# Suppliers Pressured by Sales Slowdown

**by Ross Tucker, WWD Tuesday, November 10, 2009**

Apparel importers are looking to their suppliers to provide greater value and efficiency as they confront a challenging holiday season and an anticipated slow rebound in consumer spending.

During last week's annual Textile and Apparel Importers Trade and Transportation Conference in New York, speakers at all levels of the supply chain indicated that most of them were treading water as they awaited a significant change in the consumer psyche. At the same time, brands, retailers, suppliers and logistics providers were aware that the depressed business environment could drag them under before that moment arrives.

"This recession has taught us one thing – consumers are consuming less and saving more," said Janet Fox, director of sourcing at J.C. Penney Co. Inc and chairman of the U.S. Association of Importers of Textiles and Apparel.

Fox said the recession has already cost some 800,000 jobs in the retail sector and driven down retail sales in the U.S. to levels below what they were five years ago. Among the few winners have been warehouse clubs such as Sam's Club and Costco, which pulled in consumers because of the higher perceived value of buying in bulk. Despite some evidence of economic stabilization, Fox said the warehouse shopper has stayed put.

Fox said Penney's has seen its mall traffic level off, but the expectation is that the overall situation will improve only incrementally.

"Consumers are still wary of what's going on," she said.

Fox said many retailers, Penney's included, have been forced to pull back on their expansion plans.

"A lot of new stores that were scheduled to open, we're not going to open this year," she said.

Instead, Penney's has opted to focus on renovating stores and finding ways to build sales in existing units. As a result, brands and retailers are letting suppliers know that they can't accept any cost increases.

Suppliers are touting their advantages in areas such as low labor rates and speed to market.

Jesus Juan Canahuati, founder of Elcatex in Honduras, discussed opportunities for sourcing in Central American countries. He said about 75 percent of all Central American exports are bound for the U.S. As brands and retailers have drastically cut inventories, speed to market has taken on even greater importance and given Central America the advantage of proximity.

"I think Central America is good because we don't compete with high-tech industries (for labor)," Canahuati said.

He has recognized the need to improve his own business to provide better service and gain efficiency. Much of that has come through considerable investments to reduce the environmental impact of his facilities.

"Being socially responsible, a lot of suppliers are going this directions and it's the right way of doing business," he said. "Also, it's the right way to compete."

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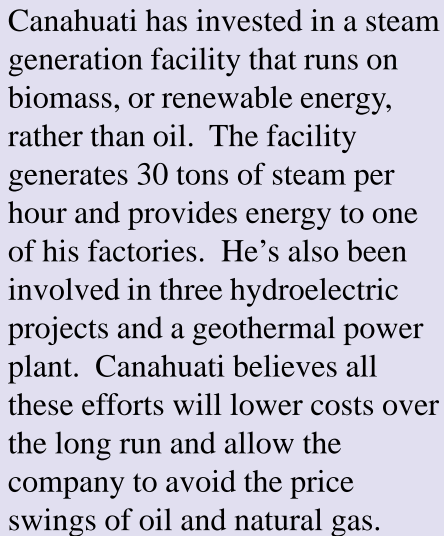

Canahuati has invested in a steam generation facility that runs on biomass, or renewable energy, rather than oil. The facility generates 30 tons of steam per hour and provides energy to one of his factories. He's also been involved in three hydroelectric projects and a geothermal power plant. Canahuati believes all these efforts will lower costs over the long run and allow the company to avoid the price swings of oil and natural gas.

"Environmental sustainability is important, you have to put it in your agenda," he added.

The biggest opportunity for growth rests in China, said John Cheh, chief executive officer of Esquel Group. China is in the midst of a transformation that will see it become less reliant on exports, he said. Retail sales in the country are up 16 percent to 17 percent this year and have maintained double-digit growth throughout the global financial crisis.

The country has maintained its growth rate largely because of a $600 billion government stimulus plan devoted to public works projects and improving highways and railroads. Given the government's strong backing, Cheh said, it's unlikely China will miss its growth targets.

"The huge expected growth in China's middle class and the money they're expected to spend is staggering," Cheh said. "These trends are indisputable and are a huge opportunity."

Ocean carriers such as Maersk, APL Lines and Hanjin Shipping may face the tightest squeeze because of overcapacity of ships and containers. Apparel importers could continue to enjoy low freight rates as a result, but the risk of consolidation and bankruptcy are on the rise.

"There are too many ships chasing too many containers," said Robert Sappio, senior vice president of Pan American trade for APL Lines.

Ocean carriers have taken as many steps as they can to alleviate overcapacity, he said. Ships have been scrapped, slowed down, idled for months and had their service patterns altered. Companies are also delaying the delivery of new ships. However, about 10 percent of the world's container fleet is already idle. Sappio recently returned from a trip to Singapore where he got a firsthand account of the some 500 ships parked in the waters around Indonesia.

"That number of idled ships will continue," Sappio said.

He also pointed out the failures among ocean carriers to maintain freight rates at a level that would ensure survival, particularly Trans-Pacific rates.

"Rates fell to ridiculous levels last year and frankly, the carriers were their own worst enemy," he said.

Rates in 2009 have been at 10-year lows, but carriers' expenses have gone up. The cost of ship fuel is around $470 per metric ton compared with $250 last year. Fuel represents more than 50 percent of ship operating costs. A vessel carrying 5,000 containers can burn 170 to 180 metric tons, or some 60,000 gallons, of fuel oil a day.

William Rooney, president of Hanjin Shipping America, said Hanjin has cuts its trans-Pacific capacity by 15 percent, laid up 14 of its ships and delayed delivery on 10 more.★