

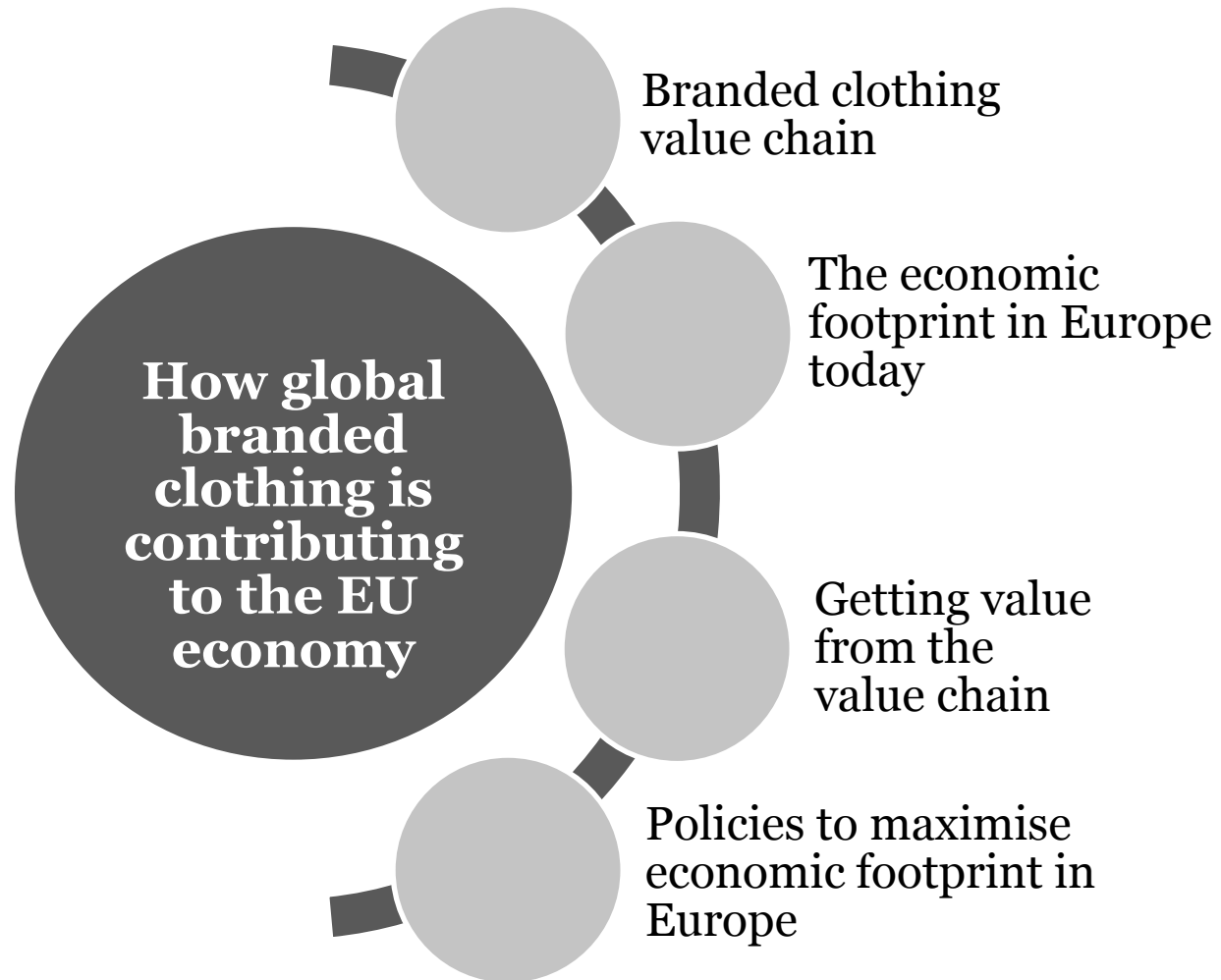
Unchaining the global supply chain

**EBCA Presentation
23 April 2013**

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Unchaining the global value chain

Overview



Branded clothing – two main business models

Retail driven brand (vertically integrated)

- ‘Fast fashion’ directly to end consumers
- Own retail stores as a core activity
- Very short design cycles
- Very agile supply chain
- “Produce what is selling”

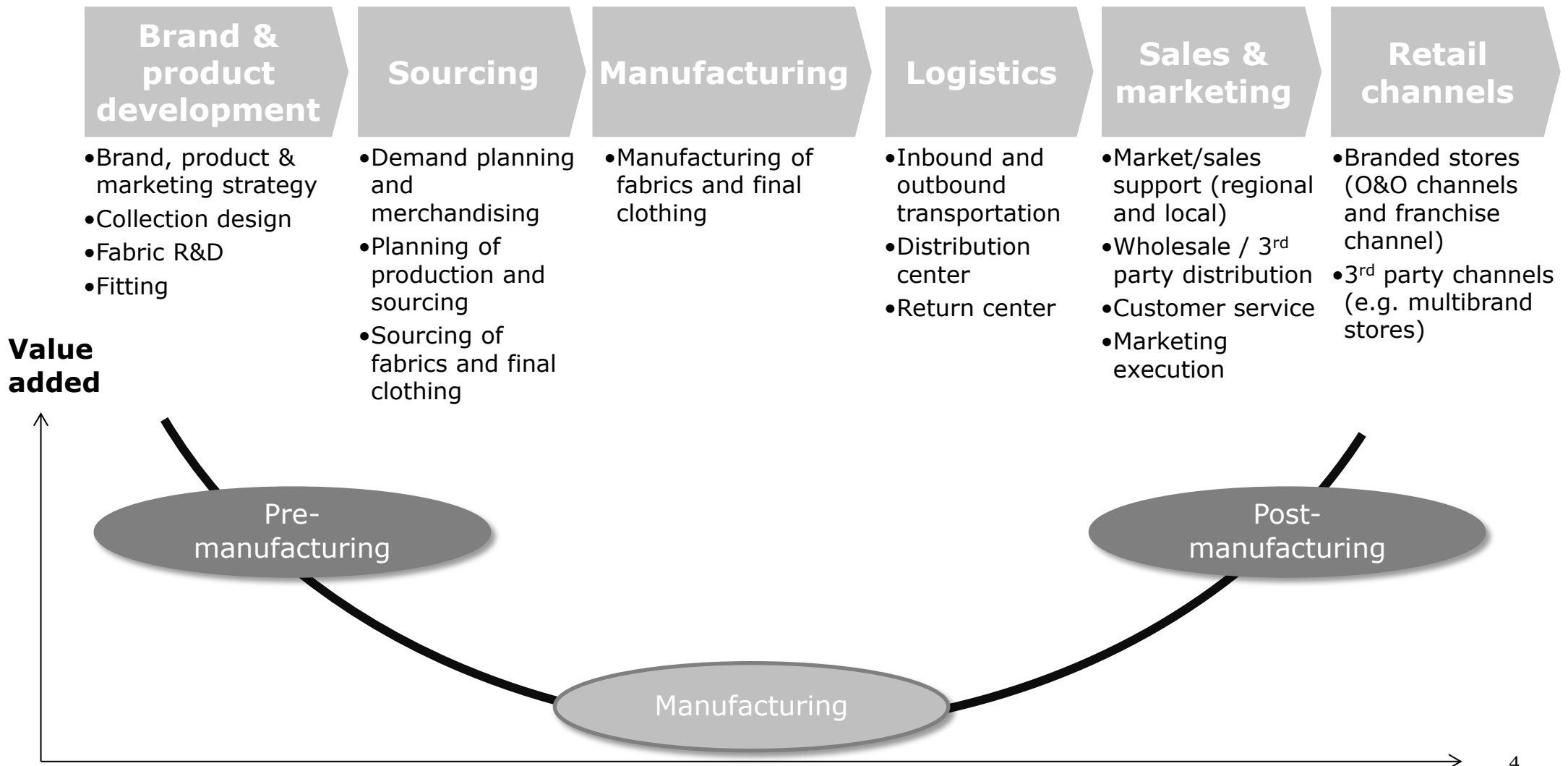
Examples Annual net revenue, billion €	Typical share in Europe (revenue) % of total revenue, 2011	Typical share in Europe (number of stores) % of total retail stores, 2011
Inditex (€14 bn)		
H&M (€12 bn)	70%-85%	~ 80%
Cortefiel (€1 bn)		

Design driven brand (wholesale/collection)

- Design and brand identity driven
- Wholesale is a core activity
- Seasonal design/collection cycles
- Supply chain set-up mainly designed to serve pre-orders on seasonal collections
- “Selling what has been produced”

Examples Annual net revenue, billion €	Typical share in Europe (revenue) % of total revenue, 2011	Typical share in Europe (number of stores) % of total retail stores, 2011
NIKE inc. (€20 bn)		
VF Corp. (€7 bn)	20%-25%	<i>Not available</i>
Ralph Lauren (€5 bn)		
Levi Strauss (€4 bn)		

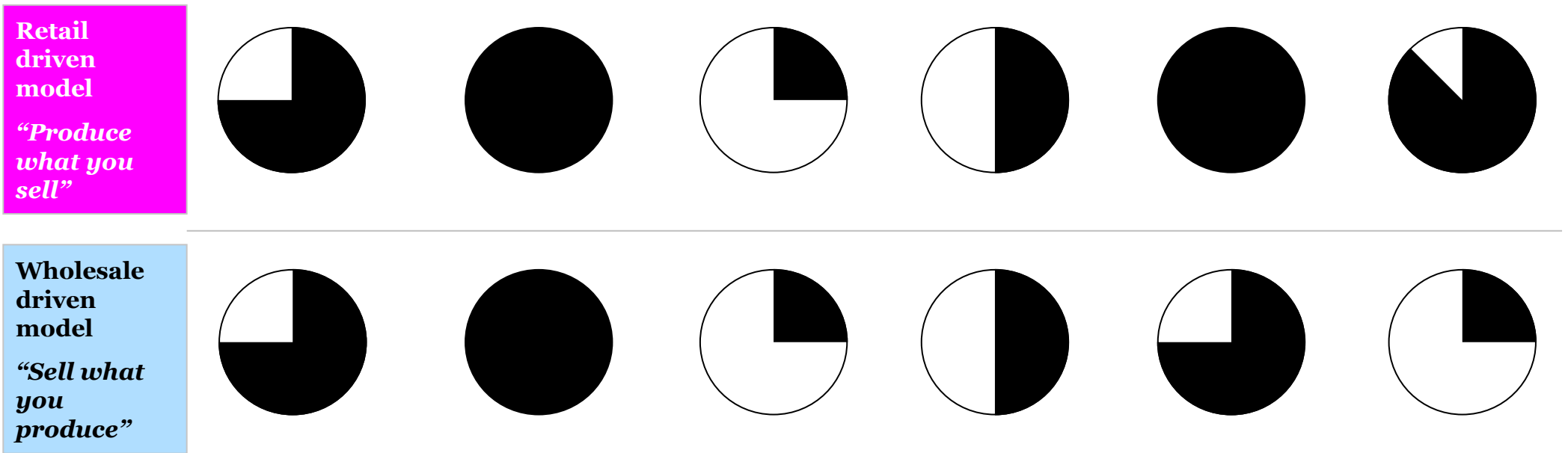
Branded clothing value chain



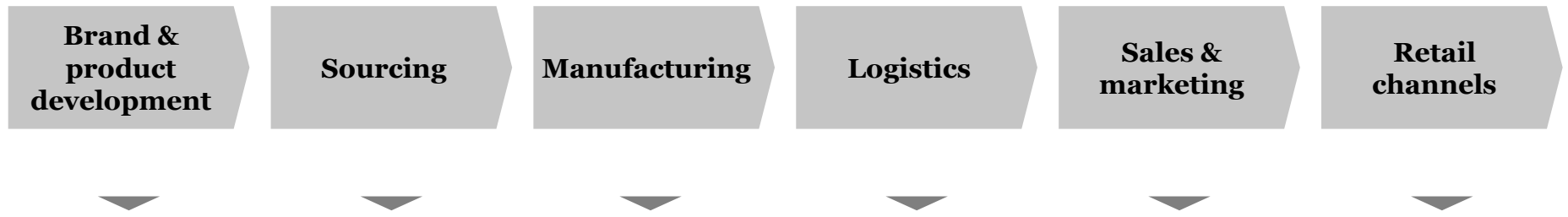
Inside or outside the branded clothing firm? Sourcing patterns in the value chain



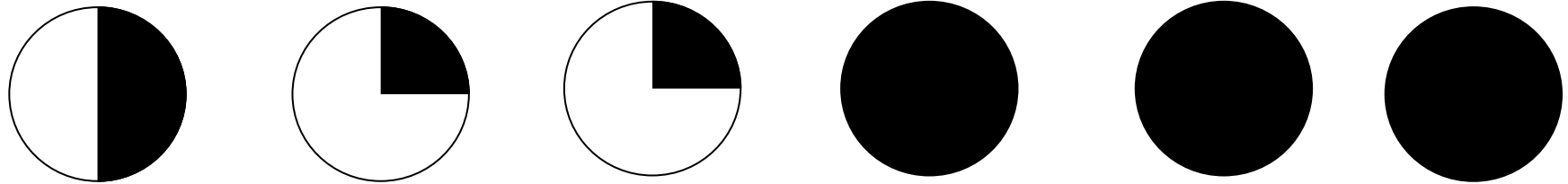
In- and outsourcing of key activities for global branded clothing



Geographical location Sourcing patterns in the value chain



**Geographical
location of
activities**

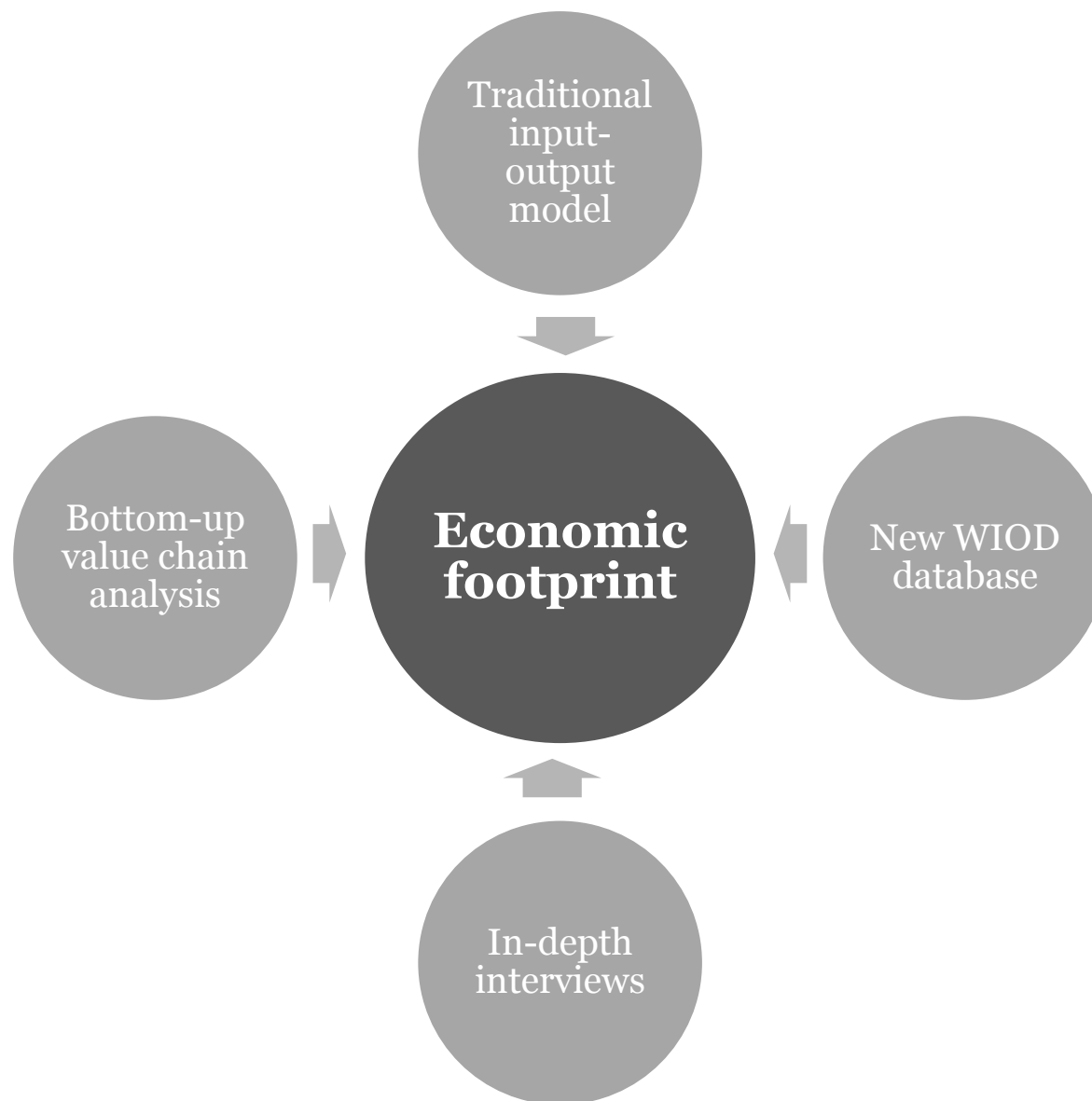


● = Fully EU

○ = Fully outside

Our approach

Quantifying the economic footprint



Branded clothing

Key economic findings

Economic footprint

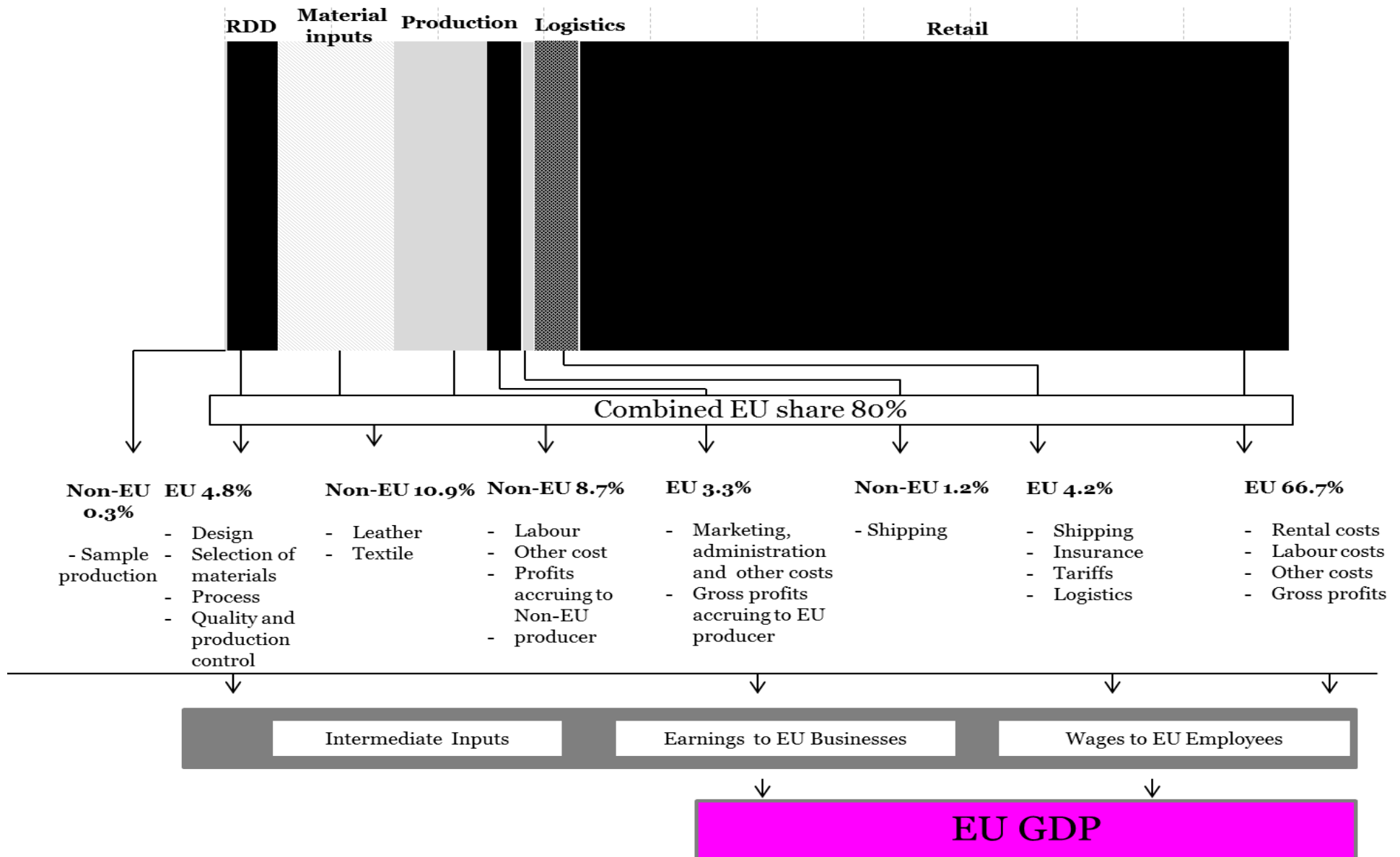
- 4 million jobs in total in the EU throughout the value chain
- 2.4 percent contribution to GDP
- 50-80 percent of value added stays in Europe

Impacts beyond GDP

- Lower prices to consumers (27 pct. drop)
- Less spending on clothing and footwear (6.5% -> 5.2%)
- Partly trade liberalisation, partly global value chains
- Benefits of trade liberalisation are passed on to consumers (on avg. around 60%)
- **27 pct. lower price for clothing is equivalent to a 1.6 percent increase in real wage**

Example

Value added from a pair of women's shoes



Key location factors

Key factors driving choice of location for sourcing and manufacturing

- 1 Manufacturing capacity
- 2 Competences & Quality
- 3 CSR compliance
- 4 Speed & flexibility
- 5 Cost of labour
- 6 Fabric availability & prices
- 7 Trade policies
- 8 Reliability & robustness
- 9 Infrastructure & Logistics



How trade policies are affecting value chains

Trade barriers and policies affect...

Choice of where to source from and to locate manufacturing

Decisions of capacity investments

Uncertainty from pending legislation

Product design around technical barriers to trade

Overhead costs as e.g. EU and US trade agreements differ

Some products will not be offered

Some products become very expensive



- **Value chain already complex**
- **Trade barriers add costs and complexity**
- **Higher costs to consumers**
- **Less value added in Europe**

Trade policy

Maximising the benefits for Europe

Improving EU trade policies by...

- **Reduced tariffs**
- **TDI reform**
- **Reduction in technical barriers to trade**
 - **Certification**
 - **Labeling**
 - **Testing requirements**
- **Harmonization of bilateral FTAs**
- **More flexible RoO**
- **No reintroduction of quantitative quotas**

...will have positive impacts from branded clothing in EU through...

- **More efficient manufacturing and supply chain**
- **More price competitive product offering to end consumers**
- **Increase the companies' competitiveness both in EU and in other regions where price competition is tough**
- **Expand the labour intensive and high value added activities in Europe e.g. distribution centers, sales organizations and sales channels (stores)**
- **Strengthen investments in innovation e.g. in product design and innovation and in sales channels innovation**
- **Strengthen company profitability and enable increasing investment and growth both in EU and globally**