SEAMS Member Buhler Quality Yarns Discusses
The Apparel Industry's Importing Myth Start to Show Cracks

Most apparel brands and retailers would love to manufacture their clothes closer to home. If the costs were equal, sourcing nearby would be a no-brainer. Along with shorter lead times that enable you to respond faster to unpredictable demand, manufacturing closer to your market also reduces supply risks, improves communication, encourages innovation, and supports your local economy.

Of course, brands will say, costs aren't equal—it seems significantly cheaper to source overseas, and companies may feel like they have no choice. Surprisingly, the exact opposite is often true: manufacturing apparel closer to home can cost less and improve profits over the long run. Read on to see how the importing myth crumbles under serious scrutiny—complete with calculations to back up this counterintuitive insight.

Long Lead Times Can Create Unseen Costs When you take a step back and calculate the costs of long lead times in a market increasingly defined by volatile, uncertain demand, manufacturing overseas can hurt more than it helps.

While it may cost more upfront, sourcing closer can offset that premium and generate more profits over time via responsive retail that reacts to demand, reducing discounts and stock outs. Apparel brands that assume everything needs to be outsourced overseas make a penny-wise, pound-foolish mistake that sacrifices long-term gains for short-term savings.

In the past, brands dealt with lengthy lead times by relying on brand loyalty and advanced projections that tried to predict demand. But more and more, loyalty is deteriorating and projections are off the mark. With the rise of online shopping and fast fashion, there are simply too many confounding variables to account for—hot trends can catch fire overnight, unstable weather patterns can defy your seasonal schedule, and once-popular colors can become passé in an instant.

Instead of getting hamstrung by long waits and leaving money on the table, you can pay a small premium to source near and cut your lead times in half—allowing your brand to capitalize on trends and pull in more profits.

But don't take our word for it. The COTTON USA Sourcing Program, working with WWA Advisors, pioneered research earlier this year to develop a metric for the value of time for the apparel industry. It features the research of Suzanne de Treville—Professor of Operations at the University of Lausanne and Visiting Professor at MIT's Sloan School of Management. Watch her brilliant explanation of the value of producing near demand in this quick video.

Crunching the Numbers: Four Scenarios You might be thinking this all sounds too good to be true. We're happy to show our work. The University of Lausanne provides a handy calculator to see how lead times and volatility can impact costs—showing how much more you can afford to pay for a faster speed-to-market.

We'll look at four scenarios to see how local sourcing can save you more—and why brands selling premium apparel in volatile markets particularly benefit from faster lead times.
Scenario A: Premium Product, Average Volatility

Let's say you're producing a knit top that retails for $50 that costs $8 to manufacture overseas (we'll ignore duty for simplicity, but it only helps our case).

Assuming a salvage value of $3.20, a 26-week lead time, and average volatility, you could afford to pay 16% more to source locally and cut the lead time to 13 weeks.

In other words, if you increased manufacturing costs from $8 a top to $9.28 and got the item in half the time, you'd break even—and if you secured a lower local price, you'd be bringing in extra profits.

Scenario B: Premium Product, High Volatility

What if we took the same scenario, but assumed that demand was more volatile—as it so often is in the apparel industry?

Suddenly, you can afford to spend up to 32% more to source closer while still breaking even—i.e., you can pay up to $10.56 locally instead of $8 overseas for the same profits, and capture even more profit for every cent you can go under that local target price.

Scenario C: Inexpensive Product, Average Volatility

Granted, local sourcing doesn't make sense for every item. When it comes to cheap, everyday staples—say, a plain white t-shirt—manufacturing overseas might be the right move.

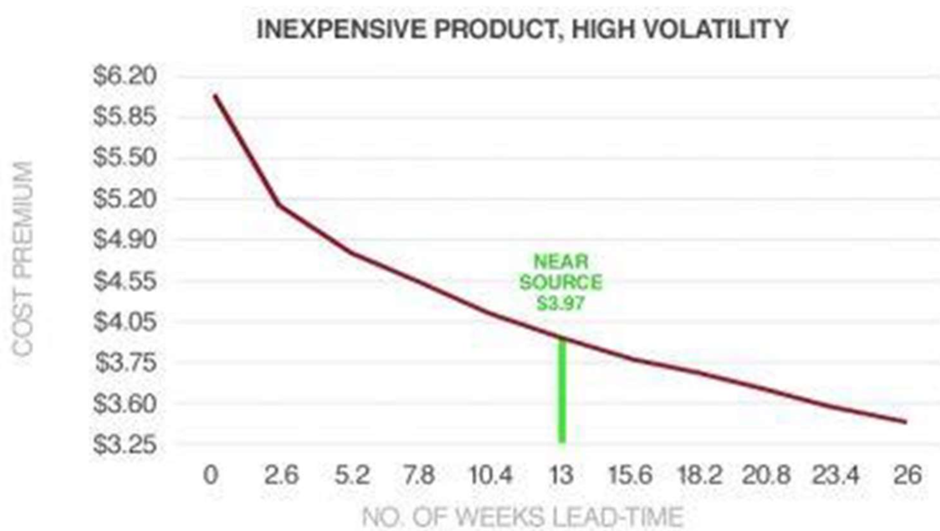
The margin for acceptable cost premiums gets tighter with less expensive items and more predictable demand.

Let's see what happens if you're retailing a top that sells for $9, costs $3.25 to produce overseas, and has a residual value of $1.30.

As you can see, you can only afford to pay 11% more to break even—and with a manufacturing target cost of $3.61, you likely won't be able to find a local supplier.

Scenario D: Inexpensive Product, High Volatility

However, if you're dealing with a highly volatile cheap product—think colorful, trendy graphic t-shirts instead of plain white ones—local sourcing may still be the best choice.



In a volatile market, you can now afford to invest 22% more to halve your lead time, paying $3.97 here instead of $3.25 overseas.
Too often, volatility is an overlooked aspect of overseas manufacturing—one that incur major costs in today's fast fashion ecosystem. As more apparel brands start accounting for this new situation, we're seeing the import myth begin to crack and crumble.

More Reasons to Make It Here

Finally, the above calculations don’t even include all the additional risks inherent in outsourcing that can hurt your business—like geo-political instability, weather disasters, and shipping line disruptions like we’ve seen with Hanjin.

These often-ignored risks could raise the long-term costs of overseas sourcing by up to 10% or more—to say nothing of all the benefits of local sourcing that we listed at the top of this piece.

The moral of the story? A little long-term thinking can go a long way for savings, profits, and the success of your apparel brand. Contact Buhler to learn more—we’ll help you run your own calculations, understand your volatility risks, and take steps towards a more responsive supply chain.

Contact us and we’ll run the calculations for you so that you can understand your volatility risks.

David Sasso
Buhler Quality Yarns
Email: dsasso@buhleryarns.com
Tel. 706 367-3931