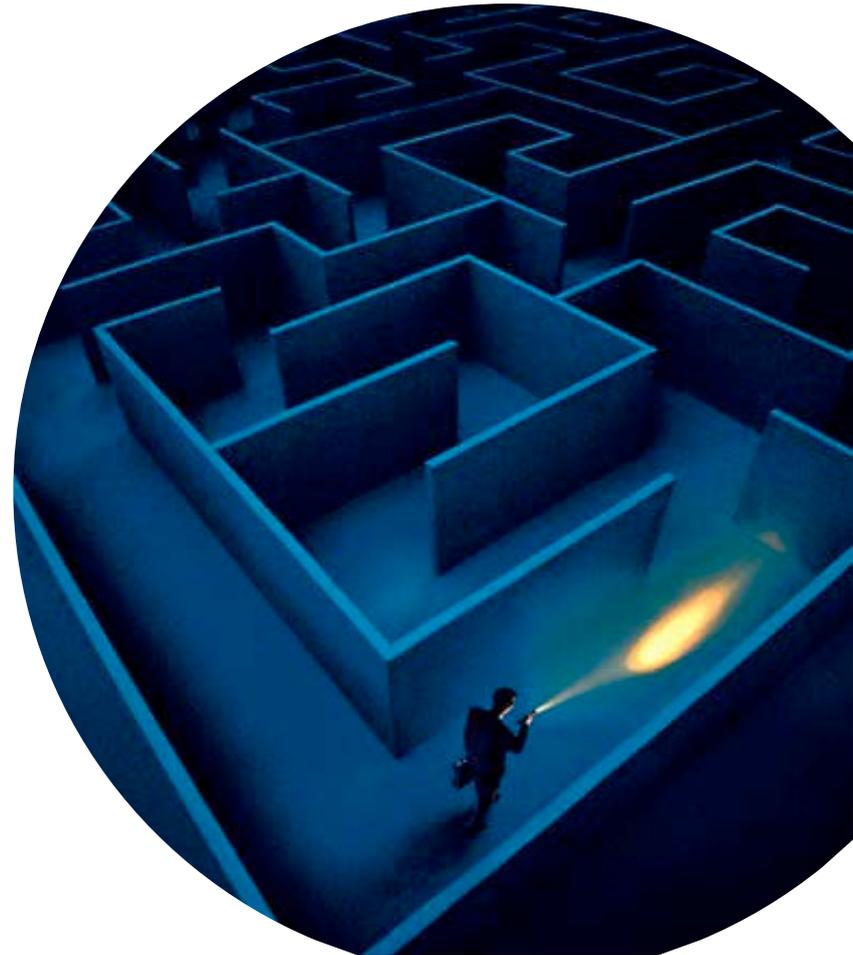


FEED THE FUTURE

The U.S. Government's Global Hunger & Food Security Initiative

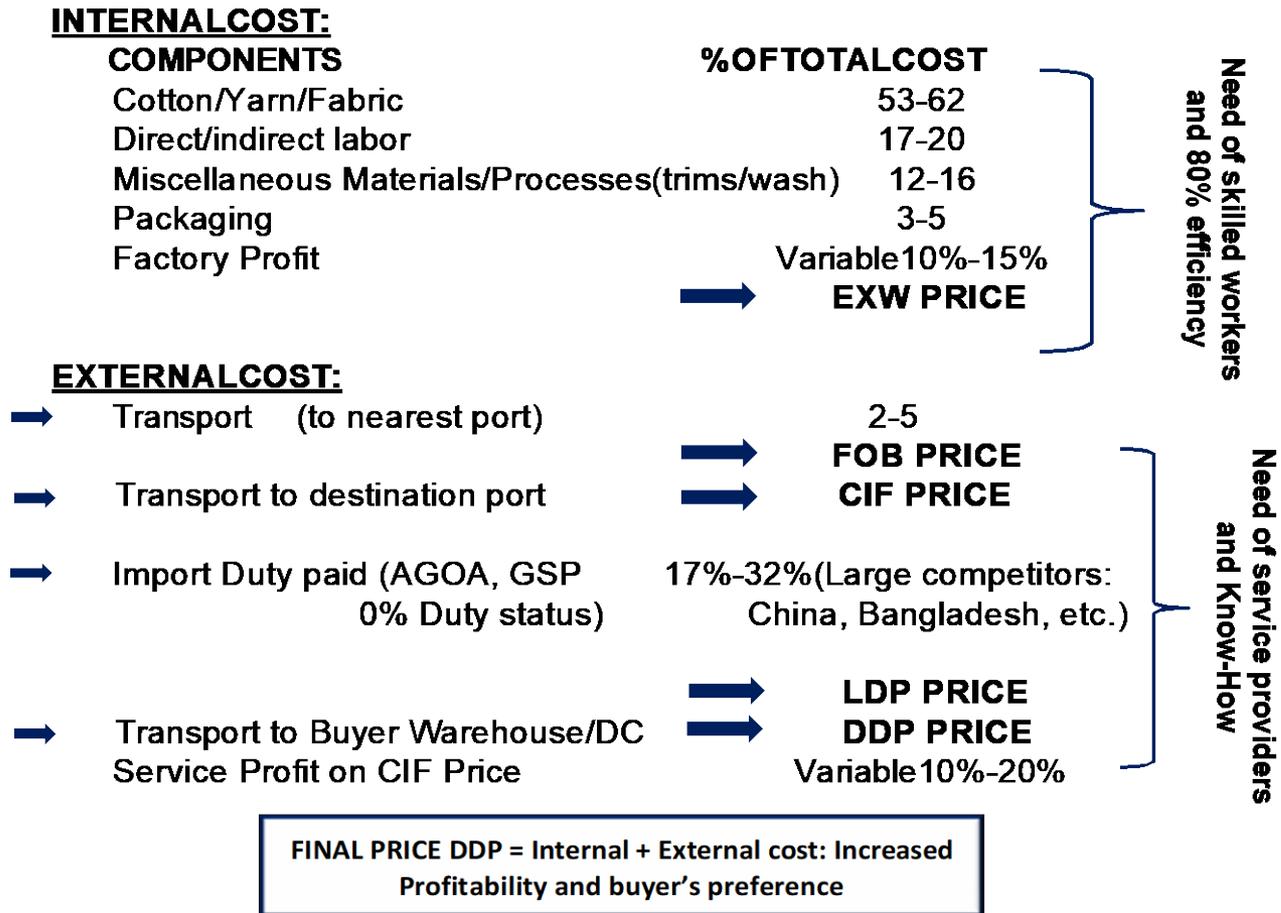
Key objectives of the presentation

- Understand buyer's mentality when choosing to source apparel from Southern Africa or..... from Southeast Asia, Central America, Latin America, Eastern Europe, China, Egypt...
- Sell competitively:
Understand a step-by-step process to achieve a buyer's interest in sourcing from Southern Africa

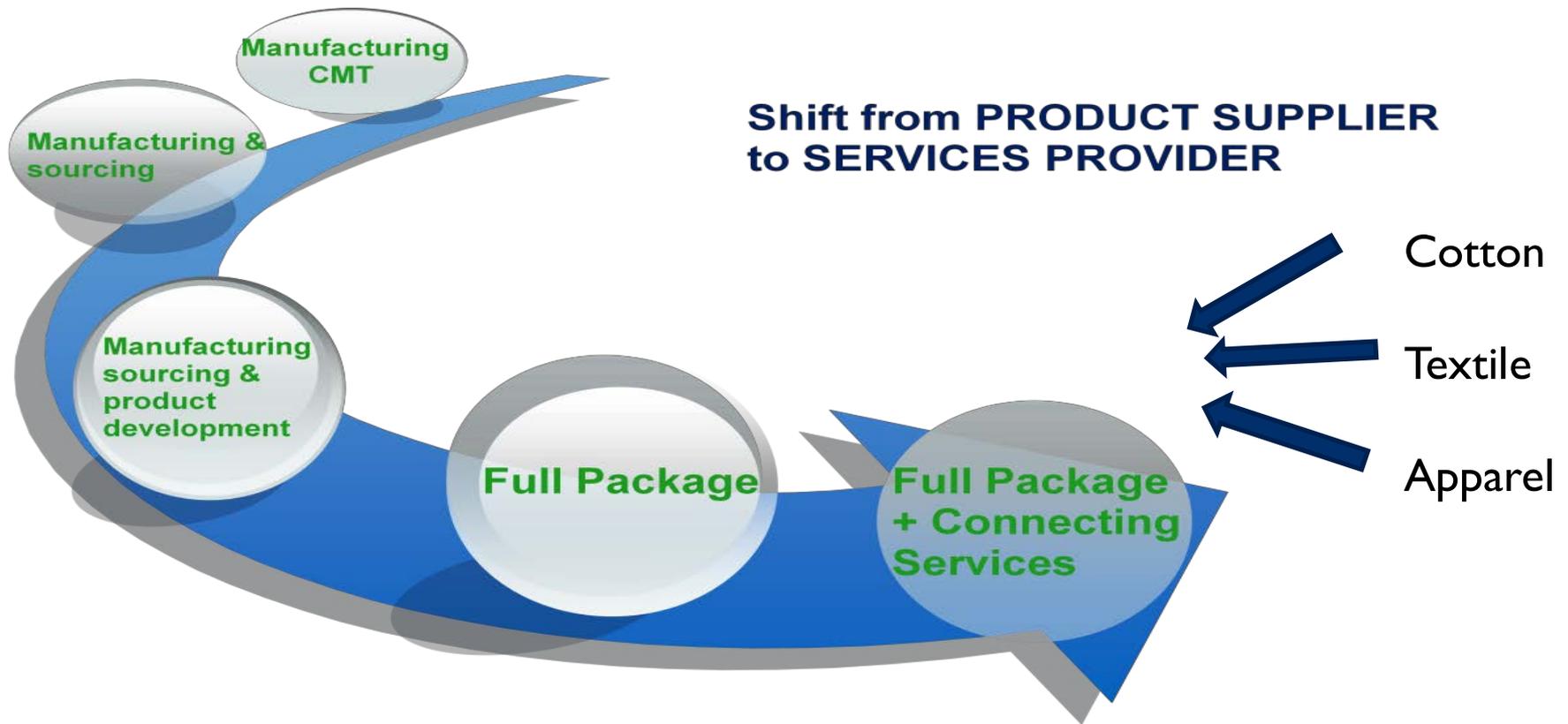


The business approach in the mind of buyers

Apparel Industry Cost Structure



Shift in the cotton, textiles and apparel industry from a buyers' perspective



“Vendor becomes a critical partner for buyers”

Challenge facing producers in Southern Africa

How to control 50% of the cost?



Competitiveness

- Yarn and fabric supply as competitive tools
- Quality
- Volume
- Just in time services
- Price
- Buyers designated supplier or full package?

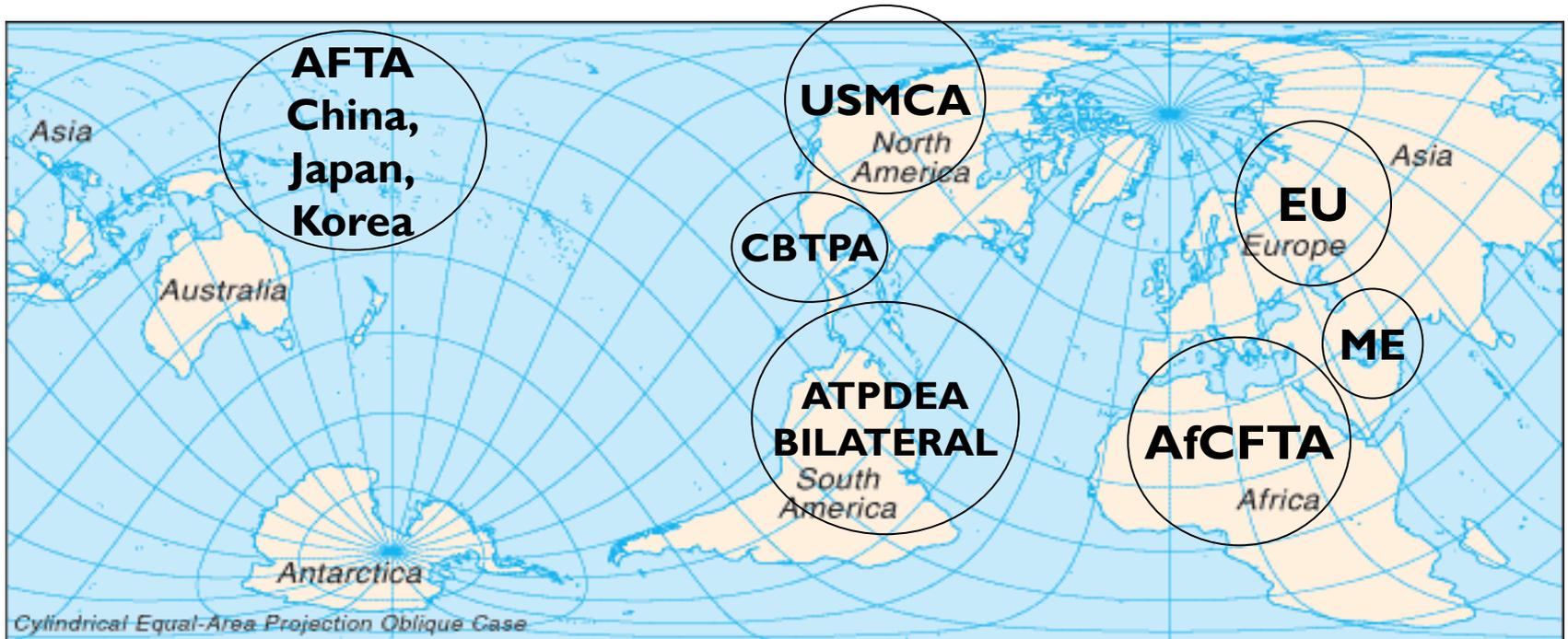


Understanding the market needs

- Better market understanding:
 - Needs: cloth structure, volume, price, service
 - Labor: Several countries offering already at very competitive sewing minute/cost.
- Quality is no longer discussed



Global market distribution



The U.S. market distribution

Near shoring strategies in buyers' mind:

- United States-Mexico-Canada Agreement (USMCA) conditions: México 20.7% of U.S. Imports valued at \$8.2 billion
- Caribbean Basin Trade Partnership Act (CBTPA) (% of US imports):
 - Honduras 13.4%
 - Salvador 5.05%
 - Dominican Republic 4.5%
 - Guatemala 3.38%
 - Haiti (new member) 2.3%
 - Total \$9.8 billion
- China reaches over 33% of the U.S. market!

THE US MARKETS
IMPORTS OVER \$90
BILLION IN APPAREL
AND RECENT
INDUSTRY SURVEYS
SHOWS THAT BUYERS
INTERESTED ON
SOURCING 33% OUT
OF CHINA BY 2023.
Gartner Survey - 2020

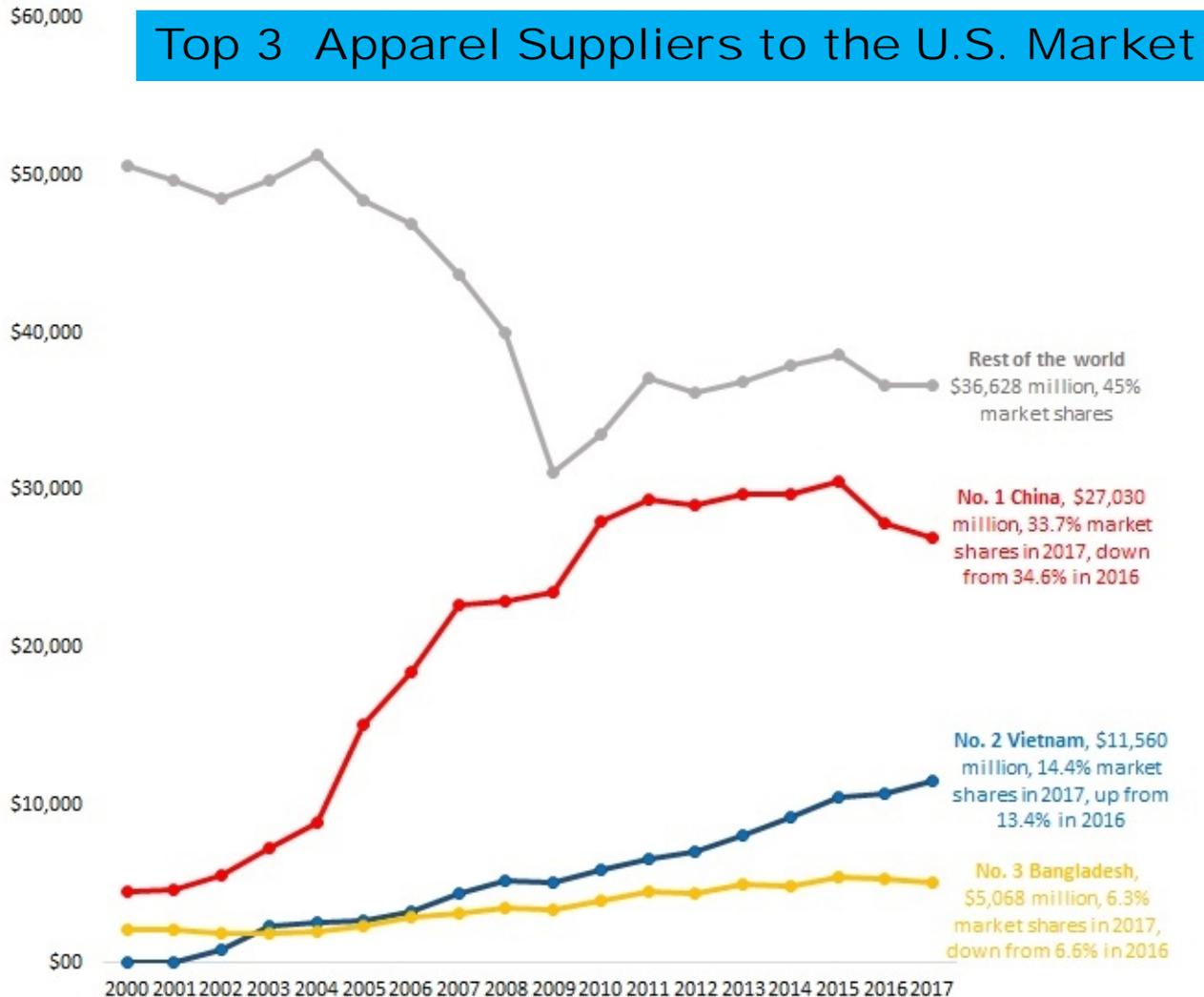


China competitiveness has changed

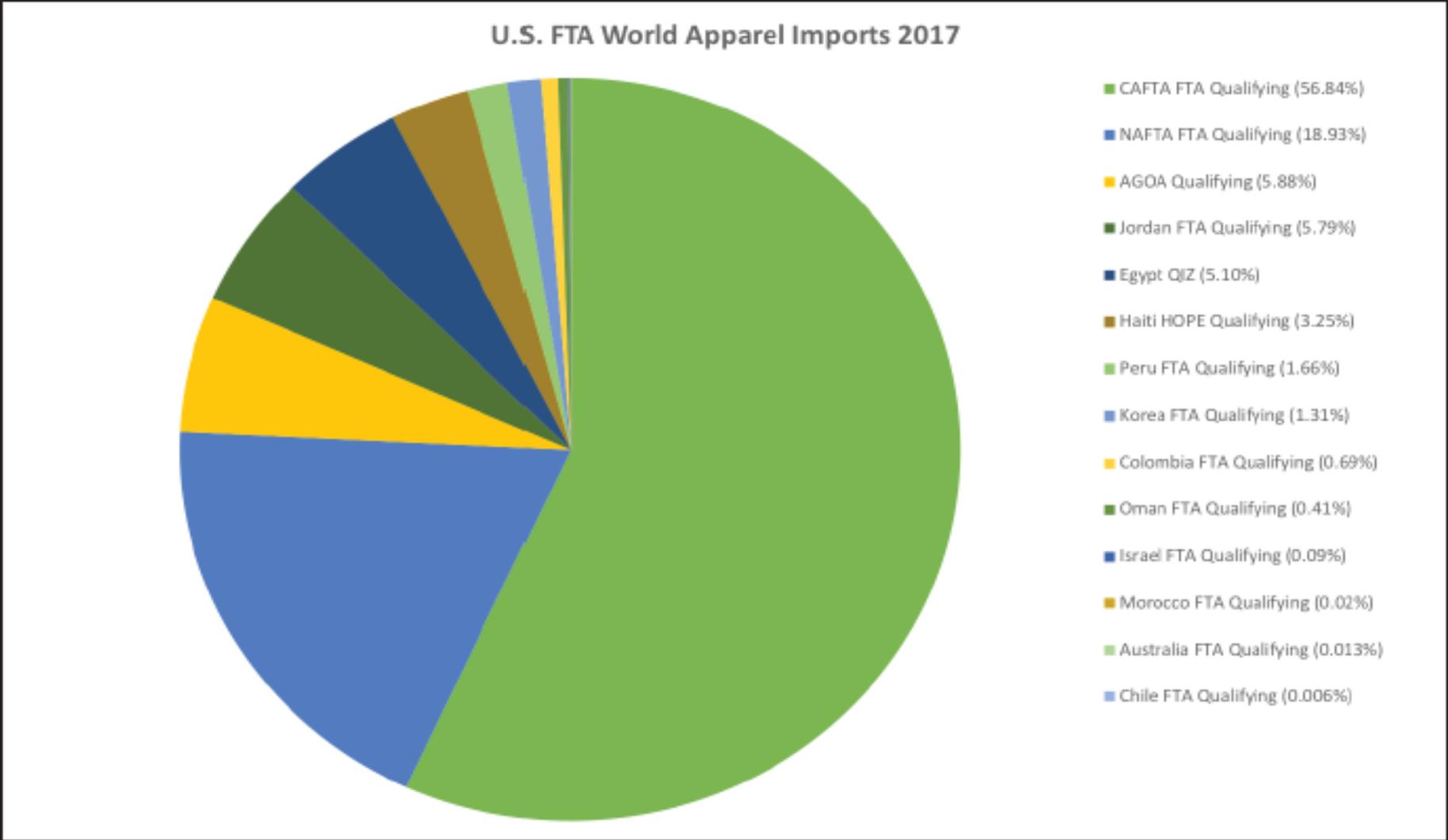
- Costs increased on several fronts
- Labor costs have become a particularly serious issue for Chinese firms
- New sources of supply from Bangladesh, Cambodia and Vietnam
- Many buyers will not return to China when safeguard quotas are removed
- Greater costs of compliance with growing environmental legislation
- Firms wishing to invest are finding it harder to obtain finance as the Chinese authorities have tightened credit in a bid to limit inflation
- U.S. trade relations and COVID impacting on buyers' ability to source out of China

Despite this, China will remain a significant player in the industry

U.S. is the largest apparel market in the world



U.S. is the largest apparel market in the world



12 steps to reaching a buyer in the U.S. market

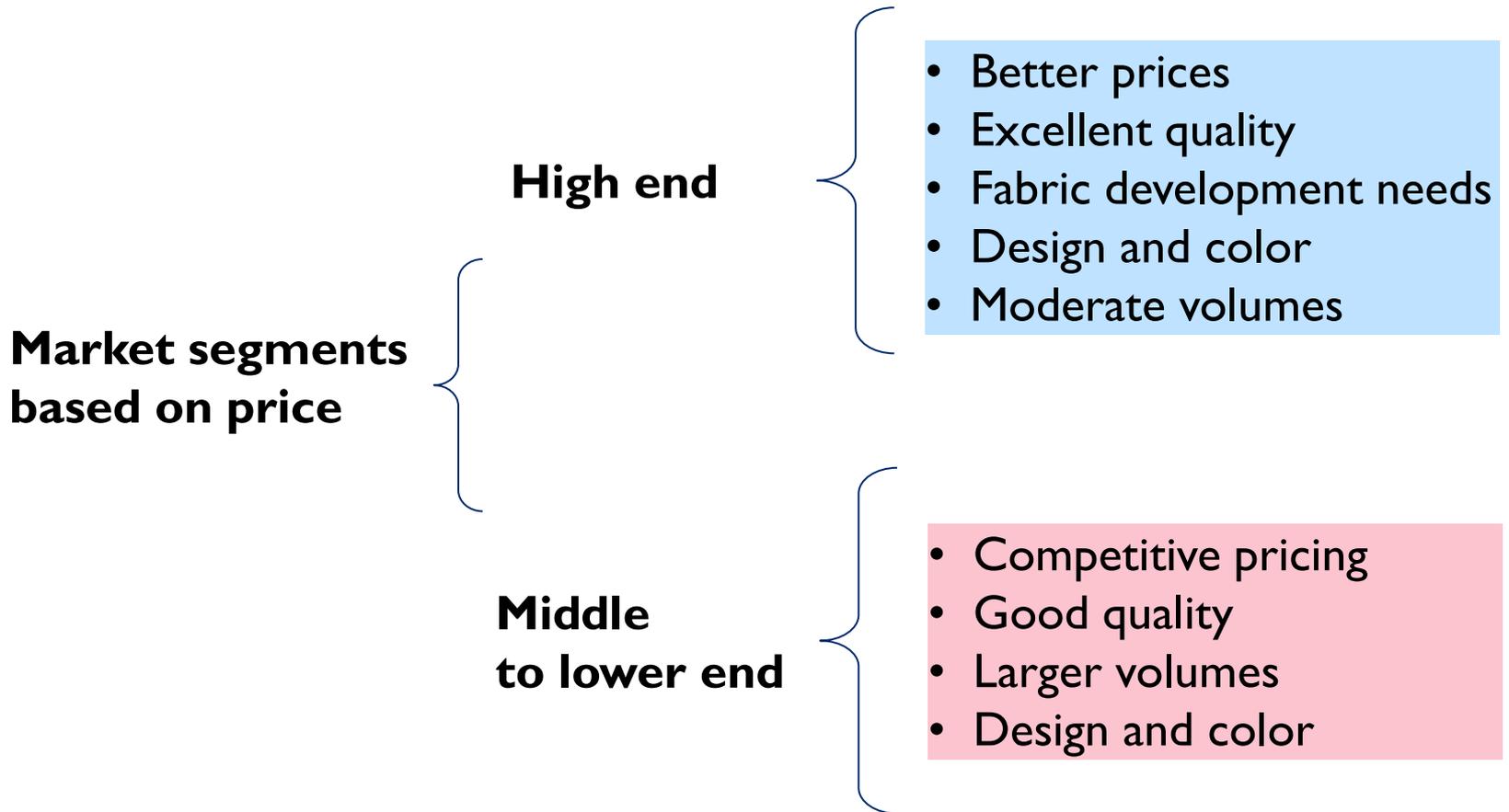
1. Desk-based market research → Prices, competitors, COVID impact on firms and lead times
2. Corporate image → Benefits of buying from Africa – marketing: “speed to market”, “collaborative sourcing”, “AGOA” “Trust factor”
3. Contact, pursue and present → Global sourcing decision-makers (GDM)

4. Effective communications → Virtual introductions, zoom meetings and timely responses
5. Sample opportunity → Lead time & quoting
6. Feedback → Adjustment service, quick response and communications

12 steps to reaching a buyer in the U.S. market cont.

- | | | |
|--|---|--|
| 7. Final quoting | ➔ | Pre-negotiation, FOB or LDP |
| 8. Factory profile (<i>not all buyers</i>) | ➔ | Vendor compliance |
| 9. First order | ➔ | Pilot order, time and action |
| 10. Purchase order | ➔ | Incoterms and payment conditions |
| 11. Production | ➔ | Quality, just-in-time, speed to market service |
| 12. Reorders (<i>long term relationship</i>) | ➔ | Access and loyalty |

Targeting a specific market segment



Effective selling

- Promotion: Information  market trends
- Market segmentation (sales strategy)
 - Department Stores: Saks, Macy's
 - Discount Stores: Walmart, Target
 - Mass Merchandisers: J.C. Penny, Sears
 - Soft-lines: The Gap, J.Crew, Banana Rep
 - Hardlines: Nautica, Nike, Old Navy
 - High-End: Polo, Tommy, Jones, DKNY
 - Designers, boutique chains, catalogue sales



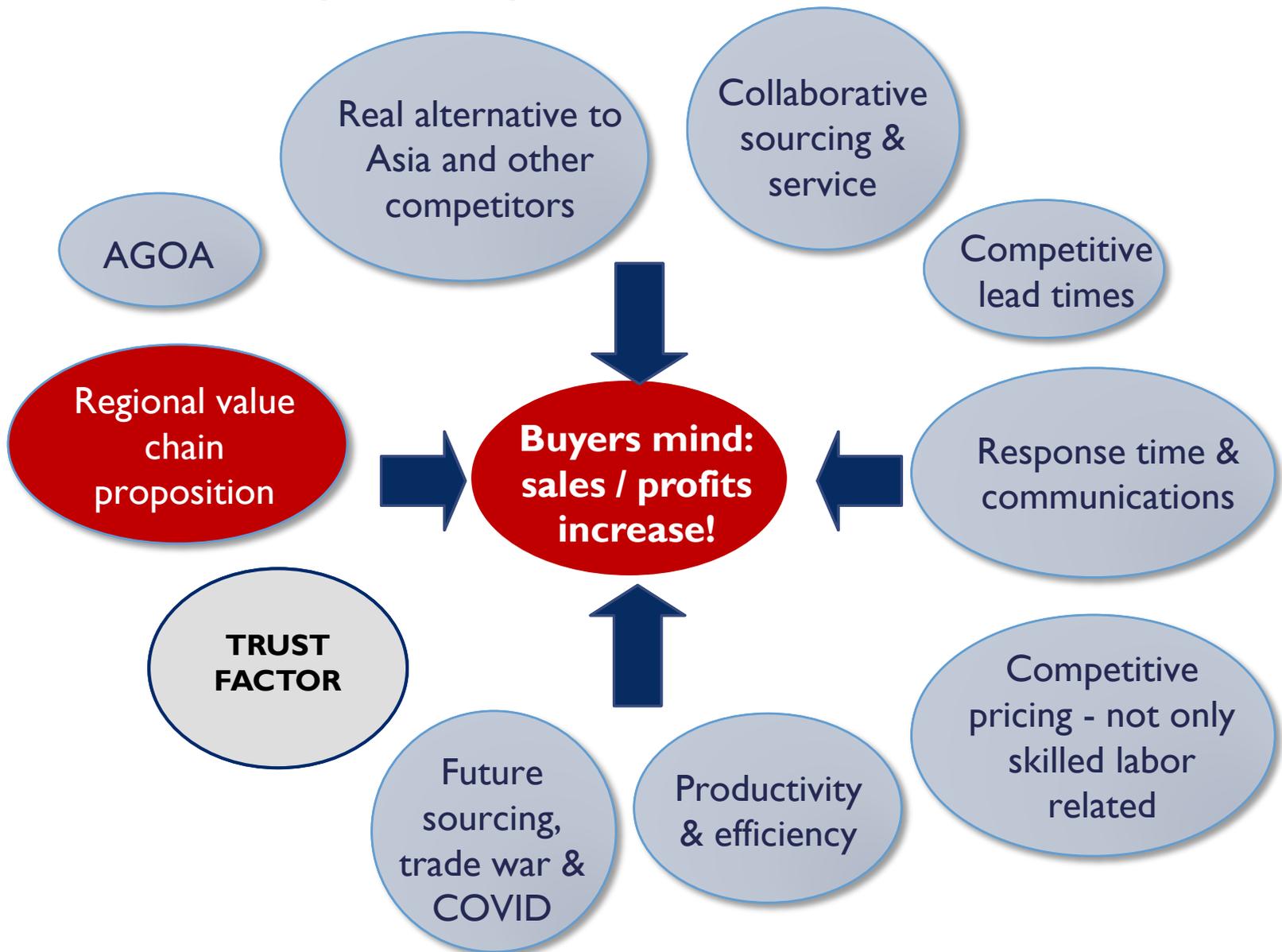
Benefits of buying from Southern Africa

- Building a corporate image strategy
- Develop marketing tools and factory profile
- Reduce impact of buying offices – USAID TradeHub image and role
- Full package service available
- Market access conditions and transportation lead times
- Quicker deliveries: QR or BSR programs
- Competitive pricing
- Speed to market



Remember: New buyer is the result of changes in their current suppliers.

Understanding the buyers' mind



Remember: Accessing a new buyer is the result of replacing current suppliers

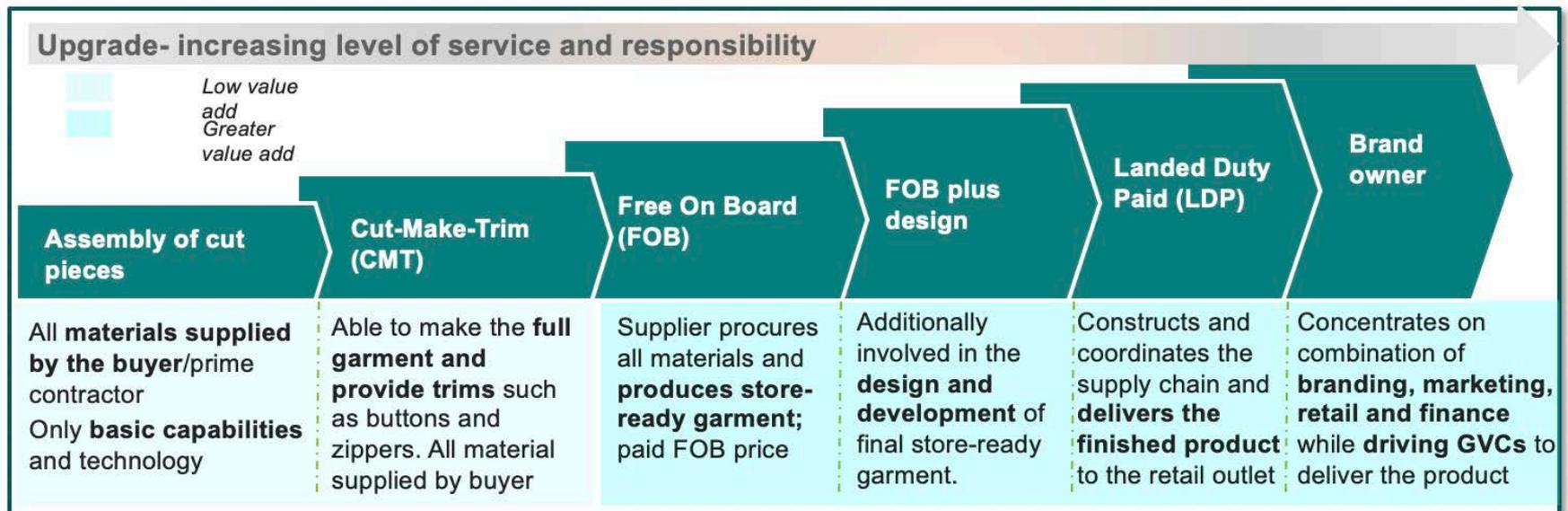
“The apparel business is not only about products, is about **service to the client** so they can trust their business to the country and the selected factory”

A few industry insights

- Most companies looking to a diverse sourcing base
- More companies are using USMCA (65 percent), CBTPA (58 percent) and AGOA (50 percent) than in the past two years
- 60.7% of US buyers currently sourcing from 10+ different countries or regions
- The near future: market in slow recovery due to COVID
- US companies are feeling cautious and are looking to diversify sourcing
- AGOA is underutilized but companies are beginning to understand the regional value chain and competitive advantages.
- Global consumption of apparel reached 11.4 kg per capita. The U.S. has the highest demand for apparel, amounting to 37.6 kg per capita, followed closely by Europe (31.21 kg) and China (1.08 kg)
- Trade relations between the U.S. and China have been under pressure for 2+ years, providing good momentum for Africa to enter the U.S. market. China is being replaced by other suppliers around the world.
- AGOA countries are gaining trust and reputation. Several major buyers are already in the region.

What would success look like?

- A vibrant manufacturing sector with an export culture into the West, East and Southern Africa region
- Enhanced textile industry adding value to cotton lint, yarn mills and supplying new investments in fabric production for export and local industry
- Large scale export orientated garment factories potentially employing tens of thousands of workers
- Many countries kickstarted their CTA value chain through the garment export industry (CMT)
- Once scale is achieved backward linkages occur naturally
- As the industry matures it moves from CMT to full-service package delivery resulting in additional value add



The garment factory development dynamic



**THE MARKET IS
POSSIBLE**

Thank you for your attention

Feel free to contact me if you have further questions

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