

GLOBAL SOURCING OF READY-TO-WEAR GARMENTS

A CASE STUDY: VIETNAM AS SOURCING MARKET FOR
NAISTEN PUKUTEHDAS OY

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ABSTRACT

This thesis is a single case study that analyzes and evaluates Vietnam as a sourcing market of ready-to-wear garments for Naisten Pukutehdas Oy. The main purpose of the study is to analyse whether Vietnamese garment suppliers generally can meet the requirements and criteria of the case company.

The theoretical part introduces background information about the apparel industry. It is one of the most global industries of the world and has production in mostly developing and least developed countries. Its consuming markets are mainly in developed countries. Global sourcing has been increasingly a common practice in the industry. The industry is also featured with rather intense competition, both in retailing and producing. However, not all the supplying markets are suitable for every buying firm. Instead, the supply market has to be analyzed carefully before a sourcing decision is made. The criteria that the buyers have to consider are cost, product quality, time-to-market, and country factors.

The empirical part of the study is conducted using qualitative method, including both secondary and primary data. Secondary data are collected through contemporary reports and articles. Primary data are gathered through interviews and field observation. The conceptual model guiding the collection of data is derived from the reviewed theories.

The case company is interviewed for their requirements and criteria regarding sourcing location. The most important issues are ranked as product quality, time-to-market, country factors, and finally cost. Vietnamese garment industry is currently competitive in low market segments though the product quality is satisfactory. The industry is expected to grow further into higher value added production in the near future.

It is concluded that Vietnam is currently not a potential supplier for NP. However, the company is recommended to keep on closely monitoring the development of the country in the future as it is expected that the market develops fast and therefore becomes an attractive source of garments. In addition, fashion accessories are the potential items which NP is recommended to work with Vietnamese suppliers.

Keywords: Naisten Pukutehdas Oy, global sourcing, apparel industry, Vietnamese garment industry, sourcing criteria.

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GLOSSARY

AGTEX	Ho Chi Minh City Association of Garments, Textiles, Embroidery and Knitting
Apparel	Clothing or Garments
CBI	Centre for the Promotion of Imports from developing countries
CMT	Cut, Make, Trim
EA	East Asian
FOB	A term used in apparel industry which indicates the full package contract. Under this contract, the contractors usually must take care of all the manufacturing process, including making patterns, samples, finding the required materials as well as delivering the finished garments to buyers.
Fabric	Any cloth made from yarn or fibres which is raw material for making clothes
GSO	General Statistic Office of Vietnam
MFA	Multi-Fibre Arrangement
NP	Naisten Pukutehdas
PROMOCEN	Export Promotion Centre which is a Vietnamese governmental agent aiming to promote Vietnamese exports

SITC	Standard International Trade Classification which is a product classification of the United Nations used for external trade and allows a comparison to be made on a worldwide basis
SOEs	State Owned Enterprises
SMEs	Small and Mid-sized Enterprises
Textile	Of or relating to fabrics or the making of fabrics
VCCI	Vietnam Chamber of Commerce and Industry
VITAS	Vietnam Textile and Apparel Association, a non-governmental, non-profit organization that represents the interests of all textile & apparel businesses in Vietnam.
VND	Vietnamese Dong
Thread	Used in needlework and the weaving of cloth for making garments
WTO	World Trade Organization

1 INTRODUCTION

This study is conducted for a Finnish company operating in the apparel industry, Naisten Pukutehdas Oy (NP). The company currently sources its clothes mainly from China but the company is monitoring other potential supply markets. The purpose of this study is to analyse and evaluate Vietnam as a new sourcing destination for the case company.

Global sourcing has been a mainstream activity in apparel industry since the 1950s. Today apparel industry is one of the most global sectors of commerce with manufacturing and marketing activities scattered around the globe (Dickerson 1999, 5). It is very common that a retailer locating in Europe have their clothes sewn in China with fabrics from Korea or Japan.

In fact, the apparel industry is part of a bigger production chain including fabrics production. The fundamental differences between apparel and fabrics production are the required level of technologies, investments and organizational sizes. The fabrics production requires far more capital and technologies than apparel. Thus, fabrics factories are much larger and more sophisticated than the ones manufacturing garments. The manufacturing of apparel, on the other hand, has always been labour-intensive and thus locates mostly in regions with cheap labour costs. Retailers and even manufacturers in developed countries increasingly arrange for these productions through sourcing activities and import the finished products back to the end-consumers in their countries. (Knutsen 2004, 551; Dicken 2007, 249-263.)

Since 1950s apparel production has been relentlessly driven by the need of retailers and manufacturers in developed countries to find cheaper labour costs, which creates four big waves of production migration (Gereffi 1999, 49). Each wave brought about new manufacturing countries with significant lower labour costs than the previous ones. The last wave has been taking place since 1990s with new suppliers from Southeast Asian countries. They are Bangladesh, Pakistan, Sri Lanka, Laos, Nepal and Vietnam. (Dickerson 1999, 167-168; Gereffi 1999, 49.) They have taken the leading roles in the global apparel industry of other countries

such as Thailand, Indonesia, and Philippines. Even China, the world's centre of apparel production, is losing its share in the US market due to the rising labour and materials costs (Just-style 2008; Kumar, Medina & Nelson 2009).

Vietnam just joined WTO in January 2007, which opened it to the free quotas system for garment exporting. Currently the country is among the world's top ten garment exporters, with export revenues at US\$9.1 billion in 2008 (VietNamNet Bridge 2007; YNFX 2009). The case company, however, has no experience with sourcing in Vietnam. Together with the global trend, Vietnam holds potential for the case company as a supplier of garments.

However, sourcing requires more than just picking up the country with lowest wage rates. Other factors related to company's strategy are also involved such as quality and time-to-market. Availability of fabrics in the sourcing country, either domestic or imported, should be examined as well. This is because they have direct influence on the performance of suppliers in that country.

1.1 Research objectives and questions

The aim of this study is to analyse and evaluate Vietnam as a sourcing market of ready-to-wear garments for the case company, NP. The purpose is to provide the case company with solid understanding of current Vietnamese garment exports as well as the future prospects of the market. This is because the company is monitoring new suppliers in order to maintain their current competitiveness in the long term as well.

In order to measure the potential of Vietnam as a sourcing market of ready-to-wear apparel, it is of essence to identify the case company's criteria in choosing sourcing location. These criteria are closely related to the company's competitive strategy in positioning their products. Hence, it is critical to identify the case company's competitive strategy in term of product, quality, and price. After establishing the criteria, they are reflected on the Vietnamese apparel industry in order to analyse whether the market meets those criteria. Also the future development prospects are within the scope of this study in order to give recommendations re-

garding the Vietnamese sourcing market to the case company in the long term.

Fabrics are the most important inputs for manufacturing garments and their availability has direct influence on total cost, quality, and time-to-market of the production of apparel. Therefore, it is also critical to evaluate the current situation and future prospects of fabrics availability in Vietnam.

This study is designed to answer the following question: Would Vietnam be a potential sourcing market for the case company? In order to answer this question, some sub-questions were established:

- What criteria are important for NP when choosing sourcing location?
- What is the availability of fabrics in Vietnam?
- Can Vietnamese suppliers meet the criteria of NP?

1.2 Research methods

This study is a single case study with an exploratory nature. The research approach applied in this study is inductive, which means that conclusions are made based on the data that is collected and analysed. This is different from the other common research approach, which is deductive. Deductive approach starts at a theory or hypothesis, a study or research is carried out to test the validity of that theory or hypothesis. (Saunders, Lewis & Thornhill 2009, 124-126.) The purpose of this study is to explore and conclude on the research question through literature and interviews.

The research method, therefore, is qualitative as Grauhi and Grønhaug (2002, 88) suggest that this method is generally most useful for inductive and exploratory research. Qualitative data refers to non-numeric data which can be obtained through interviews and written reports. In qualitative research the aim is not to measure statistically but to understand and interpret the reasons and meanings of the phenomenon. Hence, the researcher plays an important role in analysing the data in qualitative research approach. There are different techniques for carrying out a qualitative study, for example group interviews, structured interview, and participatory observation. (Saunders, Lewis & Thornhill 2009, 482; Grauhi &

Grønhaug 2002, 85-86.)

According to Yin (2003, 97), multiple sources of evidence and triangulation are required when conducting a case study. That is, two or more techniques should be used to gather data. The purpose is to gain a fuller understanding of the context. This study collects data from both secondary and primary sources. Secondary sources refer to information collected and published by other researchers. Primary data, on the other hand, is information collected by the researcher to answer the research problem at hand. (Grauhi & Grønhaug 2002, 76.) The methods for collecting primary data consist of semi structured interview, email interviews and field observation.

The empirical part of this study is conducted based on a conceptual model formulated derived from reviewed literature. The model is described and explained under chapter 5. More detailed information about the research methods and data collection is also discussed under chapter 5.

1.3 Thesis structure

The study can be divided into two separate sections: theoretical (chapter 2, 3 and 4) and empirical (chapter 6 and 7). The theory parts aim to provide readers with background information about the apparel industry in general, global sourcing in the industry, and especially the criteria that are often considered when choosing sourcing location. The empirical parts, on the hand, are conducted for the case company. The purpose is to evaluate whether Vietnam as a sourcing location meets the criteria for the case company.

Chapter 2 is a review about the apparel industry in the global economy. This chapter is divided into two sub headings: apparel production process and the global pattern of apparel production and consumption. The purpose of the chapter is to introduce the context of global apparel industry and the importance of sourcing in this particular industry.

As sourcing is an essential concept for this study chapter 3 gives a closer look at global sourcing in the apparel industry. The definition, benefits and risks, and the process of global sourcing are introduced. There are various motivations as well as risks facing firms in global sourcing. Hence, they have to consider carefully different sourcing strategies which characterized by different benefits and risks. The final decision for sourcing strategies is made based on each firm's specific competitive strategy. This chapter, therefore, also introduces different competitive approaches that firms in the apparel industry generally pursue. These approaches are later on applied in the case company of the empirical part.

Sourcing strategies include two dimensions, sourcing location and sourcing channels, which are also introduced in chapter 3. These dimensions together form the important criteria which are often considered by firms when choosing sourcing market. Therefore, chapter 3 is followed by a review of important criteria in choosing sourcing location given in chapter 4. There are four broad categories of criteria: cost, quality, time to market, and country factors. The significance of these criteria changes according to firm's competitive strategy. These criteria are used as a model for carrying out the interviews and analysing the supply market.

Chapter 5 explains in details the conceptual model which is derived from the theoretical part. This conceptual model is guidance for the data collection of this study. Under this chapter, the research methods and detailed data collection process are also explained.

Empirical part is a practical analysis of the case company and the country as a supply market, analysed under chapter 6 and 7 respectively. Chapter 6 aim to answer the question "What are the criteria of NP regarding their suppliers?". Under this chapter, the case company competitive strategies, requirements and criteria for sourcing market are discussed. Chapter 7 continues with analysis of Vietnamese garment industry. Under this chapter, the other sub questions "What is the availability of fabrics in Vietnam?" and "Do Vietnamese suppliers satisfy NP's requirements?" are answered. The idea is through understanding and comparing the case company's expectations and the country's performance, conclusion about the potential of the country as a garment sourcing location for the company is

made.

Chapter 8 finishes off the study with conclusion about the current performance of Vietnamese garment industry and some future prospects of how the industry will develop in the future. Based on those conclusions, several recommendations are given for the case company. Some ideas for further research are also given.

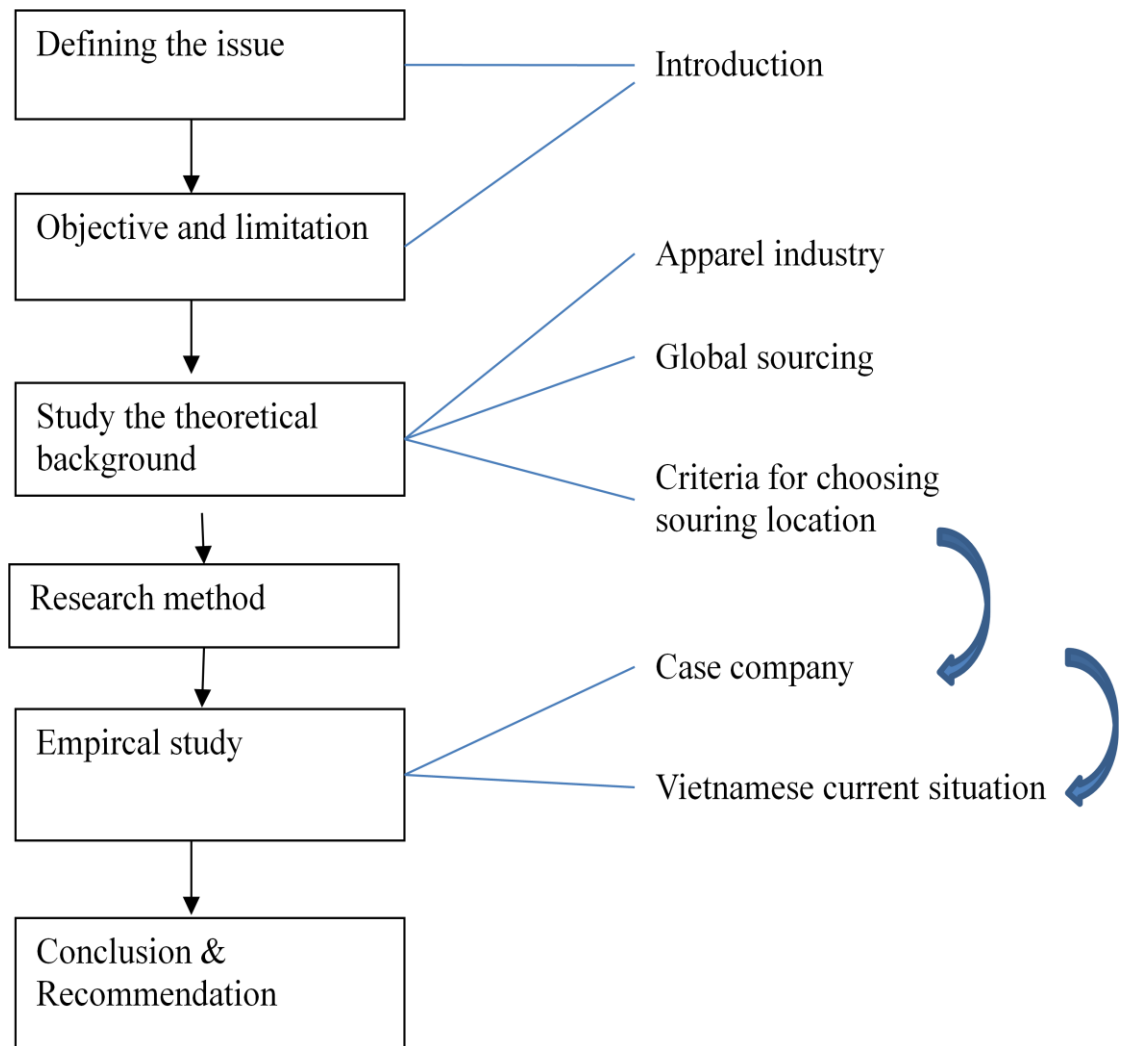


FIGURE 1. Structure of the study

1.4 Scopes and Limitations

This study restricts its analysis only on sourcing location which is the very first step of the whole sourcing process. After this first step, the sourcing process involves several other steps before the right suppliers are found. For example, A.T.Kearny's 7 steps model suggest the typical steps in the sourcing process, as shown in Figure 2.



FIGURE 2. A. T. Kearny's 7 steps strategic sourcing process (Clegg & Montgomery 2005)

After the first step, sourcing process continues with generating supplier portfolio, negotiating and selecting supplier, integrating new suppliers to firm's operations and continuously benchmarking the supply markets, as shown in Figure 2. (Clegg & Montgomery 2005.) The first step, however, is essential in the sourcing decision as it helps to understand whether or not the suppliers in that market are capable of serving the company's requirements.

In addition, the term sourcing handled in this study refers to sourcing of production of garment. It does not indicate other factors such as materials, components and services and these are not within the scope of this study. The terms apparel and garment are used interchangeably in this study. They have the same meanings which indicate an article of clothing.

2 APPAREL INDUSTRY

In order to identify the important criteria of sourcing strategies, it is of essence to understand the nature of apparel industry. Apparel industry is one of the oldest and most global of the world's economy, contributing greatly to the development of many countries (Dickerson 1999, 5; Gereffi 1999, 40). It is also a major source of employment in many countries (Dicken 2007, 250).

According to WTO, clothing is among the major products that forms an important component of global trade. In 2007 clothing exports represented around 2.5 percent of total world merchandise exports (WTO 2008). Although the value of clothing exports is not quite as significant as that of for example chemicals whose share was 10.9 percent in 2007, it is the largest source of industrial employment in the world due to its labour-intensive nature. The industry plays a particularly important role in some developing and least developed countries. In Cambodia, for example, jobs created by apparel industry contribute more than 80% of the country's manufacturing jobs. The figures for Mauritius, Sri Lanka, Bangladesh and Pakistan are 72.8%, 49.2%, 35% and 42.9%. Indeed, these countries have started to involve into the global economy by exporting clothes to the world's markets. (Dickerson 1999, 5; WTO 2008, 6; Wolfe 2009, 490.)

As mentioned earlier, the apparel industry is part of the textile and apparel production-distribution chain. At this point, it is vital to stress the difference and relation between apparel industry and other related industries. As shown in Figure 3, the chain starts with production of fibre, moves through textile manufacturing, goes to apparel industry and finishes with distribution sector (Dickerson 1999, 19).

As elements move forward as identified by the arrows in Figure 3, further value is added and finished garment is created at the end. There are companies operating at each level who buy products from the previous one and sell for the next level. Apparel industry is one of the customers of textile industry. The availability and quality of fabrics, therefore, have direct influence on the manufacturing of apparel. In addition to apparel, finished fabrics of textile industry are also used for

creating home textiles or industrial textiles. (Dickerson 1999, 19; Kunz & Garner 2007, 17.)

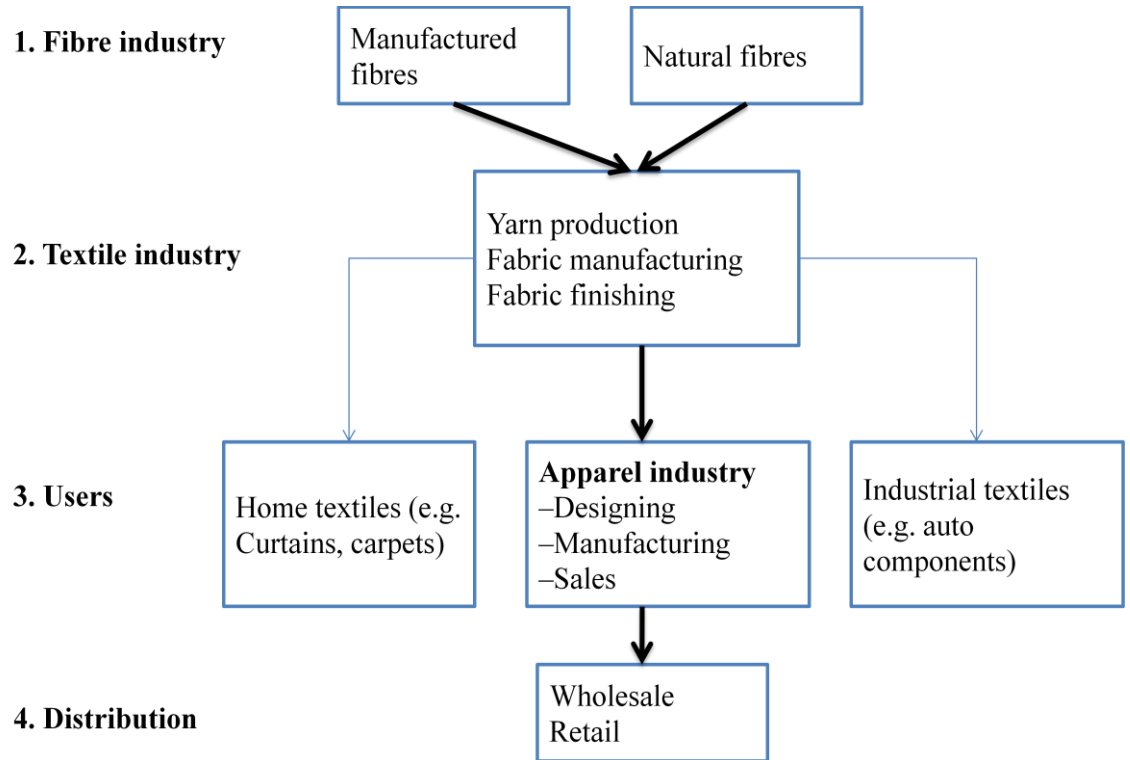


FIGURE 3. The textile and apparel production-distribution chain (Dickerson 1999, 19)

Stages 1 and 2 as shown in Figure 3 are often referred to as upstream activities. They include fibre and textile industries, where inputs for apparel industry are made. Then again, downstream activities are used to indicate stage 3, apparel production, and stage 4, distribution sector. (Dickerson 1999, 20.) Nowadays, there are large companies who can combine and operate in two or more industries, even both upstream and downstream. For instance, a company might have facilities to make yarn, fabric, and then perform the designing and sewing to create finished garments. Combining these activities is called vertical integration in the industry. (Kunz & Garner 2007, 18; Wolfe 2009, 68-69.) The upstream sectors require more investments in machineries and special knowledge from producers than the garment producing sector. Most part of the garment production process, on the other hand, is rather labour intensive. (Dickerson 1999, 168-169.)

Firms operating in the apparel industry face increasing competition and pressure from end consumers. Unlike in the past, consumers nowadays demand more variety, more styles, and lower prices. The life-cycle of products also becomes shorter as new fashion trends appear more frequent. Fashion leaders such as Zara are capable of making new styles available on the shop floor within two or three weeks (Fernie & Sparks 2009, 68). In addition, competition between apparel firms have accelerated since many large corporations have emerged and expanded their activities globally. Consequently, firms are pushed to constantly look for new cheaper sources of production and to make products available in less time. (Abernathy, Volpe & Weil 2006, 20; Mcnamara 2008, 7; Fernie & Sparks 2009, 83.)

Another trend in the apparel industry is that firms have increasingly applied the lean business model. This means that they focus their resources on core activities such as designs, sales, and marketing. Other activities in the supply chain are outsourced as much as possible to other suppliers. (McNamara 2008, 7.)

2.1 Process of apparel production

The production of apparel starts with the designing process when new ideas for styles evolve. The ideas are then developed into patterns and samples. Through correcting several times, final patterns and samples are accepted for mass production. Materials are also specified and purchased to prepare for the production process. These materials are all the inputs for finished garments including, for example, fabrics, threads, buttons, and lining. Fabrics are the most important of all the necessary inputs; sometimes they even provide designers with inspiration for new styles. (Jackson & Shaw 2001, 130-134.) Further information on the steps of garment production can be found in Appendix 1.

The actual garment making includes cutting fabrics, sewing them together, and other finishing activities such as washing, inspecting, and attaching labels. The finished garments are then stocked and distributed to end customers. (Wolfe 2009, 201.) Figure 4 below demonstrates clearly the activities of the garment manufacturing process.

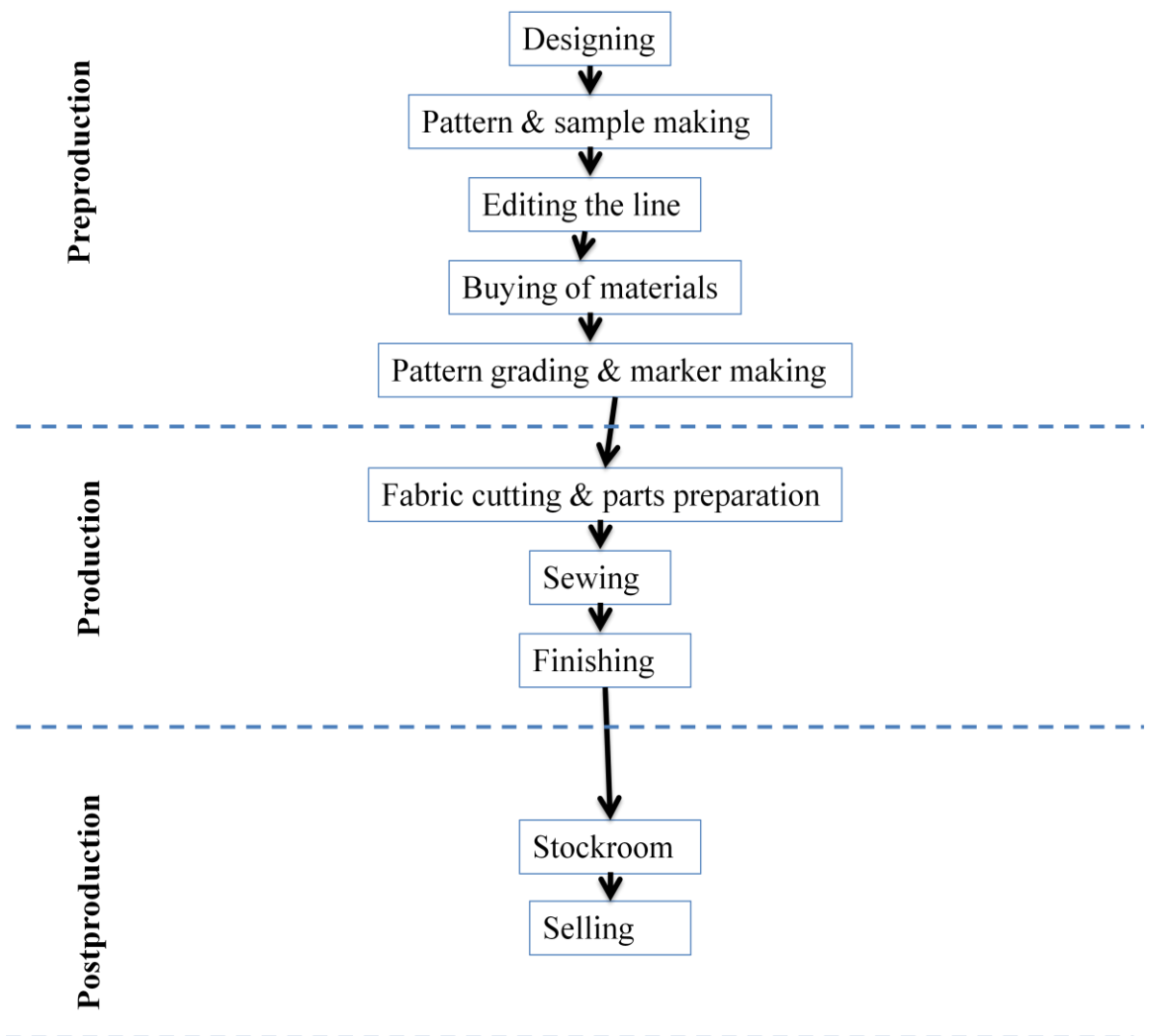


FIGURE 4. Flowchart of Apparel manufacturing (modified from Wolfe 2009, 201)

The production process as shown in Figure 4 is rather labour intensive, especially the sewing and assembly activities. Indeed, there have been little technologic developments which apply for the production operations; they remain rather labour intensive just like in the early days of the industry. According to Gereffi and Memedovic (2003, 24), the labour costs account up to 60 percent of clothing production costs. Most of the technological changes in the apparel industry have taken place in the non-sewing operations such as the preproduction stage, as shown in Figure 4. (Dicken 2007, 258.)

The productions of apparel nowadays involve quite a large number of firms ranging from small private enterprises to large multinational corporations. The industry is also scattered around the globe. That is, the preproduction activities are often performed by apparel firms in developed countries with modern technologies. They then let the actual sewing and assembly activities to be carried out in developing countries with cheaper labour costs. Therefore apparel firms in developed countries have increasingly significant role in shaping the geographic locations of the apparel manufacturing as they get to decide where to have their garments produced. Thus, the apparel industry is often referred to as a buyer-driven commodity chain. (Gereffi 1999.)

Gereffi (1999) divides the apparel firms in developed countries into three categories:

- Branded marketers
- Manufacturers
- Retailers

Branded marketers are firms whose brands are highly famous but perform no production at all. Some examples are Nike and Reebok. Branded marketers appeared in the middle of 1970s and were among the early initiators of global sourcing. Their core businesses focus on designing and marketing the brands. Otherwise, they do not perform any production activities. Everything is outsourced, even including some of the pre production activities such as patterns and samples making. (Gereffi 1999, 46-47.)

On the other hand, apparel manufacturers were primarily engaged in the whole garment making process from designing, to production, and distribution. Retailers used to be apparel manufacturers' customers. However, since 1950s competition in the retail markets of developed countries increased due to cheap clothes imported from Japan. This has driven a significant number of retailers to look for cheap overseas apparel manufacturers to survive the fierce competition. Gradually they are actively involved in creating the designs, fabric selection and merchandising. Their productions are often outsourced in developing countries. (Kunz & Garner 2007, 21; Gereffi 1999, 45-46.)

A similar trend has taken place for apparel manufacturers; many of them have gradually increased their activities offshore. Some firms have moved their production abroad. Some firms supply all the inputs required and use foreign contractors for sewing the garments. Others outsource totally the production of apparel to focus their resources in product development and marketing activities. Retailers have gradually become competitors of apparel manufacturers. (Kunz & Garner 2007, 21; Gereffi 1999, 48.)

2.2 Global pattern of apparel production and consumption

As mentioned, most of the production is performed by firms in developing countries, with specifications and designs by apparel firms in developed countries. Large proportion of world's apparel consumption, on the other hand, takes place in the developed world (WTO 2008).

Regarding the apparel production, Asian countries are now dominating the world in clothing manufacturing. More than 52% of world garments have their origins from Asia in 2007 (WTO 2008).

TABLE 1. Clothing exports of selected regions (WTO 2008)

Regions	Share in world exports (%)	
	2000	2007
Asia	46	52.4
Europe	32.6	35.4
South and Central America	5.9	3.6

The current leading position of Asia in clothing exports is the result of shifting production by apparel firms in developed countries of the US and EU. Many observers say there have been four major shifts seen in the global picture of production since 1950s:

- North America and Western Europe clothing production was first replaced

by the rise of imports from Japan in the 1950s and early 1960s.

- Asian NICs replaced Japan as the world leading apparel exporters in 1960s and 1970s
- China and Southeast Asia Group I (Indonesia, Malaysia, Thailand and the Philippines) took the leading role in 1980s
- Southeast Asia Group II (Bangladesh, Pakistan, Sri Lanka, Laos, Nepal and Vietnam) have entered the competition since 1990s. (Dickerson 1999, 167-168; Gereffi 1999, 49)

These shifts are claimed to be the results of the continuous seeks for cheaper labour costs since the new-comers always have significantly lower labour costs in comparison with their prior leaders (Gereffi 1999, 49; Dickerson 1999, 169). In other words, buyers have chosen new suppliers from new sources whenever the labour rate in current supply markets increased. These shifts can be partly the results created by the Multi-Fibre Arrangement quotas. This is discussed further under next sub heading 2.3.

However, European countries also contribute high shares in the global clothing exports even though they clearly have higher labour costs than countries in Asia. The main explanation is that many European countries have developed their expertise and skills in certain types of products or fabrics of high quality. England, for example, is highly competitive in production of fine woollen fabrics and products (Jackson & Shaw, 2001, 117). Italy, on the other hand, has developed its special knowledge in making fine leather products (Jin & Moon 2006, 198). There are also other countries in the EU such as Romania, Poland, and the Baltic states which are chosen to be the sourcing location due to their close locations to the buyers markets. When products are needed to be made and available immediately, it would be more beneficial for companies to arrange productions in these countries in the EU.

TABLE 2. Leading importers of clothing (WTO 2008)

Country	Share in world imports (%)	
	2000	2007
EU	39.7	45.5
US	32.1	27.3
Japan	9.4	6.7
Hong Kong	7.6	5.4
Russia	1.3	4.1
Canada	1.8	2.1
Switzerland	1.5	1.4
United Arab	0.4	1.4
Korea	0.6	1.2
Australia	0.9	1
Mexico	1.7	0.7
Singapore	0.9	0.7
Norway	0.6	0.6
China	0.6	0.6
Saudi Arabia	0.4	0.5

On the other hand, most of apparel products are imported and sold in developed countries as demonstrated in Table 2. Top of the list are the EU, US and Japan. They have been always the top leaders and their shares are increasing gradually. This is a clear sign of retailers and manufacturers in these countries shift the production further to developing countries. Few garments nowadays are made in developed countries, with some exceptions of special and fine quality products.

2.3 The role of state and the Multi-Fibre Arrangement (MFA)

Since apparel industry has such a vital role in many countries, especially regarding the number of jobs it creates, governments are protective toward their domestic producers. Developed countries, in particular, being concerned of high amounts of imported products from cheaper sources have been monitoring closely the imports into their countries. (Dicken 2007, 249.)

The biggest trade restriction of apparel industry was MFA which was initiated in 1962 and then broadened in 1973. The MFA imposed the limits on the quantity of textiles and clothing that one country can export to another. The purpose was to protect home producers from the rise of imported clothes. (Dicken 2007, 260.)

However, this quota system did not work as the states planned. Instead of limiting the imports, it created the unexpected opportunities for other developing countries to enter the industry. Once a country's quota was exceeded, manufacturers in that country either moved their operations or outsourced their productions to non-quota constrained countries. Some examples of countries that benefited from the MFA were Nepal, Bangladesh, Cambodia and Sri Lanka. (Rangaswami 2005, 5.) In a way, the MFA has intensified the competition in the global apparel industry. More developing countries have joined the production while the consumption of the products in the developed countries has remained relatively unchanged. As a result, more pressures were created for apparel manufacturers in developed countries.

The MFA was phased out by the end of 2004, changing the apparel industry significantly. Buyers are no longer restricted to quotas when importing from member countries of the World Trade Organization (Gereffi 1999, 51). China, however, was still under monitoring and imposed quotas for certain types of garments when exporting to the US and EU. For the EU, the quotas were ended by the end of 2007. For the US, China has free quotas by the end of 2008. (Dicken 2007, 261; Abernathy et al. 2006, 6; Ministry for Foreign Affairs of Finland 2008).

3 GLOBAL SOURCING

Sourcing has been the biggest economic trend within the last 20 years and it is expected to continue in the future. It is among the main activities of purchasing processes in many industries, which generally refers to the process of identifying, selecting and developing suppliers. The sourcing location can be close to home or on the other side of the world. Sourcing that takes place across the borders is often defined as global sourcing, in which buyers view the whole world as potential supply source. (Lyson & Farrington, 2006, 366; Handfield, Monczka, Giunipero & Patterson, 2009, 203.)

Within the apparel industry, sourcing is a notable common practice; every firm in the industry has some sort of sourcing activities. The term can be used to indicate a variety of activities. When retailers choose the suppliers from whom to buy their garments, it is called sourcing. When apparel firms seek out contractors to make or assemble the garments with their designs, it is called sourcing. When apparel manufacturers arrange the production of garments in other countries, it is also sourcing. The procurement of materials is also sourcing. (Dickerson 1999, 312.)

As discussed under chapter 2, nowadays very often apparel firms in developed countries create the designs, but the actual garment makings are done in developing countries. The finished garments are then re-imported to buyers' countries for distributing. The term sourcing discussed in this study deals with this practice. In other words, the study focuses on sourcing of the garment production. Sourcing of components and services are outside the scope of this study.

3.1 Global sourcing in the apparel industry: Benefits and Challenges

Apparel firms source their products for a variety of reasons. However, they also encounter many problems and disadvantages in overseas sourcing. Some of the common driving factors and problems are discussed under the following sub headings.

3.1.1 Benefits

The principle driver for global sourcing, particularly in developing countries, is to obtain lower prices and /or profit improvement (Wolfe 2009, 496; Fernie & Spark 2009, 123; Handfield et al. 2009, 220). In their research, Frear, Metcalf, and Alguire (1992, 5) estimate that global sourcing in developing countries can save from 10 to 40 percent of the total cost compare to sourcing in developed countries. These savings can be passed on to end consumers with lower retail prices and thus generate more sales. Alternatively, firms can increase their profits by keeping products at the same price. Either way, the savings created by improving the efficiency of sourcing increase the competitiveness of the firms.

As mentioned, the main reason for lower prices of products made in developing countries is cheap labour cost. This factor is especially attractive when garments are designed so that the production requires labour intensive techniques such as smocking, hand embroidery and piping. As these details require a great deal of labour, it would be enormously costly if produced in more developed countries.

Lower prices can also be gained by lower cost of inputs, especially fabrics. China, for example, has been able to develop a competitive cotton textile industry. Firms who source their products in China can secure lower cost of cotton products in comparison with other competitors using U.S. cotton. (Abernathy et al. 2006, 10.)

Although saving costs is clearly many companies' primary aim, other factors are also key considerations as well. Several other reasons driving global sourcing can be listed as:

- greater variety
- exclusive styling
- better quality. (Dickerson 1999, 470; Handfield et al. 2009, 220; Cho & Kang 2000, 544-546.)

Different designs and fabrics are often available in different countries, which are the results from their natural resources and historical developments. Italy, for instance, has a long tradition of manufacturing high quality leather (Jackson &

Shaw 2001, 114; Abernathy et al. 2006, 16). England, on the other hand, can manufacture high quality and fined woollen fabrics (Kunz & Garner 2007, 183). Apparel firms seeking for garments made of these special fabrics usually find the right suppliers in these countries. Global sourcing, therefore, exposes firms to more varieties of products, materials and designs which cannot be found in their own countries.

Customers nowadays are also extremely conscious about product quality and brand name. Many of them are willing to pay a higher price for branded products with exclusive quality and designs. This explains for the fact that many companies are still importing from European countries, especially France and Italy, to satisfy these niche customers. (Cho & Kang 2000, 544-545.)

3.1.2 Challenges

Despite the principal benefit of obtaining cheaper costs for products, buyers face several major challenges and risks in sourcing globally. Not only there are higher logistics costs, but sourcing in the apparel industry also faces various trade restrictions. Jackson and Shaw (2001, 121) call these the hidden costs. They are listed in Table 3.

TABLE 3. Hidden costs of overseas sourcing (Jackson & Shaw 2001, 121)

Hidden costs	
Currency fluctuations	True cost price is difficult to predict
Quota	Before 2005, many developing countries were restricted to quotas when exporting to the US and EU
Delayed delivery	Due to long distances, transport complexities and large size of import orders.
Inability to repeat quickly	Long shipping lead time makes it impossible for supplier from Far East to repeat orders quickly within a season
Methods of transportation	Ships are normally used. In emergencies, airfreight is the solution, but it could be very expensive.
Increased management costs	Due to long distance, communication costs, samples deliver costs, foreign trips to suppliers, and management time are increased.
Dedicated foreign sourcing offices	Some retailers have opened foreign sourcing or buying offices to manage overseas suppliers. These are expensive to run and maintained.
Increased inventory costs	Imported merchandise is often delivered in bulk due to the inability to make quick and repeat orders.
Returns and refunds	It is not financially viable to return faulty product, and complicated to return faulty merchandise.

Buying from foreign suppliers normally involves longer transport distance and more complexities than buying from domestic ones. This leads to additional costs in transportation, management and inventory, as explained in Table 3.

The most challenging problem of long distances is longer lead time which creates more chances for things to go wrong and delay deliveries (Lowson 2003, 335; Kumar & Arbi 2006, 89; Fernie & Spark 2009, 102-103). As noted earlier, the apparel industry is featured with short life cycle products. Once the fashion trend has passed, products have to be sold at discount as consumers are not interested in the products anymore. Long lead time and delayed deliveries might result in serious problems for apparel firms as they face the risk of lost sales. (Jackson & Shaw 2001, 121.) The long distances and long lead times also reduce firms' flexibility because they cannot respond quickly as new demands or styles occur. The result is that many firms have to have a second source nearby to achieve the required flexibility. (Fredriksson & Jonsson 2009, 228.)

According to Cho and Kang (2000), differences in cultures are also among the most difficult challenges which might lead to hidden costs. Cultures include, for instance, values, beliefs, customs and practices which shape the way people in that culture think, behave and work. Different countries have different cultures and the differences are especially huge between Western and Asian countries, which can easily cause misinterpret and miscommunication. Consequently, more time and resources are required to solve the problems. In worst case, cultural differences might have negative effects on buyer-seller relationships. (Cho & Kang 2000, 547; Oke, Maltz & Christiansen 2009, 158.) For example, Asians often try to avoid saying "no" or negative things. They might accept the contract terms even though they might not be able to fulfil them. If the foreign buyers do not understand such differences in culture, they might face difficulties in working with the Asian partners.

In sum, sourcing decisions usually involve trade-offs between different benefits and risks as there is no such place as perfect sourcing location. Apparel firms must make decisions based on what their needs are and what the suppliers are able to offer. If they need, for instance exclusive products, countries like Italy and France

are the right choices. Otherwise if low cost products are in demand, they find the right suppliers in the Far East. The decisions to choose between different locations are generally parts of sourcing strategies (Åkesson, Jonsson & Edanius-Hällås 2007). In the next sub heading dimensions of sourcing strategies are discussed.

3.2 Global sourcing strategies

Åkesson et al. (2007) stress the importance of establishing sourcing strategies as a prerequisite of the whole sourcing process. This is because different types of suppliers are suitable for different firms in different situations, as noted above. The purpose of establishing sourcing strategies is to select the right country for the right product (Kincade & Gibson 2010, 500). In general, sourcing strategy is a result of deciding:

- supply location
- and supply channel

which is guided by firm's characteristics and requirements (Åkesson et al. 2007, 3). These components of sourcing strategies are under scrutiny in the next sub-headings.

3.2.1 Firms characteristics and requirements

Firstly, firms' size has great influence on sourcing strategies. Big firms, for example, have more resources available and thus are capable of more sophisticated sourcing strategies such as establishing own manufacturing plants or joint-ventures in other countries. Smaller firms, in contrast, have the tendency to out-source their production to contractors. Both using own manufacturing plants and contracts are different channels of sourcing, which are discussed under sub heading 3.2.3. Firms' sizes also affect the choice of sourcing location. That is, firms with small size usually need to find small sized suppliers in the market. Big suppliers with huge production capacity and personnel usually prefer dealing with big orders in order to achieve economies of scale. Therefore, they are more suitable for large buyers with large order quantities. (Åkesson et al. 2007, 744.)

In addition, firms' requirements for garments are also of great importance for deciding sourcing strategies. The apparel industry is featured with immense competition where vast numbers of retailers and brands exist everywhere, competing for end customers' time and money (Jackson & Shaw 2001, 4; Wolfe 2009, 195). In order to survive, firms are required to differentiate themselves from other competitors. Each firm has to define clearly to whom it wants to serve and create the correct marketing mix to satisfy that target group. (Åkesson et al. 2007, 741; Wolfe 2009, 254-257.) Wolfe (2009) groups firms' competitive strategies in three basic categories, as shown in Table 4.

TABLE 4. Apparel firms' competitive approaches (Wolfe 2009, 196)

Competitive approaches	Strategies
Low cost source	Cost-based competitive advantage
Differentiation	Providing better quality, services or distinctive design features
Narrow market niche	Catering specific buyers needs and tastes

Traditionally there are four components of a marketing mix: product, price, place and promotion. As competition increases, other components are identified and used as tools to create further differentiation. Some examples are presentation of products in retail shops and appearances of package. (Jackson & Shaw 2001, 61-63; Kincaid & Gibson 2010, 69). However, Jackson and Shaw (2001, 71) emphasize product and price as the fundamental elements of firms' competitive strategies. The other factors are considered to be necessities to fulfil the chosen concept. (Jackson & Shaw 2001, 71.)

These competitive strategies, especially on the basis of products and prices, are the guidance for firms' sourcing strategies. If a firm, for example, aims to compete on cost-based advantage as shown in Table 4, it tries to offer the garments lower than the direct competitors. It is, therefore, motivated to find supply markets with as low cost as possible. Then again, if quality differentiation is chosen as a

competitive strategy, prices are not the primary concern of firm's sourcing strategy. Instead, it is more important to ensure that chosen suppliers are capable of making high quality garments.

To conclude, firms' competitive strategies and size affect strongly on the requirements for supplier. They are the guidelines for all decisions about how and where firms source their products. A right sourcing strategy is required to satisfy firm's target customers while maintaining their competitive edge.

3.2.2 Supply market

Apparel firms have always had a wide range of potential suppliers as global production capacity is oversized in comparison to the actual demand. After the phase out of MFA in 2005, the buyers have even more choices, especially suppliers from developing countries that all have the advantage of low labour costs (Mcnamara, 2008, 6; Oke et al. 2009).

As introduced earlier, choice of supply market often precedes choice of suppliers. Jones (2006) argues that the supply countries have to be carefully analyzed before sourcing location is chosen as shifting the location of sourcing can incur costs. These costs include learning costs, reputation costs and cost of possible failure in the negotiations when dealing with new partner (Jones 2006, 179). This is also in line with the findings of Oke et al. (2009). Their field research shows that sourcing decision practically appears on two levels: country and supplier. In addition, each of the nations in the global apparel production features different strengths and weaknesses which are strongly affected by the countries' natural resources and historical developments. Hence, it is important for apparel firms to analyse the potential supply market in order to understand the suppliers' capability in general (Kincade & Gibson 2010, 500).

Cost, product quality, time-to-market and country factors are the most important decision factors in sourcing market selection. These factors are further divided into sub criteria as shown in Table 6 below. (Kin & Man 2008, 156.) These iden-

tical criteria can be found by various materials (Jones 2006, 180; Oke et al. 2009; Kincade & Gibson 2010, 491-497). Kincade and Gibson (2010), for instance, talk about issues involved in selecting a production source that fall into the categories of costs, quality, dating, payment, and social compliance.

These factors will be used to evaluate the potential of Vietnam as a sourcing location later on in the empirical section of this study. Though there are numerous criteria listed theoretically, the most important ones are dependent on each real case company. In other words, competitive strategy and requirement of a company decides which criteria to be the most important. Due to their important nature, these factors are discussed in details under the next chapter.

3.2.3 Supply channel

This dimension of sourcing strategies refers to the determination of how the garments are going to be manufactured. Apparel firms can source their garments through many ways, which can be categorized into two broad groups, as illustrated by Figure 5 below.

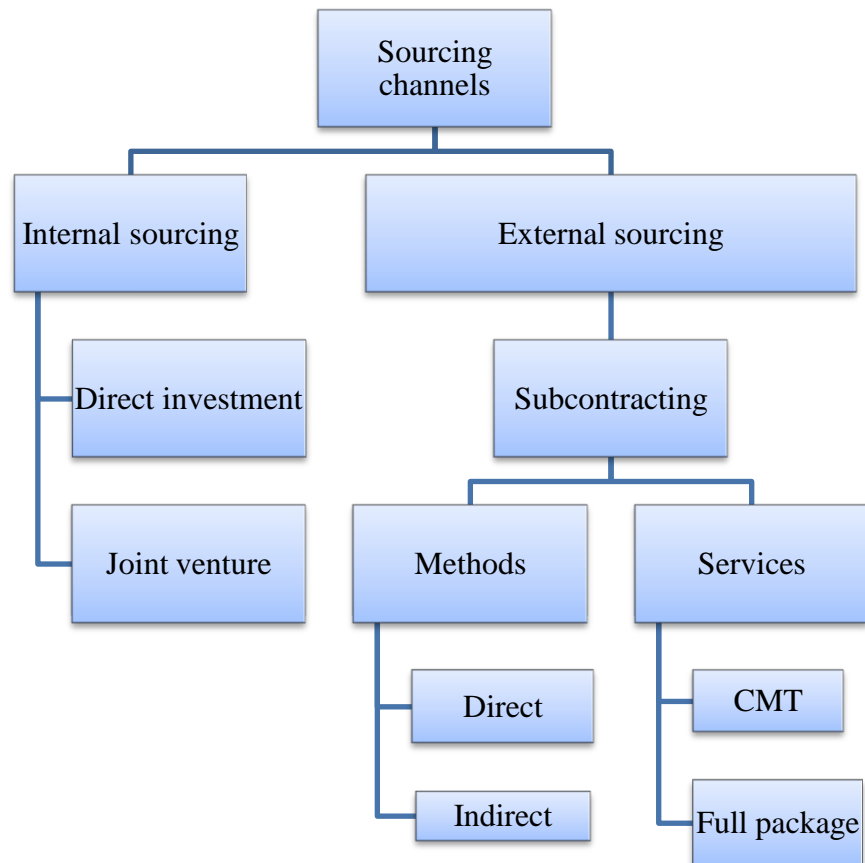


FIGURE 5. Supply channels for production sourcing strategy (modified from Åkesson et al. 2007, 742-743; Kincade & Gibson 2010, 484)

Internal sourcing as shown in Figure 5 means that products are made using company-owned facilities and personnel, which can be located anywhere in the world. Through sourcing internally, firms have more control over the whole production process and ensure the desired quality, quantity, and timely delivery. As shown in the figure, direct investment and joint venture are two possible arrangements for internal sourcing. Both ways require firms to invest significant amount of resources into buying equipments, materials, facilities, and personnel. Therefore, internal sourcing is generally more suitable for large firms or big brands that have the resources and are keen on maintaining extensive control for their products. (Wolfe 2009, 498; Kincade & Gibson 2010, 485.) However, internal sourcing is a diminishing trend as firms increasingly apply the lean business model. As noted earlier, firms have increasingly outsourced many activities in the production process to other suppliers.

External sourcing or outsourcing, on the other hand, is the process of subcontracting the garment productions to other companies (Åkesson et al. 2007, 742). As mentioned at the beginning, many apparel firms nowadays, particularly branded marketers, do not own any production facilities. They design and make specifications for garments; the actual garment making is subcontracted to other firms, mostly in developing countries with cheap labour costs.

The reason why outsourcing has been gaining so much popularity recently is the flexibility it offers to apparel firms. Through outsourcing, firms can take advantage of specialized skills of manufacturers such as printing, knitting, or embroidering. Otherwise, firms would need huge investments to perform these tasks in-house. In addition, firms can also increase and reduce the quantity of garment produced flexibly as seasonal demands change. This can be done by changing the number of suppliers or negotiating the ordered quantities with suppliers. (Wolfe 2009, 200.)

Apparel firms can work directly with manufacturers who make their garments, or they might work with agents and intermediaries who assist them in finding the right partners (Åkesson et al. 2007, 742-743). The manufacturers who make the garments under other firms' labels or brands are often referred to as contractors (Wolfe 2009, 199-200; Kincade & Gibson 2010, 486).

Naturally direct channel is usually cheaper than indirect one as the fee for middlemen is avoided. However, the middlemen with their expertises in the local markets bring great benefits for apparel firms. Even though many contractors in developing countries have the capability to make garments, they might lack the experiences or languages skill required in working with Western firms. Through agents, apparel firms can get in connection with these contractors as the agents can solve the problems in communicating and export documentations.

There are further choices for firms regarding the services offered by contractors. They are: Cut, make, trim (CMT) and Full package. (Kunz & Garner 2007, 21; Kincade & Gibson 2010, 487.)

TABLE 5. Outsourcing contracts (Kunz & Garner 2007, 357-359; Kincade & Gibson 2010, 488)

Cut, Make & Trim or CMT	<p>Buying firms are responsible for all the materials, patterns, and garment specifications.</p> <p>Contractors are paid for their machines and labour for the sewing of garments.</p>
Full package or FOB	<p>Buyers just give all information required for the garments.</p> <p>Contractors must take care of all the manufacturing process, including making patterns, samples, and finding the required materials.</p>

The fundamental difference between CMT and Full package contracts is the level of involvement and the value added by contractors in the total value of garments. Under CMT arrangements, contractors just provide the basic assembly process of cutting, sewing, and trimming, in accordance with orders from buyers. (Kunz & Garner 2007, 357-359; Kincade & Gibson 2010, 488.) In other words, they are involved primarily in the production stage, as shown in Figure 3. The value added by contractors under this form of contract is estimated to be as little as 20% of the value of final product (Oteifa et al. 1999).

Under CMT, buyers often transfer technologies and knowledge to manufacturers in order to ensure the desired quality and production process. These are usually production techniques and product information. Thus, CMT contracts are also helpful for manufactures in learning and upgrading the process and quality of product. However, knowledge related to core activities such as marketing, research and supply chain management are often kept by buyers as their trade secrets. (Goto 2007, 6.)

With FOB or full package arrangements, contractors are more involved in the production process, already at the preproduction stage. Depending on the contracts, their tasks might even start from designing and developing products to de-

delivering them to the shop floor. Nevertheless, the most basic form of full packages is explained in Table 5 above. This form generally requires contractors to find and purchase all the necessary inputs for production, as requested by buyers. Consequently, contractors are exposed to higher risks as they are not paid for the unused amount of materials in case they buy more than needed. Therefore, contractors who are able to offer full package have significantly higher management skills and resources than CMT ones. (Kindcade & Gibson 2010, 487-488.)

Suppliers in the least developed countries are often not capable of offering full package contracts. The reason is that they do not have sufficient management skills to acquire materials. Further, the upstream sectors of these countries are not developed as they require more investments as explained earlier. However, full package contracts have increasingly gained more shares in global sourcing. This is because apparel firms are more and more focused on their core marketing activities as noted earlier. (Birnbaum 2005, 8; Birnbaum 2009; Mcnamara 2008, 58.)

In sum, decisions regarding the sourcing strategies are strongly influenced by firms' requirements and strategies, especially regarding product and price. Firms' sizes also affect the choice of supply market and supply channel.

4 CRITERIA FOR SOURCING LOCATION

As mentioned earlier, this chapter discusses further the criteria in choosing sourcing location. As mentioned earlier under chapter 2, the global apparel industry was strongly affected by the MFA. Before the year 2005, sourcing is all about choosing the location where production costs are cheap and where quotas are available. After 2005, even though not all countries are free of quotas and tariff systems are still in existence, buyers are exposed to large pool of suppliers who all have the advantage of low costs. Different criteria, therefore, have become equally or more important in sourcing strategies.

Kin and Man (2008) identify four broad groups of categories which are further divided into sub criteria as shown in Table 6 below. This study uses Kin and Man's (2008) criteria as part of the theoretical concept for the case later on as their criteria are considered to be the most suitable for the purpose. The criteria are considered to be contemporary and cover all the relevant areas also recognised by other experts in the industry (Palpacuer, Gibbon & Thomsen 2004; Abernathy et al. 2006; McNamara 2008; Oke & Maltz 2009.)

TABLE 6. Criteria for choosing sourcing location (Kin & Man 2008)

Strategic Issues	Criteria	Sub-criteria
Cost	Direct costs	CMT or Labour cost Material cost
	Indirect costs	Quota cost Tariff cost
Product Quality	Labour	Labour skill Labour productivity
	Technological development and innovation	Technological development and innovation
	Value-added services	Reliability and relationships Supply chain management Vertical integration capabilities
	Customer perception of country-of-origin	Customer perception of country-of-origin
Time to Market	Geographical proximity	Geographical proximity to suppliers/materials Geographical proximity to markets/customers
	Transportation time	Transportation time to suppliers/materials Transportation time to markets/customers
Country Factors	Internal country factors	Infrastructure Ethical issues
	External country factors	Political and economic stability Import quota/tariff of world major markets Social, language and cultural differences

Each of these groups is under scrutiny in the next sub headings.

4.1 Costs

As noted since the beginning, global sourcing in the apparel industry has been for a long time driven by the needs of apparel firms to obtain cheaper costs. According to Cho and Kang (2000, 544), consumers have been increasingly demanding products with same quality but at lower prices. Thus, the costs of obtaining finished garments are among the most important criteria for many firms.

Costs divide into four categories: labour cost, material cost, quota cost and tariff cost. Labour cost accounts for the largest proportion, up to 60% of the entire production cost. As a result, producing in developing countries with cheap labour costs has been always an obvious target for many apparel firms. After the phase out of MFA, Tewari (2006, 2) and Oke et al. (2009) stress that cheap labour cost per se is not strongly influential any more on the sourcing location decisions. That is because there are many countries that all have the advantages of cheap labour cost and they are not restricted by quotas any more.

Cost of obtaining materials is another important component contributing to final product costs (Jones 2006, 180; Kunz & Garner 2007, 29). As discussed in chapter 2, fabrics are the main inputs of finished garments and different types of fabrics are usually available in different countries. Therefore when considering a sourcing location, firms need to be aware of the fabric types available in that market. It is usually that if the fabrics required can be provided by domestic suppliers, costs are lower than if they have to be imported.

However, Jin and Moon (2006, 198) stress that most of garment producers nowadays source materials and fabrics globally anyways as there is hardly any country which can sufficiently make all types of fabrics themselves. Consequently, it is more important that supply markets locate close to the main fabric sources and they have efficient buying offices to assist and coordinate the production process of apparels. (Abernathy et al. 2006, 10; Jin & Moon 2006, 198.) Jeans textiles, as an illustration, are available in the U.S. Due to closer geographic proximity; facto-

ries in Mexico can acquire the material for cheaper price than the ones in Colombia. (Abernathy et al. 2006, 10.) Hence, it is more attractive for apparel firms to have their jeans made in Mexico rather than in Colombia.

Firms should consider also the cost of tariff and the availability of quotas. Although quotas were eliminated for most countries in the WTO by 1st January 2005, China must bear the restriction until the end of 2008 and 2007 when exporting to the US and EU respectively (Mcnamara 2008, 6). The situations are different for non-WTO countries; there are quotas imposed for some of them depending mainly on the bilateral agreements. However, the quotas system can be considered not to have so much influence on the global sourcing any more. Instead, complex tariff and preferential trade agreements remain and create cost advantages for many countries (Mcnamara 2008, 6). European Union, for example, has trade agreement with twelve Mediterranean and Middle Eastern countries allowing duty free and quota free access to the EU market. These countries, therefore, enjoy a competitive advantage over their other competitors excluded from the agreements. (Abernathy et al. 2006, 5-6.)

In addition to these costs, firms have to keep in mind the other hidden costs as discussed under sub heading 3.1.2. As mentioned, though they are not obviously seen, they possibly outweigh the benefits of global sourcing when calculating all together.

4.2 Quality

Recently more and more firms are concerned about quality of product rather than cost (Cho & Kang 2000, 544). In fact, product quality is often used as a key criterion for choosing between suppliers in a chosen country rather than in deciding the location itself (Oke et al. 2009, 161). However, Kin and Man (2008, 154) say product quality can be evaluated through workmanship and productivity, technological capabilities, and value added services. Country-of-origin might also be a sign for product quality.

Though individuals are different, workmanship is generally a result of work ethic, mentality, and attitude of the people within a country. Then again, these factors are closely related to the culture of that country. If the people in a country value hard working and generally pay much attention to their work, it is likely that their products are of better quality than those who have poor work ethic. Oke et al. (2009, 158) is also of the opinion that workmanship affects the product quality.

Technological capabilities, on the other hand, are signs of development and hence influence the quality of garments produced. Some of the recent technological innovations in the apparel industry are recognized by Dicken (2007). Most of them are applied for the non-sewing operations which increase the speed and productivity of the whole production process. There are also some technologies for the actual garment making process which assist in saving materials and making adjustments if needed. In addition, many apparel manufacturers nowadays use electronic point-of-sale (EPOS) which enable them to follow closely sales, and thus response more quickly to the demand when needed. (Dicken 2007, 258-259.) Technologies capabilities are, thus, among the prerequisites for the ability of apparel manufacturers in providing value-added services.

As shown in Table 6, value-added services include the ability of suppliers for vertical integration, supply chain management, and reliable relationships. Vertical integration of a sourcing country indicates the efficient and highly cooperation between apparel manufacturers and other supporting industries. In other words, suppliers in that country could get easy access to materials with competitive prices, either through local suppliers or imports. Value added services, therefore, indicate the ability of suppliers in a country to manufacture garments on the basis of full package contracts. (Mcnamara 2008, 58.) As mentioned earlier, firms increasingly expect that suppliers start to involve into the preproduction process with fabric and other materials selections.

Reliability and relationship is difficult to be measured on the country level, but it depends more on each supplier. It is the ability of suppliers to produce the right quality and deliver on time as agreed. Usually if suppliers have experience in working with similar partners, it tends to be easier to build a reliable relationship

with them. (Oke & Maltz 2009, 159.)

The last sub criterion for product quality is customer perception of country-of-origin. As discussed earlier, many countries have been succeeded in building their competitive advantages within the global apparel industry. Regarding product quality, countries such as Italy, France, England, and Germany hold strong positions as having high and exclusive quality (Jin & Moon 2006, 198).

4.3 Time-to-market

Time-to-market is defined as a whole duration from the birth of garment design to the delivery of finished garment on the shop floor. It includes the production process as well as lead time needed to prepare for the production. (Kincade & Gibson 2010, 493). It is closely link to the geographical proximity and transportation time to both raw materials suppliers and end-consuming markets (Kin & Man 2008, 154). In other words, if the sourcing location is close to sources of materials and consuming markets, it is likely that time-to-market is shorter than those who are far away.

However, most of the production has been moving away from the biggest consuming markets which are the US and EU. This has made this factor one of the biggest challenges of global sourcing as discussed earlier under sub heading 3.1.2. Previously when sourcing garments from the Far East, buyers used to plan and order garments in bulk quantity and the time-to-market took up to 10 months. Nowadays fashion trends change more frequently; for some fast moving markets, new styles can arrive in shop almost every week. As discussed at the beginning of chapter 2, consumers of the apparel industry have been increasingly demanded to have more styles available in less time. Thus apparel manufacturers, even from the Far East, are expected to reduce their time-to-market in order to response to the demands. This implies that manufacturers have to be more efficient to make smaller quantities but more frequent and quicker orders (Abernathy et al. 2006, 12; Tewari 2006, 16; Mcnamara 2008, 6; Birnbaum 2009.)

Time-to-market does not only just depend on production and lead time, but it is also decided on how busy the factory is. If the factory is busy, resources are used for different orders at the same time. Thus the production time is possibly longer than in those times when the factory is less busy. In addition, good relationship between the buyer and manufacturer is also important to ensure the desire time-to-market. If the relation is long and the buyer is important for the manufacturer, then it is more likely that the buyer's orders are given more priority. This further emphasizes the importance of reliable relationship as discussed under the previous heading.

4.4 Country factors

Country factors include internal and external factors. These are important as they have direct influence on the companies operating within a country and other above factors. (Kin & Man 2008.)

Regarding internal factors, firms need to consider the country's infrastructure and ethical issues (Kin & Man 2008). Infrastructure of a country indicates its transportation and communication systems. If these factors are underdeveloped, sourcing faces higher costs of transactions and hidden factors. For example, it might take longer for products to be transported from supplier location to buying firm. Delay might occur due to long distance and inefficiency, and thus results in loss of sales.

In addition, many customers nowadays pay much attention to the business ethics, such as fair wages and sweat shop conditions. They are concerned about from where the firms source their clothes, and whether their suppliers follow the ethical business standards (Kincade & Gibson 2010, 498.). Many firms, such as The Gap and Primark, have faced with scandals and pressures from consumer due to contracting with factories where there are violation of labour regulations (Hobel 2004; Finch 2009). Therefore, apparel firms, especially big ones, need to be aware of the general respect and practice of business ethics in the sourcing location.

Political and economic stability, import tariffs, social and culture differences are considered to be external factors. Some countries, especially developing ones, are vulnerable to political and economic instability which could lead to hidden costs from unreliable delivery, higher transaction cost, and loss of competitiveness due to exchange rates. The differences in social norms and cultures have effect on all the activities between buyers and sellers, especially in communicating and negotiating. Oke et al. (2009, 158) point out that similarity in cultures can help to reduce transaction costs as less effort is needed in developing a relationship with a new supplier.

In sum, choice of supply market is a complicated process which requires careful consideration among various factors, guided by firm's specific competitive approach. It is very unlikely that one location can satisfy all the factors because each nation is differentiated by different advantages in cost, quality, time to market and country factors. Trade-off between these factors is a natural result in sourcing location decisions. A location is chosen if it congregates the criteria which firm considers being critical for its competitive strategy.

5 RESEARCH METHODOLOGY

This study is a single case study with an exploratory nature. It is designed to discover and explore the potential of Vietnam as a sourcing market for the case company.

5.1 Conceptual model

The empirical part of this study is conducted based on the conceptual model which is derived from the reviewed theory, as shown in Figure 6 below.

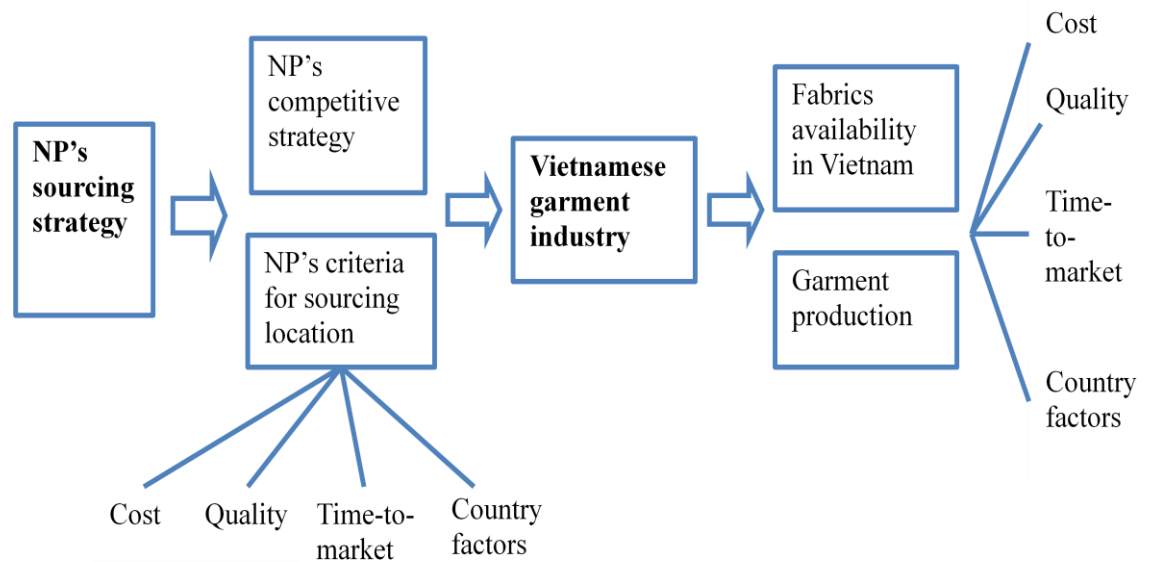


FIGURE 6. The conceptual model

The model guides the data collection and analysis of the empirical section. Firstly empirical data concerning the case company's competitive strategies and requirements regarding costs, product quality, time-to-market, and country factors are collected. These criteria cover the company's sourcing strategy which includes both the sourcing location and sourcing channel that the company requires. The company is asked to rank these criteria in accordance to their importance with the sourcing strategy. Secondly, the current situation for Vietnamese garment industry

regarding these criteria is analysed. Finally, conclusions can be withdrawn about Vietnam's potential as a sourcing location for the case company.

5.2 Research design

The data are collected using four methods:

- Literature review, desk research
 - Books
 - Internet sources, articles in different databases, industry magazines
- Face to face interview in a semi-structured format
- Email communications
- Field observation

As Vietnam is among the biggest apparel exporters of the world, many researches and articles have been written about the country's industry. Most of them have been done quite recently and thus provide this study with contemporary secondary information during the desk research.

Interviews, both face-to-face and through emails, with experts in the field are used to collect primary data. Face-to-face interviews are conducted by in a semi-structured format. The researcher prepares the questions before the interview, but as conversation flows some questions might be omitted or occurred. Hence, this method gives researcher the opportunity to gain deeper insight into the research problems and still keep the interview close to the plan. (Saunders, Lewis & Thornhill 2009, 320.)

The interviewed experts are divided into 3 groups:

- Case company
- Other Finnish companies who have experience in sourcing from Vietnam
- Experts in Vietnam who are working in different garment organizations and have knowledge about the Vietnamese garment industry

The purpose and questions for interviewing each group are different. Case com-

pany personnel are interviewed to understand their sourcing strategies and criteria, which are the basis for withdrawing conclusion about the potential of Vietnam as a sourcing location.

Interviews with the second and third group are conducted with the purpose to gather first-hand information about performance of Vietnamese suppliers. Due to the physical distance, interviews with experts in Vietnam can only be conducted using email.

Last but not least, field observation is another important source of primary data. The researcher had a work placement as an assistant for the Product Manager in the case company in summer 2009. This has given useful insight into the company and many of their requirements regarding garment sourcing.

5.3 Data collection

The literature review and collection of secondary data was carried out between September 2009 and December 2009. There are information and data collected from both international and Vietnamese studies and articles. Most data is in English, but there are articles which can be found only in Vietnamese. It should be also noticed that data found from Vietnamese sources might be sometimes inaccurate. This is possibly because Vietnamese statistics are not done frequently and the data collection process does not always meet the international standards.

Interview with the Product Manager of the case company was conducted on 16 of December 2009. A recorder was allowed to be used during the interview. In addition, information about the company, its products, prices and requirements for suppliers was already discussed earlier during the work placement period.

Also during the work placement, companies in Vietnam were approached to initially discuss about the potential to work with NP. Their contact details were found from various databases as well as introduced by Vietnamese trade promotion organizations such as VITAS and PROMOCEN. Issues such as minimum order quantities, full package services, and experiences in working with foreigners

and similar types of garments as used by NP were discussed. The emails sent to these companies can be found in Appendix 2. Of 60 companies contacted, only 11 of them replied the email. However, only 3 of them qualify the initial requirements of NP regarding the minimum order quantities, FOB contracts and their experiences. Those who qualify these initial criteria were asked to send samples of their garments to NP for evaluation about the quality. List of companies contacted but not qualified is given in Appendix 3. The other three companies are not given in the Appendix.

6 Finnish companies who were assumed to have garments imported from Vietnam were contacted. Their names were found in a report by Finnwatch (Moilala 2006). However, only S-group agreed to be interviewed by the researcher. The interview questions can be found in Appendix 4/2. Other companies either refused or claimed that they do not use garments produced in Vietnam at the moment. For example, Reima group used to have garments imported from Vietnam for about 3 years, but they have stopped using Vietnamese suppliers. However their experiences with Vietnamese suppliers are also useful for this study, which are used to evaluate the reliability and relationship with Vietnamese suppliers in sub heading 7.3.1.

The researcher also sent emails to 11 personnel of different Vietnamese organizations. However, only 4 of them replied and one person agreed to answer the interview questions. The questions can be found in Appendix 4/3.

6 CASE STUDY - NAISTEN PUKUTEHDAS OY

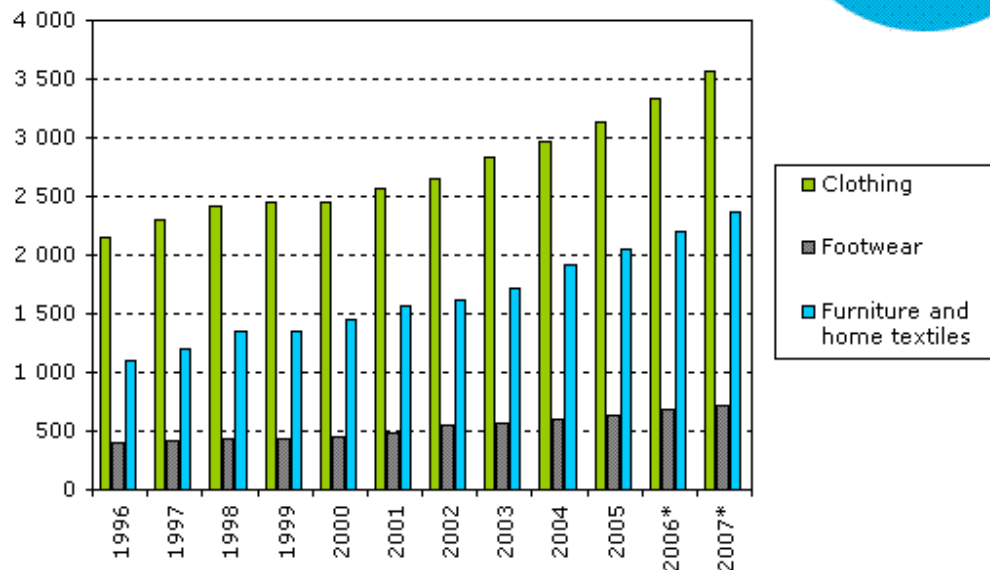
The empirical part of this study is carried out for a Finnish apparel manufacturer and retailer, Naisten Pukutehdas Oy. The company designs, produces and distributes ladies fashion from top to bottom. Typical products are shirts, blouses, skirts, trousers and jeans for ladies. NP also sells fashion accessories such as scarves, necklaces and belts. Currently the company outsources all of its productions to manufacturers in other countries. The company is observing new sourcing locations to improve and maintain its flexibility and competitiveness, possibly in Vietnam. Under this chapter, information about the company, its competitive strategy, requirements and criteria for suppliers are discussed. Brief look at Finnish garment industry is also introduced to understand the macro environment in which the case company operates.

6.1 The Finnish garment industry at a glance

6.1.1 Consumption

Finnish spending on clothing has been steadily increasing since the last 10 years as a result of strengthened economy and rising consumers' disposal incomes. As shown in Figure 7, the total spending on clothing amounted to about 3.6 billion EUR in 2007 (FINATEX 2009a). This represents a 5.7% growth in comparison to the consumption in 2006 (CBI 2009a, 1). However, the global financial crisis has touched Finland in 2008, which brings about the reduction of consumers' spending. In 2008 consumption of clothing only grew by 2.7% (CBI 2009a, 1). The crisis is continuing and it is expected that consumption is further reduced in 2009 (CBI 2009b).

Consumption of textiles and clothing, mill. euro (current prices)



finatex
TAKSITILIN JA KAATOKESKUSTUKSEN VY

Source: Statistics Finland, National Accounts

FIGURE 7. Finnish consumption of textiles and clothing 1996 – 2007 (million EURO) (FINATEX 2009a)

In addition, Finnish consumers are becoming more and more price-aware. As reported by CBI (2009b, 3), discounters, variety stores and hypermarkets with strong price competitiveness tend to gain share in the market. These consumption trends create pressures for Finnish firms to further decrease their prices. In other words, Finnish firms are expected to continuously offer fashion at cheaper prices, as in any other countries.

6.1.2 Production and Imports

Finnish clothing industry is relatively small in comparison to other European countries. There were about 3400 people working in this industry in 2008, which is less than 1% of total labour force in Finland. (CBI 2009a, 3.) There were almost twice as many people working in the industry 10 years ago (FINATEX 2009b). This indicates that clothing production of Finland, as in other developed countries, has been gradually moving offshore.

Increasing imports of clothing at the expense of domestic production has been a clear trend for the last 10 years as shown in Figure 8 below. Between 1997 and 2008, clothing imported into Finland has grown dramatically by more than 68%. (FINATEX 2008, 17; Finnish Board of Customs 2009.)

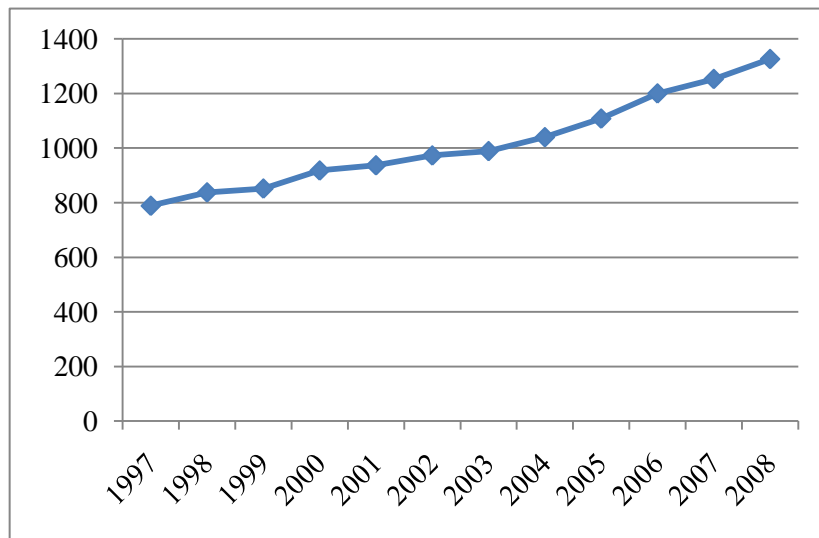


FIGURE 8. Finnish imports of clothing 1997-2008 (million EUR) (FINATEX 2008, 17; Finnish Board of Customs 2009)

Large part of this rise can be assigned for the acceleration of clothing imported from China. As with any other developed markets in the world, clothing from China has overwhelmed the Finnish market. As Table 7 shows, imports of clothing from China have almost doubled within 8 years between 2000 and 2008. By 2008, more than a third of Finnish clothes have their origins from China. (Finnish Board of Customs 2009.)

TABLE 7. Top exporters of clothing into Finland 2000, 2007, 2008 by country of origin (Finnish Board of Customs 2009)

Countries	2000	2007	2008
Bangladesh	4%	4%	4%
China	19%	31%	36%
Germany	7%	9%	7%
Denmark	5%	4%	3%
Estonia	10%	6%	6%
India	3%	4%	4%
Italy	5%	3%	3%
Sweden	7%	6%	7%
Turkey	5%	5%	6%

At the same time, shares of clothes imported to Finland from other developing countries of the Far East have also gradually expanded. Especially imports from countries such as India, Pakistan and Vietnam grew. Meanwhile, the shares of clothes made in other previous big suppliers of the country such as Italy, Denmark, and Estonia have been decreasing. The country of origin rules indicate the location where garments are made. It can also mean the location where the latest most important values are added to the garments. (Finnish Board of Customs 2009.) Therefore, the decreasing shares of developed countries in the EU might as well be a sign of either Finnish firms or firms of these countries moving their supplier base. Either way the underlying trend is that firms are continuously seeking for cheaper sources of clothes to satisfy consumers' demand.

6.2 Naisten Pukutehdas Oy

Naisten Pukutehdas Oy (NP) was established at the end of 1910 by Aino Rosendahl. The business started first with orders being sewed at home by Ms Rosendahl, but it grew quickly and more employees were hired. By the end of 1930's, the company had more than 200 employees and was transformed into a limited company. The core business back then was manufacturing and wholesaling of women's and children's garments for domestic retailers. (Heikkilä 2009.)

The company took its first steps in internationalization at the end of 1960's by exporting to Sweden, Norway, and the UK. Since then exports grew gradually and by the end of 1980's the company had stretched to German-speaking countries. Currently, exports contribute about 50 percent of total sales of NP. The exporting markets currently are Sweden, Norway, Russia, England, Ireland, Belgium, Holland, Germany, Austria, Switzerland, Estonia and Ukraine. Today the company is also competing in retailing business. There are 13 NP shops in total with 11 in Finland and 2 in Russia. (Heikkilä 2009; Räsänen 2009.)

Together with the trend of global apparel industry, the company has been cutting down on its domestic production and increasing outsourcing. At the moment, NP employs only about 80 people for activities such as sales, marketing, sourcing, warehousing, and logistics. The first completely outsourced collection was arranged in 1994 by Estonian manufacturers. Since then outsourcing has been significantly growing and during 2005 the whole production and sewing of NP in Finland was shut down. Gradually the shares of garments from developing countries have been increasing. (Heikkilä 2009; Räsänen 2009.)

6.2.1 Competitive strategy

Currently, the only target group that NP focuses on is middle aged ladies who lead an active lifestyle. NP Collection is the only brand that the company has at the moment. The brand aims to create a distinctive image of clothes with fashionable design, good fitting, and of high quality materials. Sizes of clothes sold by NP are primarily on the upper size range, from size 40 to size 52. (Räsänen 2009) In other words, the competitive strategy that NP pursues is the narrow market niches, as shown in Table 4. The company aims to satisfy the needs of middle aged ladies who demand to have fitting clothes with high quality.

In order to create such position, NP has its own designers who always keep their works close to the international trends. The company also pays much attention to quality management. All materials are tested for quality, shrinkage, colour, and fitting. NP's suppliers are always required to make samples many times so that fittings are checked and corrected if needed. A quick overview of steps in the garment making process is given in Appendix 1. The process described is at a general level which is slightly different from the process that NP applies. However, it gives sort of an idea of the process and types of samples that the company often requires to ensure the products' quality. The process is often less complicated for fashion accessories such as bags and necklace.

The process of producing a collection often starts by designers creating the styles and specify the required fabrics. However, it also happens very often that the designers create new styles when they find new interesting materials. Indeed, Mrs. Mari Räsänen, the Product Manager of NP, stresses that one of the reasons why the company looks for new suppliers is to find new materials for fresh and niche designs.

The products of NP Collection are in the middle ranges in terms of price. The company has direct competitors from Finland, and other international brands of Sweden and Germany. In comparison with the Swedish competitors, the company has relatively high prices. On the other hand, its prices are at the same or slightly lower level than other Finnish and German competitors. Generally, it can be said

that there are not so much direct competition for NP within its specified market niche. (Räsänen 2009.)

Even though currently the competition might not be intense, the company is constantly monitoring new potential suppliers to strengthen and maintain its production process and competitive position. Because of the development of the garment industry and the low costs in Vietnam, it would be beneficial for NP if they find suppliers who can satisfy their requirements and criteria.

6.2.2 Current sourcing situation

As mentioned earlier, NP has increasingly outsourced its production to developing countries. At the moment, largest share of NP's garments comes from China. The company also has suppliers located in India, Bangladesh, Turkey, Greece, and Estonia. (Räsänen 2009.)

NP has two main collections in a year, which are Autumn/Winter and Spring/Summer. The average time-to-market of each collection is one year. There are some styles which are also designed and made quickly during the year as sudden trends appear. (Räsänen 2009) This is different from what have been discussed under the theoretical part. All materials found stress that apparel industry is under pressure of fast movements; sometimes new styles arrive every week. This indicates to a certain extent that the Finnish fashion industry does not introduce new styles as frequently as in some other countries, particularly in the US and the UK. In addition, in the niche market where NP operates, customers are in favour of more classical styles that do not need updating as frequently as in the mainstream markets.

Most styles of the two main collections are made in the Far East countries, especially China. Some of them are made in other countries in Europe. The main reason for choices between manufacturing locations for the styles of the main collections is the availability of fabrics. There are some special fabrics which can only be found in Europe. The styles made of these fabrics are usually made in European countries. (Räsänen 2009.)

Those garments which are required to be available quickly are made in European countries, mostly Turkey. This is because it takes less time for transportation and transactions. Some very basic items such as basic t-shirts are also made in Europe as they do not require so much labour and the transport costs would clearly outweigh the cost savings generated by manufacturing in the Far East. Besides, these basic items are usually required to be replenished very quickly. (Räsänen 2009)

At the moment, NP is mostly contracting with agents. It is partly because many manufacturers, especially in the Far East, are not capable of communicating in English. In addition, many of them are not experienced in exporting and working with foreign partners. Using agents is a sensible solution as they assist in processes and documents for exporting. They also understand the expectations of foreign partners and therefore they are especially helpful in ensuring the quality. Räsänen (2009) further explains that the agents give NP the possibility to get access to more diverse products and offers. One manufacturer is usually specialized in one type of garment, such as knitted, woven, jacket, or trouser. Agents, on the other hand, work with many different factories at the same time and thus are capable of providing different types of garments. They also have large networks and can introduce NP to more interesting materials. (Räsänen 2009.)

Regarding the service contracts, all of NP's garments are produced under full-package contracts. That is, NP does not provide any fabrics, materials, or not even the patterns. Not so long time ago, the company still employed workers for creating patterns and garment samples. Those were then sent to suppliers to make the bulk production. Nowadays, the designers draw the styles and specify the requirements using computer programs. These are sent digitally via email to suppliers for making patterns and samples. (Räsänen 2009.) In other words, the company is also following the global trend, which is lean operation.

6.2.3 Criteria for choosing sourcing location

As discussed under chapter 4, there are four groups of criteria which are taken into consideration when buying firms choose the sourcing location. Each group includes many sub criteria as illustrated in Table 6. However, not all companies consider all of them and their influences to the decision making processes vary depending on each case company.

In the case of NP, the importance of each strategic criterion is ranked from 1 as the most important to 4 as the least important one as in Table 8 below. The ranking was performed by the Product Manager of NP. It should be noticed that several criteria are disregarded as compared to Table 6. The reason is that the case company does not usually take those particular criteria into consideration in their sourcing decisions. (Räsänen 2009.)

TABLE 8. Criteria for sourcing decisions of Naisten Pukutehdas Oy (Räsänen 2009)

Strategic Issues	Rank	Criteria	Sub-criteria
Cost	4	Direct costs	Labour cost Material cost
		Indirect costs	Tariff cost
Product Quality	1	Labour	Labour skill Labour productivity
		Technological development and innovation	Technological development and innovation
		Value-added services	Reliability and relationships Supply chain management Vertical integration capabilities
Time-to-market	2	Geographical proximity	Geographical proximity to suppliers/raw materials
		Transportation time	Transportation time to markets/customers
Country Factors	3	Internal country factors	Infrastructure
		External country factors	Political and economic stability Social, language and cultural differences

As mentioned under sub heading 3.2.1, company's competitive strategy, size and requirements influence the criteria for choosing sourcing location. Because the brand NP Collection is identified with good quality, this issue is clearly the most crucial factor in the company's sourcing decision. Among the sub criteria of this issue, reliability and relationships and vertical integration capabilities are considered to be equally important (Räsänen 2009). To be specific, the first and the

most important factor for NP is that suppliers in that sourcing location are able to provide FOB contracts. They should also be willing to make the order quantities that NP requires. Räsänen (2009) stresses that the minimum order quantities NP requires are between 300-2000 pieces/style. This amount is rather small compared to the industry's average. As the company has such small scale, it is interested in locations where there are small or mid-sized manufacturers who are able to make full-package contracts, as mentioned earlier.

The experience that a supplier has regarding their previous partners and products are also helpful in evaluating the reliability and prospects for long term relationships (Räsänen 2009). In other words, NP usually looks for suppliers who have been working with European buyers. The company is also interested to know whether suppliers have been making similar types of garment in terms of quality and style as those that NP are working with.

The second important factor in NP's sourcing decision is time-to-market. The company usually considers both the geographical location and time to transport products from suppliers to Finland. As noted earlier, the company decides different types of garments to be produced in different countries based on the feature and requirement for replenishment of the products. Vietnam is only a suitable sourcing location for styles in the collections which can be planned ahead. As noted under sub heading 6.2.2, there is less pressure on suppliers of NP as compared to the global industry's standard regarding the time-to-market. For styles in the collections, suppliers usually have 2-2.5 months for bulk production. In addition to the delivery time of bulk production, it is also important that suppliers deliver the samples and products on time as required. (Räsänen 2009.)

Country factors are often considered after the product quality and time-to-market. According to Räsänen (2009), differences in cultures and languages can complicate communication and transactions which sometimes make the process longer. Infrastructure and political and economic stability are also of vital in country factors.

The least important factor in NP's sourcing decision is cost. In other words, the company does not look for the cheapest source of garments; instead the chosen source has to satisfy other factors first. Räsänen (2009) mentions that cost used to be among the most critical issue in NP's sourcing strategies not so long time ago. That was when other competitors started to make their garments in the Far East. Indeed, in order to maintain their competitiveness, the company also moved their suppliers' base from mainly European countries to countries in the Far East. Currently the company is rather satisfied with their suppliers regarding cost. (Räsänen 2009.) However, the company is constantly aware of the cost level of different sourcing locations. Once the costs of their current suppliers increase too much, cost would be again a critical criterion.

7 VIETNAM AS A SOURCING MARKET

Vietnamese garment industry has witnessed stunning development over the past decade and currently it is one of the biggest garment suppliers of the world. With clothing exports valued at 7.2 billion USD or 4.8 billion EUR, Vietnam was the world's 7th biggest exporter of clothing in 2007 (WTO 2008, 114). Within one year, clothing exports from Vietnam increased by more than 16.5% to reach 6.1 billion EUR in 2008 (Textile World Asia 2009).

Current vibrancy is a result of the Doi Moi economic reform in 1986 when the country slowly opened up to international markets. By late 1990s, the EU was the main destination for Vietnamese clothing export as a result of bilateral agreement signed in 1992. A US-Vietnam Bilateral Trade Agreement was signed in December 2001, which led to a significant reduction in import tariffs in the US market. Consequently, clothing export from Vietnam to the US increased by more than \$900 million or €605 million between 2001 and 2002. (Thomsen 2007, 759-760.)

The future for clothing industry in Vietnam looks promising. The country joined WTO on 11 January 2007, giving it the opportunities to quota-free access the major consuming markets, including the EU. In addition, the industry receives strong supports from its government. Vietnamese government has invested significantly in machineries and technology to upgrade the upstream sector and consequently the garment production.

Despite the government's plan and investments, Vietnamese garment industry is so far still locked in a low value added production and its main advantage is still cheap labour. Few successes have been gained on upgrading the production of garments. The main obstacle for Vietnamese garment industry is an underdeveloped upstream sector, especially production of fabrics. That leads to the fact that FOB is not possible among many Vietnamese garment manufactures. Vietnamese garments exported are mainly among low market segments.

7.1 The upstream sectors of Vietnamese garment industry

As mentioned in chapter 2, the availability and development of upstream sectors, especially fabrics have direct influence on the garment industry. Therefore, in order to evaluate the Vietnamese garment industry, it is of essence to study the country's upstream sectors.

Currently Vietnam relies heavily on imported materials for its garment export sector. By the end of 2008, the value of imports of materials reached 5.4 billion EUR, which is more than double the 2.1 billion EUR worth of these imports in 2002, as shown in Figure 9 below (VITAS 2009b). As compared to the total exported value of garments in 2008 which is 6.1 billion EUR, the imported value of materials is extremely high. In other words, the value added by the Vietnamese apparel industry is fairly low. This is further explained later on.

The most important input for making garment is fabric, whose import values have substantially increased. Over the six year period, fabric imports rose by more than 340 percent, from 670 million EUR in 2002 to 2995 million EUR in 2008. (VITAS 2009b.) This indicates that the garment industry in Vietnam has been growing fast. The domestic upstream sectors, on the other hand, remain rather weak and do not have the capacity to serve the growth of the country's garment production.

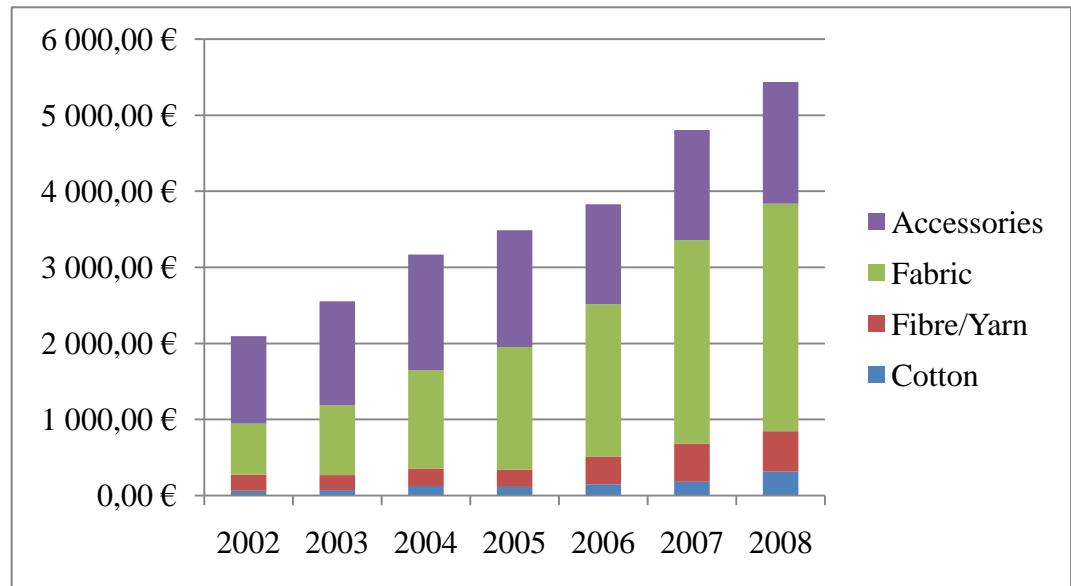


FIGURE 9. Imports value (million EUR) of material/accessories to Vietnam 2002-2008 (VITAS 2009b)

These imported materials make up a significant proportion of the final garments which are to be exported. The exact figure is difficult to get as there is not any clear statistic about this matter in the country. However, many experts estimate that the figure is about 70 – 85% of total materials needed for the apparel productions for exports (Nguyen Son 2009; Vassilieva 2008; Goto 2007, 760).

As explained in the theoretical part, the upstream sector needs more investments in technologies, machineries, management skills and knowledge than the actual garments making. Though investments in modern technologies have increased in recent years, Vietnamese fabric production is still far behind other countries in the region, such as Thailand, Indonesia and China, both in production capacity and quality. (Nguyen Son 2009.)

The biggest problems with the domestically produced fabrics are claimed to be quality, price, and timely delivery. There are also difficulties in the dyeing, printing and finishing processes. (Nadvi & Thoburn 2004, 12; Goto 2007, 5.) This is because these processes require a lot of expertise, skills, and knowledge which usually take time to acquire. This implies that the weakness of Vietnamese upstream sectors lies mainly on the level of knowledge and skills of the workforce in the

industry.

7.1.1 Domestically produced fabrics

The main fabrics that Vietnam can produce are made of cotton, cotton mixed polyester and polyester fibres (Nguyen Son 2009). However, the quantity and quality is still at a low level which can not satisfy the demands from international garment producers.

The demand for cotton in Vietnamese garment export sector is rather high, up to 200 000 tonnes annually. However, the output of domestic production was only 2 600 tonnes in 2008, which contributes slightly more than 1 percent of total demand. The domestic production capacity is further threatened by the fact that many local farmers have been cutting down cotton to switch into other crops which yield higher profits. By 2008, there were less than 7,000 ha of cotton farm area in comparison to 31,187 ha in 2004. (VietNamNet Bridge 2008a.) This means that there is even less raw materials for producing cotton fabrics.

Domestic polyester production, on the other hand, is increasing and receives big investments. Many fibre production factories are under construction, both by domestic state owned and foreign companies. Vinatex and Vietnam National Oil and Gas group (PetroVietnam), for example, has invested in a factory project to produce polyester fibre from petrochemical products. This is expected to increase the domestic production of polyester fabric significantly. (Vassilieva 2008; VietNamNet Bridge 2008b.)

Vietnam also has a long tradition and history of silk production. Nevertheless, the productivity and quality is rather low as most of the production is done by private households without modern machinery. (Nguyen Son 2009.)

It should be noticed that some of the above figures are inaccurate and therefore can be conflicting with each other as they have been taken from different sources. However, they still reflect the reality that Vietnamese garment industry is strongly dependent on imported materials, even the main fabrics that domestic producers

can make are still of low quantity and quality.

7.1.2 Future developments

Vietnamese government has clear strategy of increasing and encouraging the production of inputs in garment manufacturing. Investments have been especially put into growing cotton fields, factories producing polyester fabric, and upgrading machineries (Nguyen Son 2009).

Table 9 below shows the government's target for the domestic productions of cotton, polyester fibres, yarn and fabric. The plan is to increase the domestic inputs up to 70 - 80 percent of total materials needed by 2015. (Government web portal 2009; Phuong Lan 2009.)

TABLE 9. Expected domestic production of garments' materials (Government web portal 2009)

Materials	Measurements	2010	2015	2020
Cotton	1000 tonne	20	40	60
Polyester/Synthetic fibres	1000 tonne	120	210	300
Yarn	1000 tonne	350	500	650
Fabric	Million m2	1000	1500	2000

In order to achieve these targets, the government has planned to increase the area of growing cotton and thus increase the raw materials for producing cotton fabrics. Cotton plantations, for example, are planned to be set up in 13 localities in the central highlands and southern area of central Vietnam by 2020. Indeed, in 2009 there are 8000 ha of cotton plantation which is higher than in 2008. (VietNamNet Bridge 2008a & 2008b; VietNamNet Bridge 2009a.)

Foreign investors are also encouraged to establish factories operating in these upstream sectors. For example, the government has set up several industrial zones which create better facilities and support dyeing and printing factories and thus encourage foreign investors to step in (Nguyen Son 2009; Phuong Lan 2009.) Consequently, a US based company - International Textile Group entered a joint venture with Phong Phu, a Vietnamese company, to open a textile and garment complex at the end of 2008. The complex provides services such as dyeing, washing and finishing. There is also production of cotton and khaki fabrics. (Ngo Tuan 2008.) Taiwanese and South Korean companies are also big investors in both cottons and polyester production in Vietnam in the last ten years (Nadvi & Thoburn 2004, 12).

In addition to the plans to increase the domestic production of materials, Vietnamese government also plans to set up textile centres. These centres serve as market places where different types of fabrics, domestic or imported, can be found and traded. Therefore, these centres are considered to increase significantly the availability of fabrics for Vietnamese garment producers. (Thanh Thuong 2009.)

A recent free trade agreement (FTA) between ASEAN countries and China is expected to benefit the availability of fabrics in Vietnam. According to the FTA, tariff is abolished on 90% of imported goods, including garments, textiles, and fabrics, among countries in the agreement. These countries include big producers of fabrics such as Indonesia, Thailand and China. By 2015, Vietnam will get to import fabrics from these countries with 0%-5% tariff. (Walker 2010; Cam Van Kinh 2010.) Thus, imported fabrics will be easier and cheaper to get.

To sum up, Vietnamese fabrics and materials production is currently weak regarding capacity and quality. Even the main fabrics available in the country are of low quantity and quality. That leads to high proportion of imported fabrics for garment production, especially high quality ones. Vietnamese government has plans for expanding the capacity of these productions. There have been some signs that the production might increase. However, it might be difficult to say whether the government will achieve its targets, especially when they are so high in comparison with the current situation. In addition, it should be noticed that these plans do not

focus so much on improving the quality and diversity of domestically produced fabrics but aim mainly on increasing quantity.

7.2 The Vietnamese garment export sector

The garment industry has been the second biggest exporting sector of Vietnam for a long time, after crude oil, contributing significantly to the country's development. Despite the global financial crisis, the first 8 months of 2009 has witnessed the rise of garment exports' values over that of crude oil to become the biggest export sector of the country (GSO 2009). An overview of Vietnamese garment exports over the last decade is given in Table 10.

TABLE 10. Vietnam's textile and clothing exports 1995-E2009 (VITAS 2009a)

Year	Value (Mil. EUR)	Growth rate %	Year	Value (Mil. EUR)	Growth rate %
1995	572		2003	2457	32.78%
1998	909	58.94%	2004	2937	19.54%
1999	1175	29.31%	2005	3254	10.76%
2000	1272	8.30%	2006	3986	22.51%
2001	1319	3.70%	2007	5232	31.26%
2002	1851	40.27%	2008	6140	17.35%
			E2009	6254	1.86%

Clothing exports of Vietnam in total have been gradually rising, especially after 2001. The strong rise in 2002 can be totally assigned for the US market when the trade agreement was signed in 2001, as seen in table 11 below. Export growth, however, slowed down in 2005 at 10.7%. (VITAS 2009a.) This was an impact of the phasing out of MFA at the beginning of the year. As discussed under sub heading 2.3, all countries in WTO started to enjoy quota free access to the US and EU market in 2005, therefore buyers turned to manufacturers in countries such as China and India for their clothing. Since 2006, however, China has been subjected

to safeguard quotas on several categories when exporting to the US and the EU. In addition, Vietnam joined the WTO at the beginning of 2007. As a result, buyers returned to Vietnam and the country's exports have soared since then.

The global financial crisis, which has resulted in lower demand in the main markets, has shown its impact in Vietnamese garment industry in the years 2008 and 2009. Exports to the US and EU slightly reduced by 5% and 4% respectively within the first six months of 2009. However, these negative impacts have been compensated by increased exports to other markets such as Japan, South Korea, Taiwan, and Singapore. As a result, Vietnamese export value in 2009 remain relatively undamaged by the crisis. (Vinatex 2009a.) According to CBI (2009b), Vietnam has been doing extremely well in comparison to other exporters in North Africa, Latin America, and Bangladesh. These countries see significant reduction in orders and an increase in number of factories being closed down. (CBI 2009b.)

As shown in Table 11, the US has always been the biggest importer of Vietnamese garment since 2002; especially in 2008, around 56% of total garment export of Vietnam went to the US. The EU and Japan are the second and third biggest overseas markets, with \$1.7 billion and \$820 million or €1.14billion and €551million worth of exports respectively, in 2008. (VITAS 2009a.) It should be noticed that there is difference in preferences and order quantities between the US and EU buyers. The EU buyers are generally more demanding for suppliers regarding quality and prices. The reason is that European countries have a long history of garment production and fashion. Europeans are also generally more price aware than American consumers. Meanwhile, the orders made by EU buyers are usually smaller than those by US buyers. This is due to the fact that European market comprises of many countries with different customers segments. (CBI 2009b, 5.)

TABLE 11. Vietnam's export of textile and clothing to main markets 1998 – E2009 (VITAS 2009a)

	US	EU	Japan	Others	Total (Mil. EUR)
1998	2%	39%	24%	36%	909
1999	2%	32%	24%	42%	1175
2000	3%	32%	33%	32%	1272
2001	2%	31%	30%	37%	1319
2002	35%	21%	19%	25%	1851
2003	54%	16%	14%	16%	2457
2004	57%	17%	12%	14%	2937
2005	54%	18%	12%	15%	3254
2006	54%	21%	11%	15%	3986
2007	57%	19%	9%	15%	5232
2008	56%	19%	9%	17%	6140
E2009	54%	19%	11%	16%	6254

Though Vietnamese garment export sector has been growing significantly, its growth rate is still relatively low in comparison to other exporters in the region, especially China, Indonesia, and India (Nguyen Son 2009). One of the main reasons is the heavy dependence on foreign materials, which leads to a rather low value added by the garment manufacturing in Vietnam, as discussed earlier. Table 12 below shows clearly the cost components of garments produced in Vietnam as opposed to a country with domestic textile base, India. Though the figures presented are from 2001, they are quoted in a recent material published in 2008, potentially due to difficulties obtaining more recent statistics. (Mcnamara 2008, 15.) The table still illustrates the fact that the value added by the Vietnamese garment industry is lower than that of India.

TABLE 12. Examples of the Cost Structure of the Clothing Industry, 2001 (percent of gross output) (Mcnamara 2008, 15)

Costs	Unskilled Labour	Skilled labour	Capital	Total value added	Intermediate inputs	Of which imported
India	21.1	2.9	7.8	31.8	68.2	1.8
Vietnam	9.0	1.2	3.8	14.0	86.0	40.4

As shown in Table 12, cost components of clothing industry are grouped into value added and intermediate inputs. The total added value is a result of value added by unskilled labour, skilled labour and capital such as machineries. Inputs, on the other hand, are raw materials for producing garments. They are fabrics, threads, linings and other accessories for finished garments.

As can be seen in Table 12, the total value added by the Vietnamese garment suppliers is just 14 percent of the total value of finished garments. In comparison to India, this value is very small. This is mainly due to the fact that Vietnam has to import so high value of raw materials for garments which is more than 40% of total materials needed. Meanwhile, India can almost entirely produce all the needed materials for garment productions. As a result, the value added by Indian garment industry is so much higher than that of Vietnam. Another possible reason could be as well that local raw materials are more expensive for Vietnamese manufacturers than they are for Indian ones.

Among the components of total added value by Vietnamese garment industry, unskilled labour is the biggest one, as shown in Table 12. Vietnamese garment industry seriously lacks capital and skilled labour. However, as compared to India, the percentages of these components in the final value of finished garments are rather similar. This indicates that Vietnamese garment industry does not so lag behind in terms of skilled labour and technologies, even when compared with a country with developed upstream sector such as India.

7.2.1 Exports to Finland

As for Finnish market, Vietnam is not among the leading clothing exporters. In 2007, imports from Vietnam just made up 1% of total clothing imported by Finland. Nevertheless, Figure 10 shows that there has been clear increase since 2002. By getting into WTO in 2007, clothing imported from Vietnam to Finland jumped up to €19.5 million in 2008, contributing to 2.35% of total clothing imports of Finland. (Finnish Board of Customs 2009.)

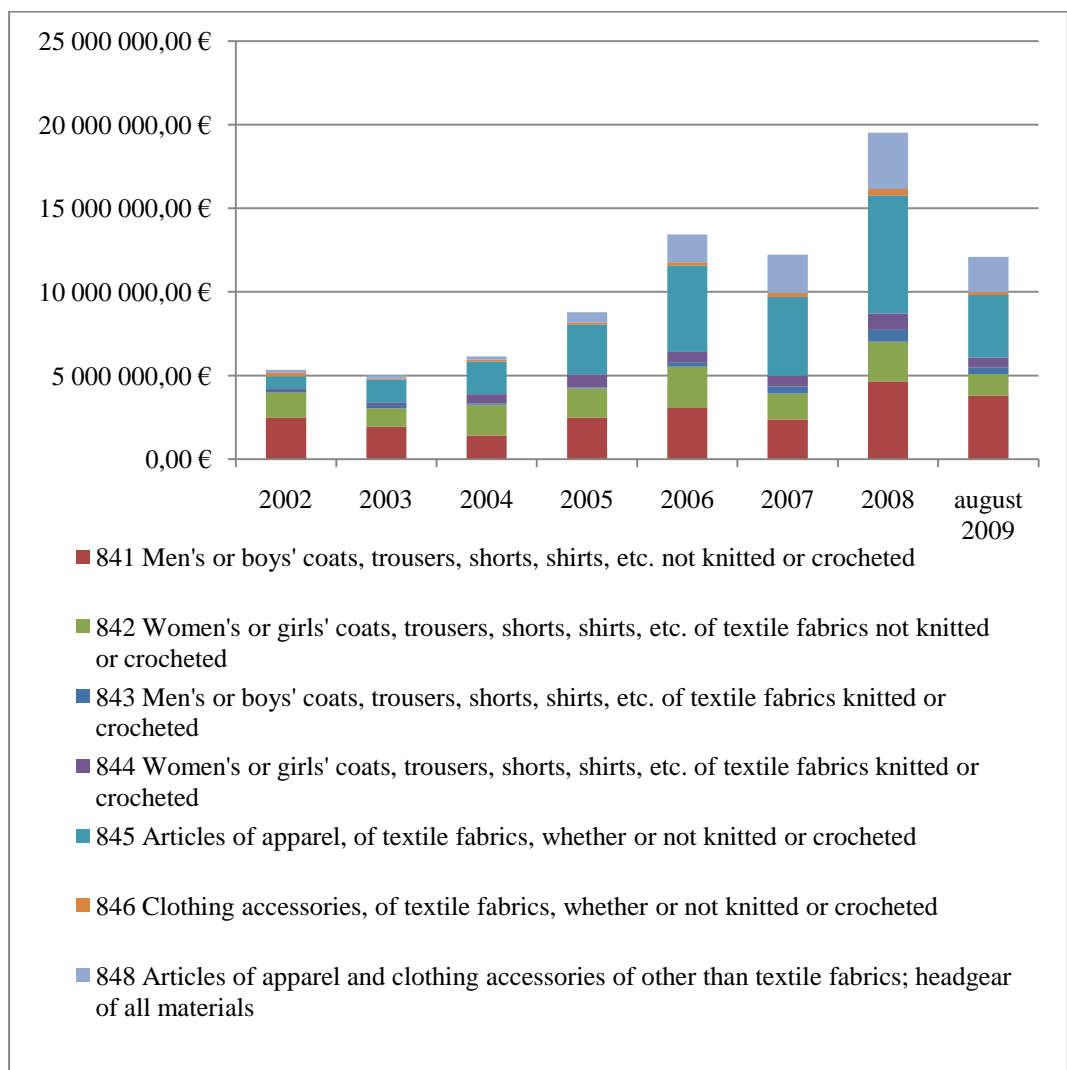


FIGURE 10. Imports value of clothing from Vietnam to Finland 2002-August 2009 (SITC 84) (Finnish Board of Customs 2009)

Top of the list are garments for men or boys that are made of fabrics covered or filled with plastics which are included in group 845 in Figure 10. These can be for example ski jackets or trousers (Räsänen 2009). Men' or boys' shirts of cotton, which are included in the group 841, also contribute to around 6% of total garment imported from Vietnam to Finland. Besides clothing, large share of Vietnam's garment exports to Finland is from fashion accessories of plastics, included in 848. Some examples of this group are plastic bags, necklace, belts and bracelets (Räsänen 2009). Detailed descriptions of SITC 84 are given in Appendix 5. There is also list of the top 20 garments imported from Vietnam to Finland given in Appendix 5.

An important fact is that most of imports of Vietnamese garments are made by wholesalers such as L-Fashion group, K-group and S-group (Moilala 2006; Juppi 2009). These are big groups who usually have more resources regarding both finance and personnel in comparison to NP. This indicates the possibility that working with Vietnamese suppliers might require more effort from buyers than working with apparel producers from other countries, such as China. It is necessary to for example arrange regular visits to the suppliers to check on quality and the production process. Another possibility is that orders made are of high quantity as big groups such as L-Fashion naturally have bigger sales than NP.

7.2.2 Industry structure

There are about 2000 clothing and textile enterprises in Vietnam, providing employment for more than 2 million workers. Of these 50 are state owned enterprises (SOEs) and 625 are foreign invested enterprises. The rest are joint stock and private enterprises, which also make up the biggest share in total. Many joint stock companies are the result of recently privatized SOEs and they are still under strong government control. Around 70% of enterprises are operating in the Southern Vietnam, centralizing around the industrial zones of Ho Chi Minh City (HCMC). (Nguyen Son 2009; Pham Gia Hung 2009.)

SOEs are generally large in size and have easy access to resources due to their close connection to the government. Thus they are rather well equipped with high

technologies and machineries. As noted earlier, they also have their own textile production which enables them to export garments using their own fabrics (Nadvi & Thoburn 2004, 13). For example, the biggest state owned corporation in Vietnam - Vinatex currently has 66 member enterprises located in all over the country. The member enterprises are vertically and horizontally integrated, from producing textiles, making garments, to supporting activities such as research, development and training. (Vinatex 2009b)

Private enterprises, on the other hand, tend to be much smaller in size and turnover. Their activities are constrained mainly by lack of financial resources and they have restricted accesses to banks loans. As a result, they do not have enough financial resources available for upgrading machineries, technologies and that also diminishes their capabilities for vertical integration in the industry. (Thomsen 2007, 761-763.)

Vietnamese domestic enterprises generally do not put so much effort into marketing activities such as contacting directly with foreign buyers. Most of these activities are performed by various trade promotion organisations, such as VIETTRADE, VCCI or VITAS. As a result, very often offers by foreign buyers are given first to SOEs as the organisations have close connections with the SOEs. Very few private enterprises have direct contacts with foreign buyers. (Thomsen 2007, 762; Schaumburg-Müller 2009, 168-169.)

Beside differences in size and resources, there are also differences in the decision making process between SOEs and private enterprises. As can be seen from the organizational chart of Vinatex in Appendix 6, there are many different departments with many levels of managements. A long and slow decision making process is inevitable. Meanwhile, in private enterprise, the owner is usually the person who makes decisions. Thus the process is often quicker in small and private enterprises. (Schaumburg-Müller 2009, 165.) However, many SOEs are continued to be privatized as part of Vietnamese government's plan to develop the garment industry (European Commission to Vietnam 2009, 18).

Companies that have been established with foreign direct investment (FDI) generally have highest productivity and their businesses are often exclusively for exports. Most of foreign investors are from other East Asian countries, such as Hong Kong, Taiwan and South Korea. The factories in Vietnam are mainly established to take advantage of the country's cheap labour costs for manufacturing. (Schaumburg-Müller 2009, 165.)

7.2.3 Export channels of Vietnamese apparel manufacturers

Large proportion of Vietnamese clothing is exported indirectly via subcontracting (Goto 2007; Thomsen 2007; Nguyen Son 2009). There are typically three types of subcontracting, as illustrated by Figure 11 below.

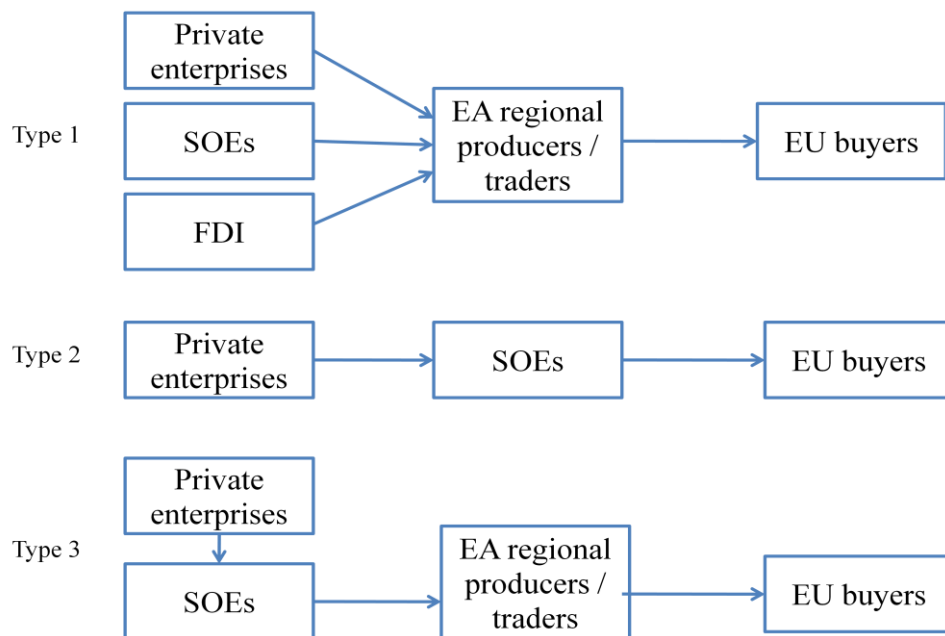


FIGURE 11. Types of indirect subcontracting in Vietnam (Thomsen 2007, 763)

The first type of subcontracting is estimated to be the most common among Vietnamese suppliers. It is often referred to as triangular production when regional producers from Hong Kong, Taiwan, and South Korea receive the orders from EU buyers and source clothes from Vietnamese suppliers or their own plants in Viet-

nam. (Thomsen 2007, 763; Schaumburg-Müller 2009, 165.)

Secondly, EU buyers buy directly from SOEs which then subcontract some of the production to private enterprises. The main reason is, as mentioned earlier, SOEs often have more access to offers given by foreign buyers who very often contact the trade promotion organizations. (Thomsen 2007, 763.)

The third type of subcontracting is a combination of type 1 and 2. In these arrangements, EU buyers contact EA regional producers or traders, who subcontract to Vietnamese SOEs. They again subcontract small orders to private enterprises. (Thomsen 2007, 763.)

In fact, about 60% of clothing from Vietnam is estimated to be exported via the EA regional producers and traders (Thomsen 2007, 7633). Even though buyers are subjected to higher costs, they are assured of quality and delivery as EA companies take care of Vietnamese suppliers' performance. Additionally, this fact supports the findings presented earlier that Vietnamese garment manufacturers do not have good marketing skills to contact directly with foreign buyers.

Regarding the export production contracts, the most common one among Vietnamese suppliers is basic assembling CMT. In particular, currently 70%-80% of Vietnamese exported garments are on the basis of CMT contract. (Nguyen Son 2009.) As discussed under part 3.2.3, contracts based on CMT basis do not require so much contribution from manufacturers and it is the simplest production contract for export. Under this contract, Vietnamese manufacturers only cut, make and trim; buyers provide them with designs, materials and transportation arrangements. Lack of domestic quality fabrics, management and coordinating activities are the main reasons why Vietnamese suppliers are still locked in this low value production (Vassilieva 2008).

The number of production contracts for export based on full package is still limited among Vietnamese suppliers. In addition, it should be noticed that there are three levels of full package contracts recognized among Vietnamese apparel manufacturers, as illustrated in Figure 12 below (Goto 2007, 9; Vassilieva 2008; Schaumburg-Müller 2009, 165).

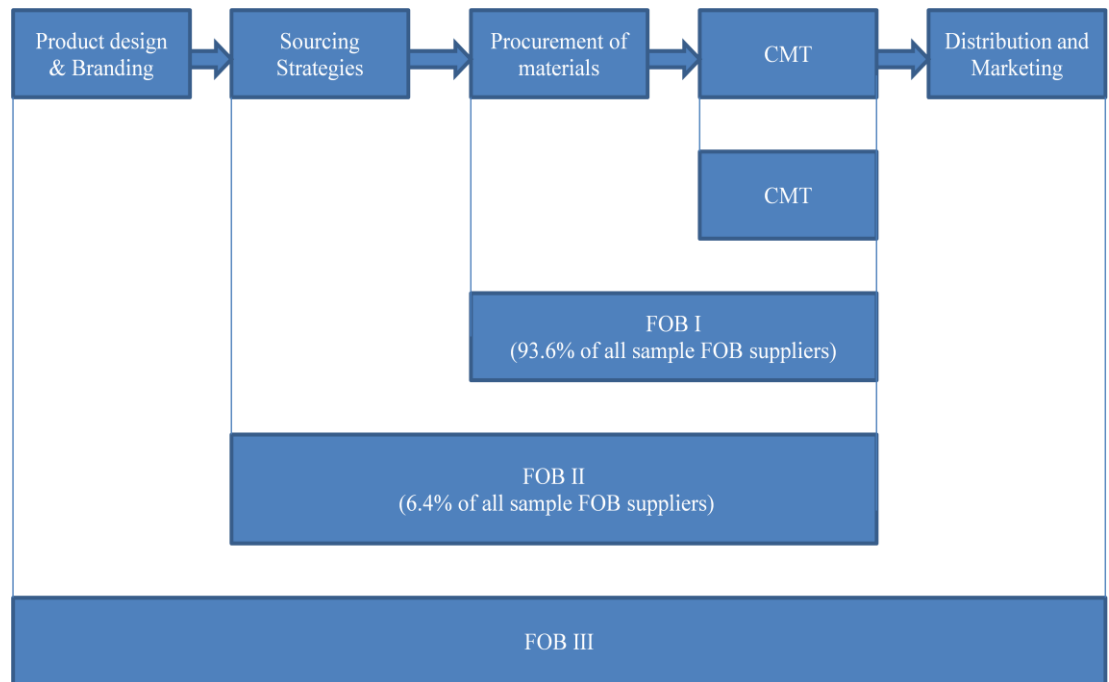


FIGURE 12. Full package classifications of Vietnamese garment industry (Goto 2007, 9)

The first level, FOB I, is considered to be the lowest level of full package contracts. This is understood among Vietnamese manufacturers that buyers have to specify the exact specification, colours, volumes, and also the suppliers from whom they should acquire the materials. (Goto 2007) This is not so much different from CMT as most of the risks and planning are still born by the buyers. Indeed, this is different from what was discussed in the theoretical part. That is, within the international context the simplest form of full package requires more responsibilities from the manufacturers. However, as Goto's field research reveals, this is the most common type of FOB contract in Vietnam which makes up more than 93% of total export arrangements (Goto 2007, 9).

On the other hand, FOB II contracts require Vietnamese manufacturers to be involved in the fabric and materials sourcing. Exported garments are still designed and sold under buyers' brand names. This is usually the simplest form expected by the international standards and it is the sort of contract that NP is looking to use with their suppliers. As about 70% of the Vietnamese production is CMT and 93% of FOB is lowest level FOB, it leaves only 1.9% of the production meets international standards regarding FOB. However, as the figures are from different sources, there is the possibility of inaccuracy in the figures. Nevertheless, they still emphasize that the international standard FOB is not a very common practice among Vietnamese supplier yet. There are few companies who are successful at this type of business arrangement. Most of them are either foreign, foreign-invested companies or SOEs and their minimum order quantities tend to be oversized compared to the requirements of NP. (Vassilieva 2008.)

FOB III is the most advanced level of garment production, which indicates that manufacturers take the whole process from designing, finding suppliers and selling garments under their own names. This type of contract does not currently exist among Vietnamese manufacturers for exports. (Goto 2007; Vassilieva 2008.)

7.3 Evaluation of Vietnamese garment suppliers

Under this heading, performance of Vietnamese garment industry is evaluated. The issues analysed are closely related to what NP requires. They are first summarized in Table 13 below and then discussed in more details under the next sub headings.

TABLE 13. Current situation of Vietnamese garment industry in terms of product quality, time-to-market, country factors and cost

Strategic Issues	Sub-criteria	Current situation in Vietnam
Product quality	Labour	- high workmanship
	Technological development and innovation	- garment technology generally meets international standards - Automated machineries for garment manufacturing are imported from Japan, Taiwan and Korea.
	Value-added services	- Not experienced in working directly with foreign buyers, as discussed earlier - Weak quality control - Low skills in supply chain management - Most common type of contracts is CMT - More interested in bulk orders
Time-to-market	Geographical proximity to suppliers/raw materials	- Proximity to China, Thailand, and other Asian countries which are the big producers of fabrics.
	Transportation time	- There are potential problems as most of the materials are imported
Country factors	Infrastructure	- Is still weak. Roads, railways and ports are inadequate to cope with the country's economic growth - Increased investments from the government and foreign investors.
	Political and economic stability	- Politically stable, but economy is strongly affected by rising inflation - Strong support from the government - One of the most corrupt countries - Pressing for privatisation of SOEs. More attracting for foreign investors.
	Social, language and cultural differences	- Difficulties in communication, as many companies do not use marketing and emails effectively
Cost	Labour cost	- Among the lowest labour costs in the

	world
Material cost	- Most of materials have to be imported. - Import tax will be abolished when importing from China, Indonesia, Thailand in 2015 due to FTA
Tariff cost	- No tariff cost to EU for certain types of products.

7.3.1 Product quality of Vietnamese garment industry

In short, Vietnamese garments are of low-end market segments due to limited availability of high quality fabric. Main types of garments exported from Vietnam are primarily made of cotton, polyester-cotton mixed, and polyester fabric. (Thomsen 2007, 760; Goto 2007, 4.) To be more specific, garments that have the biggest shares in total exports of Vietnam in 2008 were T-shirts, polo shirts, trousers of cotton, jackets, and shirts of cotton (Nguyen Son 2009). They are usually standardised items which are not so complicated to make.

The reason for the low-end production does not lie in workmanship. In fact, Vietnamese labour is rather well-known for their skills. They are hard-working and pay attention to details. Though the garments exported are in low-end segments, they are at relatively high quality for those segments. (Knutsen 2004, 556; Nadvi & Thoburn 2004, 12; Goto 2007, 2; Just-style 2007; Global Sources 2009, 3.) S-group, for example, is very satisfied with the quality of garments that they are importing from Vietnam (Sjögren 2009). There are many international brands which are famous for their exclusive designs and quality such as Tommy Hilfiger, Victoria's Secret, Lee Cooper and Pierre Cardin that have their garments produced in Vietnam (Global Source 2009, 8; Vassilieva 2008). This implies that Vietnamese suppliers generally are capable of making good quality garments.

Generally the technologies and machineries currently used in Vietnamese garment industry are relatively as up-to-date as compared to other countries in the region such as China, India, and Bangladesh. Many automated machineries for garment production have been imported from Korea, Taiwan and Japan. There have been also large investments into modern technology in recent years as the government is trying to upgrade the industry into higher value production. (Just-style 2007; Wall Street Securities 2008.)

The problems are mainly on the manufacturers' management skills and services that add value to the clients, such as FOB arrangements. As noted earlier, most of the production contracts for exports are on the basis of CMT where foreign buyers or EA companies have to closely monitor, guide and control the production process from purchasing materials to arranging for transports.

Vietnamese manufacturers, indeed, have very weak management and quality control system, which reduce the reliability of suppliers. Both textile and garment production have the same problem of unstable quality. Sometimes fabrics arrive with different colours and qualities from what was agreed earlier. (Tran Vu Nghi 2009.) This clearly hinders the production of garments for exports as it reduces the quality of finished products and increased the time to market.

Regarding relationships with Vietnamese garment manufacturers; it seems that they are more interested in large order quantities, especially the SOEs. As discussed under heading 7.2, US market has large buyers who usually have bulk orders. The EU buyers, on the other hand, place much smaller orders on average and they are also more quality and price aware. There have been significant increase of Vietnamese garment exports to the US. This indicates that Vietnamese suppliers are keener towards bulk orders of US buyers. Their customers are often big corporations from the US such as Wal-Mart, Levis and Columbia, whose orders are easily up to 100,000 – 300,000 pieces per style. (Le Xuan Duong 2009; Hai Dang 2009.)

Reima Group imported outdoors clothes for men and women directly from Vietnamese suppliers. At first, Vietnamese suppliers took the agreement very seriously, both quality and delivery time was as agreed. However, after several years, the supplier lost the interest as the orders are relatively small in comparison with those received from US buyers. As a result, they increased price and started to have problems with both quality and delivery time. (Patjas 2009.) However, currently the company is still working with Vietnamese suppliers for making shoes. This indicates that Vietnamese suppliers are capable of offering good quality products and services if they are interested in the relationship.

S-group, another company interviewed, is very content with the relationship with their Vietnamese suppliers. They have been working with each other for many years and there have been so far no big problems. The products that they are importing from Vietnam are men shirts of cotton. All of the company's contracts are on the basis of FOB with Vietnamese suppliers of small and medium size. Though the size of orders that this group is working with its suppliers is not stated clearly, it is estimated to be between 300-2000 pieces per order. Mikael Sjögren, the Manager of Consumer Goods Purchasing of S-group, emphasizes that they are particularly satisfied with the quality of the garments. (Sjögren 2009.)

All in all, it is not possible to make conclusion about the reliability and relationship with Vietnamese garments in general, but rather each company needs to be evaluated. However, it can be said that at the moment, most of the products that Vietnamese suppliers are good at are simple and standardized garments and outdoor clothes. Complicated products at middle and high level market segments are difficult to find in Vietnam.

7.3.2 Time-to-market of Vietnamese garment industry

At the country level, time-to-market might be a potential challenge for Vietnamese garment enterprises to become NP's suppliers. The actual garment making takes about 30 – 45 days but the total time to market is estimated to be 60 – 90 days (Nguyen Son 2009; VITAS 2006, 7). Meanwhile, the average time that NP requires for bulk production is 60 – 75 days.

Vietnam has the advantage of close location to the big fabrics producers. These include Thailand, India and especially China. However, due to the overdependence on these countries for raw materials, longer time to market and delays might possibly occur. Vietnamese garment producers have long lead time in acquiring necessary materials as most of them come from abroad. Upon arrival, there might be problems with the quality or colours of materials which increase the lead time to get the right ones delivered.

In addition, very few suppliers in Vietnam have machineries for activities such as dyeing, printing and embroidery. Most of these activities have to be outsourced to other companies. This further complicates the production process and thus increase the lead time and time-to-market. (Nguyen Son 2009.)

Above information is collected at a general level due to limited resources. Time to market should be, however, evaluated based on firm level. To make valid conclusions about time to market, more research or experience with individual firms is necessary.

7.3.3 Country factors of Vietnam

In general, Vietnamese political environment is rather stable. The country is under one ruling party – the Communist Party of Vietnam and the party is very eager and active in joining free-trade agreements with many countries in order to boost the country's economic development. (EIU ViewsWire 2009.) However, Vietnam is among the most corrupted countries of the world which is a threat for its development in the long term (BMI 2010, 20).

Currently, as mentioned earlier, the country is a member of WTO which gives it quota-free access to the EU, including Finland. Vietnamese exports are also covered by Generalized System of Preferences (GSP) Plus scheme of the EU which gives their goods preferential access to the EU market. In particular, garments from Vietnam are exempt from duties when imported into the EU. (CBI 2009b, 4.)

Vietnam's economy has been growing extremely fast in recent years. However, since the occurrence of global crisis Vietnam has been also affected due to its over reliance on exports for economic growth. Roughly 70% of the country's income comes from exports. The year 2008 saw the lowest year-on-year growth rate since 1999, which is 6.2%. This figure is forecasted to be even lower for 2009. However, as the world's demand is expected to recover in 2010, Vietnam's growth rate is also expected to bounce back to 6.6%. (HSBC 2009, 3.)

As a result of strong growth, Vietnamese economy has been suffering from rocketing inflation. As reported by HSBC (2009), the inflation went up to 23% in 2008. This created many challenges for apparel manufacturers in the country. Many of them had to increase wages for workers for fears that they would leave the company. However, as the growth rate is slowing down, the inflation rate is reduced to 9.5% and 11% in 2009 and 2010 respectively (HSBC 2009, 4).

Though Vietnam has a large labour force working in the apparel industry, the workforce are not stable due to low wages. It is easy for workers in the apparel industry to switch companies or even to other industries. Currently many apparel manufacturers in Vietnam do not have enough workforces to fulfil all the orders. Thus many of them have to outsource to other companies in order to be able to accomplish the contracts. (VietnamNet Bridge 2009b.)

The current infrastructure of Vietnam is inadequate to support the economic growth of the country. However it is expected that between 2009 and 2014 development projects for infrastructure will make up 48% of total construction industry value, which is higher than the global average of 36.4%. This is because investment in infrastructure is the priority in the government's plans. Foreign investors are also encouraged to invest into the country. (BMI 2010, 5&19.)

Another major obstacle for the growth of Vietnamese garment industry is the fact that many big SOEs are still in existence. As discussed earlier, they get easy access to banks loans, resources as well as to contacts with foreign buyers. This clearly limits the development of private owned companies. However, as the government aims to further develop the country, there are efforts to privatise the

SOEs and liberalize the banking sector. This will hopefully make Vietnam more attractive and increase the number of foreign invested projects into the garment and textile industry. (Vassilieva 2008; BMI 2010, 22.)

In addition to the above political and economic factors, NP should also be aware of the potential difficulties due to social, language, and cultural differences. As shown in Appendix 3, it is rather difficult to get in contact with companies in Vietnam using web directories and email. Instead, they prefer face-to-face discussions. Also many companies do not have English speaking staff, especially the small and medium private enterprises. Therefore, the use of agents and intermediaries is highly recommended when approaching Vietnamese suppliers.

7.3.4 Cost of Vietnamese garment industry

The cost of labour in Vietnam currently is rather low which creates the main competitive advantage of the country in the global garment value chain. Vietnam has one of the lowest salary levels in the world in garment manufacturing. According to Nguyen Son (2009), Vice General Secretary of VITAS, the average salary for a person working in the garment industry in Vietnam is €0.2 - €0.4 per hour, which is among the cheapest levels in the world. This is in line with the figures presented by Jassin O'Rourke Group (2005), as shown in Figure 13 below.

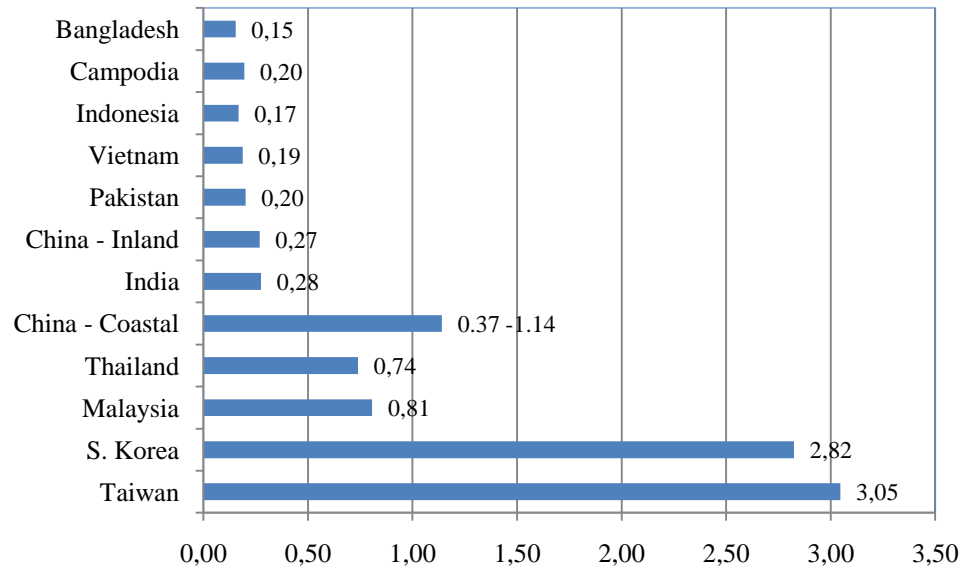


FIGURE 13. Apparel labour costs (€/hour) of selected countries in Asia (edited based on Jassin O'Rourke Group 2005)

There are differences in labour costs between different regions in Vietnam. In major cities such as HCMC and Hanoi, wages are always higher than in smaller towns. (Nguyen Son 2009.) In addition, labour costs in Vietnam have also been increasing due to lack of skilled labour and rocketing inflation rate.

The soaring price of oil coupled with appreciation of Chinese Yuan against VND has increased costs of inputs for production by 25% by the beginning of 2008. Nevertheless, export prices of finished garments have not increased as Vietnamese manufacturers fear losing their customers. (VietNamNet Bridge 2008d.)

However, Vietnamese suppliers have the benefit of the GSP Plus scheme, as mentioned earlier. Many garments from Vietnam are free of duties when exporting into the EU. This gives 12% advantage in price as compared to countries that are not covered by the scheme (CBI 2009, 4).

Several companies contacted were asked to give quotation for some products of NP. All prices quoted were significantly lower than the prices given by NP's current suppliers, which is mainly due to the low labour costs. The high exchange

rate of EUR against VND at the time had also a positive effect on quoted prices for NP (Yahoo!Finance 2009).

8 CONCLUSIONS AND RECOMMENDATIONS

Vietnamese domestic suppliers seem to be under two categories: big SOEs with high capacity and vertical integration capability and private enterprises with rather small sizes. SOEs are generally more experienced in working with foreign buyers and have high production capacity. They are also equipped with more modern technologies and are more capable of providing full package contracts in comparison with private companies. They can work directly with foreign buyers from the US, EU, and Japan or indirectly with EA companies for making orders from foreign buyers. They are more interested in big orders which usually can be more than 100,000 pieces per style.

Private enterprises, on the other hand, are more flexible and willing to work with smaller orders. However, many of them are not capable of sourcing fabrics, materials and accessories. In addition, most small size companies do not have experience in working directly with foreign buyers. Therefore developing relationship with them might be difficult at first, especially regarding language and business culture. The reason is that many of them are more familiar with working as subcontractors for SOEs or EA producers. In other words, not so many private enterprises can offer full package contracts, with exceptions of some big companies.

The field research also reveals that many Vietnamese companies, both SOEs and private enterprises; lack the basic IT skills often expected by foreign buyers. Very often it is difficult to contact them on internet or email. This is different from Finnish business culture where modern-day business communications tools such as websites and emails are used frequently. Therefore, companies interested in making garments in Vietnam must be aware of this fact. Instead of contacting through emails, calling or meeting might be more appropriate for contacting Vietnamese suppliers.

Fabrics available in Vietnam are mainly cotton, mixed cotton polyester, polyester and silk. However the capacity of the Vietnamese textile industry is still rather low. Qualities of these domestic fabrics are also low. Most of the materials, especially high quality ones are imported and thus potentially increase the lead time of

production. Vietnamese suppliers might contract for 60 – 80 days, but these can easily be overdue if there is any problem with the materials received.

There are also many garment making plants in Vietnam established by foreigners, mostly from EA countries such as Taiwan, Hong Kong and South Korea. And the number of these manufacturers is increasing. These plants are established as EA companies seek for cheaper source of production as a replacement for their countries' rising labour costs. Their machineries, garment quality, and productivity are higher than Vietnamese domestic producers. They are also more experienced in working with Western business culture and expectations. In addition, they are more capable of providing full package contracts as they have the resources, skills, and wide networks for finding materials.

8.1 Future prospects of Vietnamese garment industry

Currently the competitive advantage of Vietnamese garment industry lies principally on its low labour costs. However, this competitive advantage is rather vulnerable and short term as there are always new countries entering the industry that have lower costs than Vietnam. Therefore, continued competition on CMT production is not a long term solution for the Vietnamese garment industry.

It can be expected that in the near future FOB production will be more common among Vietnamese suppliers. First of all, as discussed under heading 7.1, the government has been putting lots of effort into building the upstream sector. The plan is to increase the domestic supply of raw materials for the garment industry and thus increase the capability of FOB production. Secondly, many foreign companies are also encouraged to invest into this sector. Indeed, several Korean and Taiwanese factories have been established as noted earlier. These are actually the real hopes for increasing the quality of textiles made in Vietnam. Though many textile factories have been built up by SOEs, they are more focused on quantity rather than quality. Besides, in order to produce good quality fabrics more factors than just machineries and technologies are required. These include special skills and knowledge which might take time to acquire.

In addition to building up the textile factories, several textile centres are under way to be opened as well, as discussed under sub heading 7.1.2. In the future, it is not important whether a country or company has the vertical integration capability. Indeed, building vertical integration might create impediments for the production process. First of all, vertical integration means that more investments are required for machineries and building up textile production. Secondly, it reduces the flexibility as firms cannot change the quality and quantity of fabrics when needed. Once a factory is built up, it is used for producing certain types of fabrics. If there is demand for other types of fabrics, firms face difficulties with their own in-house facilities. Also there are other countries or firms who are more competitive in producing fabrics. It would be more beneficial and cost effective to purchase fabrics from these suppliers. Therefore, the textile centres are expected to contribute significantly to the upgrading process of Vietnamese garment production. Having these textile centres can provide Vietnamese garment manufacturers with a variety of foreign materials.

Among the Vietnamese domestic manufacturers, SOEs will probably lead the upgrading process as they are the ones who have more resources as well as experience in working with foreigners. However they are also restraints for the development of the private sectors. In the future, it is expected that the number of SOEs will be reduced but the government will still maintain its control over the industry which might bring the problems.

The current CMT production, in a way, is helping Vietnamese manufacturers in learning new skills in production. As foreign buyers want to ensure the product quality, they give Vietnamese suppliers advice as well as transfer technological know-how about production process. Therefore, in the future, Vietnamese manufacturers are expected to be able produce more sophisticated product lines with higher quality.

The biggest obstacle for upgrading the Vietnamese garment industry is the lack of supply chain management skills. Also, Vietnamese suppliers, especially small and private enterprises are not always aware that they should be moving up to producing FOB. For some manufacturers, it might be more expensive and less profitable

for them to produce with FOB contract due to the lack of management skills.

All in all, in 5 years, it seems possible that Vietnam will be much more competitive in apparel production. Different fabrics varieties will be easier to access and thus more different types of garments, especially the high quality ones, will be available. Their exports will continue to increase in the future. As Vietnamese companies get more experience in working with foreign buyers, they will be more attractive destination for SMEs from Finland.

8.2 Recommendations

As mentioned earlier, the order quantity of NP ranges between 300 and 2000 pieces per style which is rather small. Vietnamese SOEs are clearly not interested in working with NP. Only small and private enterprises are potential partners for NP. However, if NP wishes to work direct with them, the company has to supply materials or at least, show them where to buy as most private enterprises are not capable of doing that by themselves at the moment. This would mean that NP would have to change their current strategies and policies regarding suppliers. And also this would require NP to use more of its own resources in the production process. Therefore, this is hardly an attracting alternative for the case company.

NP could possibly work with agents and intermediaries as well. This option obviously increases the costs as compared to the situation where NP would work directly with the suppliers. However with the current situation of the Vietnamese garment industry, this is probably the only option if NP wishes to have their garments made in Vietnam. Agents will assist NP in finding the suitable suppliers in Vietnam. NP can also make the contract to produce garments under full package basis with agents. The agents are, then, responsible for finding fabrics and all other materials needed for the production. As most agents are experienced in working with foreign buyers, using them would also solve the difficulties of communication, quality control, and timely delivery. In addition, an agent would source the materials from where they get the best deals, which does not necessarily mean Vietnam.

In fact, currently NP is working mostly with agents as well when making their garments in China. They can possibly encourage their current agents to migrate and set up new plants or networks in Vietnam. In that way, the company can continue its relationship without having the risks of establishing relationships. Also, the current advantage of Vietnamese low labour costs is exploited.

Regarding the types of products, currently low-end product groups such as basic garments of cotton, shirt, and trousers seem to be the strength of Vietnamese garment producers. Therefore, it might be easier for NP to find suppliers of these types of garments in Vietnam. Also, during the process of carrying out this study, the researcher found that fashion accessories such as fashion bags and jewellery are potential products that NP can source from Vietnam. At the moment, these products are more promising for NP to source from Vietnam as compared with garments. Firstly, they are among the top products that are imported by Finnish companies at the moment (Finnish Board of Custom 2009). Secondly, several Vietnamese producers of fashion bags were initially studied and their prices seem to be significantly lower than other suppliers of NP from China. In addition, production of these items do not require so many different techniques, machineries and skills as compared to garment making. Consequently, it is easier to train the suppliers and control the desired quality in making these fashion accessories.

The foreign invested companies are also potential partners for NP as they satisfy the requirements such as full package contracts, product quality and high management for reliable relationship. They can also provide NP with more interesting materials as they have networks and resources. Even though foreign invested companies have higher prices as compared to domestic companies, they clearly provide higher value added services for NP. However, it is also doubtful whether these companies agree to make NP's orders. They are established to produce the orders that their head offices in for example, Hong Kong receive from foreign buyers. This is probably a rather similar situation with other joint stock companies who might have contracts with their foreign investors and might not be interested in producing for third parties such as NP.

The Vietnamese garment industry currently is more suitable for companies who have larger resources or whose competitive strategies are on low cost competitiveness. If the order quantities are large enough, these companies can easily work directly with large companies. They can also make direct investment themselves into Vietnam by establishing representing offices or creating partnership with Vietnamese companies to produce their garments. This would be certainly more costly for the companies. However, it would ensure the quality and delivery of orders for the buyers.

After evaluating all the options, it can be concluded at a general level that the Vietnamese garment industry does not satisfy the criteria and requirements set by NP at the moment. Cost, which is the competitiveness of the Vietnamese garment industry at the moment, is not the priority in NP's criteria for a sourcing market. However, as the cost of production in China is increasing, the Vietnamese garment industry is expected to gain more share in the global garment exports especially when they are able to upgrade their process and production quality. Therefore, the company should keep on closely monitoring this market. Possibly within 5 years, they may find it attractive to start sourcing garments from Vietnam.

At the moment, a natural first step for NP could be sourcing bags and fashion accessories from Vietnam. This will help them in getting first-hand experience in working with Vietnamese suppliers. That would also give NP the possibility to build up networks and relationships with suppliers and organisations in the country. At the same time, NP's existence in the country will make it easier for the company to monitor the price levels as well as the development of the garment industry. As the Vietnamese garment industry becomes more competitive, it will be quicker and more convenient for the company to find suitable suppliers from the country and NP would already have experience in working with Vietnamese suppliers.

During the research process, three potential companies have been discovered and their contact details have been given to NP. Actions are listed that the company could take as initial steps in building relationships with the Vietnamese suppliers.

- Contact the given companies first through email, then through telephone if

emails are not answered

- Request the suppliers to send samples of products that they have made in order to evaluate their workmanship
- Give samples of materials that NP desires to make their bags with, to ensure that the materials meet NP's standard
- Request the suppliers to send counter samples of materials together with samples of materials that the suppliers are working with.

As the company is mostly interested in bags of leather, it is recommended to arrange a visit to a leather fair in Ho Chi Minh city, Vietnam which is held between 8 and 10 of September 2010. More information about the fair can be found at:

<http://www.shoeleather->

[vietnam.com/index.php?option=com_construction_information&Itemid=26](http://www.shoeleather-vietnam.com/index.php?option=com_construction_information&Itemid=26). By

visiting the fair, the company would have better understanding about materials available in Vietnam. It is also possible that the company finds contacts and suppliers for making leather bags in the fair. In addition, more contact details of suppliers of leather product in Vietnam can be accessed at:

<http://www.lefaso.org.vn/default.aspx?portalid=5>

8.3 Areas of future research

This study analyzes and evaluates Vietnam as a sourcing market. Information collected is at a general country level. In addition, only a small number of Vietnamese suppliers were contacted among the 2,000 companies in the country. The fact that each company in a country has different performance should not be ignored. It is possible that there are some companies in the country who might meet all of NP's requirements.

This indicates an area for future research. Individual companies can be studied regarding their potential as suppliers for the case company. Further research would be particularly useful in evaluating the reliability and relationship and technological capability. Field research in the form of company visits would be commendable.

As mentioned under heading 1.4, this study just discusses the very first step of the sourcing process, which analyses and evaluates the supply market. Implementation of the sourcing strategies is excluded from this study. Therefore, future research could be conducted on the transportation, logistics as well as import-export procedures from Vietnam to Finland. These factors have a significant effect, especially on total costs and time-to-market of having garments made in Vietnam.

In addition, the same study should also be conducted in 5 years or even sooner. This is expected to give a different result as the industry is growing and changing fast. It is likely that the Vietnamese garment industry is going to be more attractive for SMEs within this time period.

9 SUMMARY

This study is designed to answer the question: Would Vietnam be a potential sourcing market for Naisten Pukutehdas Oy? In order to answer the question, background information regarding the apparel industry and sourcing strategies are needed and sub-questions are also formulated.

The apparel industry is one of the most global industries in the world with production and marketing activities scattering around the globe. Due to its labour-intensive nature, the productions of garments in developed countries have been increasingly arranged offshore for the advantage of low labour costs. Nowadays, most of the production is performed by firms in developing countries. Meanwhile the largest proportion of the world's apparel consumption is in developed countries.

As the trend to move production to developing countries increased during the 70's, developed countries in the EU and the US had established the MFA to restrict the imports from these countries and thus protect the local producers. In spite of this, imports from developing countries continued to rise and more countries joined the production networks as the result of the MFA. The decision to source garments at the time was mainly about cost and availability of quotas.

Since the phase out of MFA in 2004, buyers can source their garments from any member countries of the WTO without being restricted by quotas. At the same time, the retailing environment has seen rising competition and more pressure from end customers for faster lead-times, higher quality and lower prices of fashion. Different criteria, therefore, have become relatively more important in the sourcing decisions. In addition to cost, these criteria include product quality, time-to-market and country factors. The relative importance of these criteria is different for each company, depending greatly on their competitive strategies and specific requirements.

Vietnam joined the WTO in the beginning of 2007, which helped to boost the country's exports of garments significantly. Currently, it is among the world's top

ten garment exporters with lowest labour costs. Finnish companies have also increased importation from Vietnam. One of the reasons is because the prices of garments made in China have been rising. Most of the case company's products are produced in China at the moment and the company does not have any experience with Vietnamese suppliers.

From the theoretical background, a conceptual model is established, as presented in chapter 5. The model guides the data collection and structure of this study. The first sub-question is: What criteria are important for NP when choosing sourcing location? The criteria are divided into cost, product quality, time-to-market and country factors and they are ranked by the Product Manager of the company. This is closely related to their competitive strategies which focus on a niche market. The first thing NP considers is product quality, particularly the full package contract, the minimum order quantities and their experiences in making the types of garments NP is working with. Cost, on the other hand, is currently the least important factor that NP considers when choosing their sourcing market.

The second sub-question was: What is the availability of fabrics in Vietnam? This is because fabrics are the most important inputs in producing garments. Thus, their availability is regarded as having direct influence on product quality, time-to-market and cost of Vietnamese garments. This question is answered by reviewing the literature and by email interviewing with personnel of VITAS. It is found out that cotton, cotton mixed polyester, polyester, and silk are the most common types of fabrics made by Vietnamese producers. A large proportion of fabrics, especially high quality ones come from abroad because of the low quality of the Vietnamese produced fabrics. However, it is expected that the production of fabrics as well as other materials for garment making is going to increase in the near future. Also, obtaining fabrics from other ASEAN countries, such as China, Thailand, and Indonesia, is going to be easier and cheaper as these countries just joined a FTA for free movements of goods by 2015.

The third sub-question is: Can Vietnamese suppliers meet the criteria of NP? To be able to answer this question, various sources of data and techniques are applied. They include an interview with an S-group representative, email communi-

cation with Reima group for their experiences in working with Vietnamese suppliers, email interview with a representative of VITAS and email exchanges with Vietnamese suppliers. The interview questions are formed based on the four factors: product quality, time-to-market, country factors and cost. It is found that Vietnamese garment industry currently competes mainly on the basis of its low labour costs. In addition, the main products that form a large part of the Vietnamese garments exported are of low market segments. Vietnamese suppliers, particularly the private and small size companies, are not experienced in working directly with foreign buyers. Significant proportions of garments made for exports are in the form of low value added contract, CMT, which is not the type of contract that NP wants to work with. However, it is expected that within 5 years, Vietnamese manufacturers will be able to move up to FOB production and provide higher quality garments.

It is concluded that Vietnam is currently not a potential supplier for NP. The structure and features of the market are more suitable for companies that have more resources and are more interested in minimising costs. However the company is recommended to keep on closely monitoring the development of the country as it is expected to become an attractive sourcing market for SMEs in the near future. In addition, fashion accessories are potential items which NP is recommended to work with Vietnamese suppliers.

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APPENDICES

APPENDIX 1 General steps of garment making process (Jackson & Shaw 2001, 131)

- Design 2D product: specifications for approved designs are drawn up.
- Specify sample requirements: buying firms contact manufacturers. They make request for samples and discuss about the costs.
- Base fabric tests: manufacturers send the new fabrics which have not been used before to the buying firms for approval.
- Product review/Range presentation: buying firms finally check and decide whether to keep or change colours of the garments.
- Initial/First fit sample: This sample is in the correct approved fabric, but the colour might not necessarily be right. Buying firms will give comments upon receiving this initial sample. Manufacturers then correct the sample. Generally after three times of amendments, if the fit sample is not approved by buying firms, the style is at risk of being cancelled.
- Lap-dips / strike-offs: Lap-dips are pieces of fabric dyed in a specific colours as required by the buying firms. Strike-offs are pieces of fabric with printed design. These need to be sent to buying firms for approval.
- Garment pre-production: These are the samples in correct colour and trims. They are also made in different sizes, which are called grading. These samples are checked against the initial ones and other corrections.
- Pre-production sealing: The pre-production samples are approved and are used as a sealed record to be referenced when manufacturing.
- Trim approval: Trimmings include zips, buttons, interlinings, shoulder pads, embroideries, and many other accessories. All of the samples have to be approved.
- Bulk fabric approval: This has to be done before the fabric can be cut for manufacture.
- Production sealing: The actual garment making begins.

These are the general steps of the garment making process. The actual sequences and steps are often decided depending on the companies' practices.

APPENDIX 2 Email sent to Vietnamese garment manufacturers

“Dear Sir or Madam,

We are NP Collection, a Finnish company specializing in ladies' apparel. We're looking for new suppliers of ladies garment from Vietnam.

Our brand is well-known not only in Finland, but also in other Scandinavian countries, Western Europe and Russia. NP-Collection focuses on providing high quality and well-designed garments for the middle-age ladies. We sell everything from Top to Bottom, Knit and Woven, T-shirts, Shirts, Jeans, etc. Besides clothing we also sell accessories (belts, necklace, and handbags) and shoes for ladies. You might visit our homepage to learn more about us: www.np-collection.com/england/

At the moment most of our products are outsourced for production in China. And we are looking for new FOB suppliers from Vietnam, hoping to get good quality at competitive prices. We're looking for suppliers of all the above products.

We found information about your company through the website www.vietnamtradefair.com and we'd interested in knowing more about the possibility to cooperate with your company. Could you please tell if you agree to produce with FOB contract? What are the main products of your company? What is the requirement for MOQ?

Prompt reply would be highly appreciated and hopefully we could cooperate for mutual benefit in the future.

Thanks and Regards,”

APPENDIX 3 List of rejected garment suppliers and reasons

Company	Location	No e-mail reply / e-mail error / No web-site / Website error	too big minimum order quantity	no experience with product quality that NP is looking for	no experience with export to EU
1. 19 Garment Joint Stock Co.	Ha Noi	x			
2. 28 AGTEX Co.	HCMC	x			
3. 29-3 Textile-Garment Joint Stock Co.	Da Nang		x		
4. An Phu Chau Co., Ltd.	HCMC			x	
5. An Phuoc	HCMC	x			
6. Anh Duong Garment Co. Ltd.	HCMC			x	
7. Binh Huy Garment Co., Ltd.	HCMC			x	
8. Binh Minh Garment Joint Stock Co.	HCMC	x			
9. Chau Long Garment Joint Stock	Ha Noi			x	
10. Chien Thang Garment Joint Stock (CHIGAMEX)	HCMC	x			

11. Da Lat Trading Co.	Ha Noi	x	
12. Dai Thanh Co-operative	HCMC	x	
13. Dap Cau Garment Joint Stock Co.(DAGARCO)	Ha Bac (Northern Vietnam)	x	
14. Dong Xuan Knitting Co. (DOXIMEX)	Ha Noi		x
15. Duc Giang Garment Joint Stock Co.	Ha Noi	x	
16. EKETS Vietnam Co., Ltd.	HCMC		x
17. Fashion Manufacturing-Trade-Service Co., Ltd.	HCMC	x	
18. Hiep Hung Co. Ltd.	Ha Noi	x	
19. Ho Guom Joint Stock Co.	Ha Noi	x	
20. Huu Hoang Joint Stock Co.	HCMC	x	
21. International Garment Products Company	HCMC	x	
22. Intimex Joint Stock Co.	Ha Noi	x	
23. Kami Garment Import-Export Co., Ltd. (Quang minh garment)	HCMC	x	
24. Kim Tram Manufacturing – Trading	HCMC	x	

Co., Ltd. (KTEXCO)			
25. Lawnyard Vietnam Ltd.	HCMC	x	
26. Le Stitches Export Import Co., Ltd.	HCMC	x	
27. Minh Anh Co. Ltd.	HCMC	x	
28. Minh Chau Garment-Trading & Service Co., Ltd.	HCMC		x
29. Minh Hoang Garment Co., Ltd.	HCMC	x	
30. Minh Tri Co. Ltd.	Ha Noi	x	
31. Ngan Thanh Import Export Garment Co. Ltd.		x	
32. Nguyen Hoang Exim Co., Ltd.	Hung Yen (Northern Vietnam)	x	
33. Phan Thiet Garment Im-Export joint stock Co.	Binhthuan province (Southern Vietnam)		x
34. Phu Thinh – Nha Be Joint Stock Co.	HCMC	x	
35. Phuong Dong Garment Joint Stock Co.	HCMC	x	
36. Phuong Khoa Co., Ltd. for Embroideries Garment	HCMC		x
37. Phuong Nam Garment Joint Stock	HCMC		x

38. Protrade Garment	Binh Duong province (Southern Vietnam)	x
39. S.Y.Vina Co., Ltd.	Dong Nai province (Southern Vietnam)	x
40. Saigon 2 Garment Joint Stock Co.	HCMC	x
41. Saigon 3 Garment Joint Stock Co.	HCMC	x
42. Saigon Wool and Trading Corpora- tion	HCMC	x
43. Sao Mai Joint Stock	Dong Thap province (Southern Vietnam)	x
44. Tan Minh Textiles and Garment Trade Co.	HCMC	x
45. Thach Binh Gar- ment and Trading Co. Ltd.	HCMC	x
46. Thai Nguyen Ex- port Garment Joint Stock Co.	Thai Nguyen province (Northern Vietnam)	x
47. Thanh Tri Garment	Ha Noi	x

Factory (Haprosi-mex)				
48. Tien Hong Co., Ltd Manufacturing Trading Services	HCMC	x		
49. Tien Tien Garment Export & Import Co. Ltd.	Tien Giang province (Southern Vietnam)	x		
50. Upgain (Vietnam) Manufacturing Co., Ltd.	HCMC		x	
51. Viet Dung Garment Pte. (TUGARTIMEX)	HCMC	x		
52. Viet Hong Garment Export Import Company (HOVTEC)	Ben Tre province (southern Vietnam)	x		
53. Viet Vuong Gar- ment Co., Ltd.	HCMC	x	x	
54. Y.I. Hung Co. Ltd.	HCMC	x		
55. Nguyen Hoang EXIM Co. Ltd.	HCMC	x		
56. Phuong Nam Gar- ment Joint Stock Co.	HCMC		x	
57. Sai Gon Wool and Trading Corpora- tion	HCMC	x		

APPENDIX 4/1 Interview questions for Naisten Pukutehdas Oy

1. What are your main products?
 - a. Who are your target customers and main competitors?
 - b. Are they low-end, mid-end or high-end products?
 - c. How do your prices compare to the market in general?
2. In your opinion, how is the competition in Finish retailing environment? Are Finnish retailers under pressure to reduce prices?
3. Are the suppliers of your company mainly from Europe, the Far East, or somewhere else?
 - a. Which one represents the biggest intake?
 - b. Why have you chosen these suppliers? The benefits of each type of supplier?
 - c. How big are the orders in general?
 - d. Do you constantly look for new suppliers? Why?
4. What are the main problems that you usually face in sourcing?
5. Which types of suppliers are used?
 - a. Are you working directly with manufacturers or with intermediates and agents? Why?
 - b. Are the contracts based on CMT (cut, make, trim) or FOB (Full package)? Why?
6. What are the most important criteria you apply in selection of new suppliers?
 - a. Cost? (labour, material, quota, tariff cost)
 - b. Product quality?
 - c. Time to market?
 - d. Country factors? (Ethical issues; Political & economy stability; Social, language and cultural differences)

APPENDIX 4/2 Interview questions for Finnish companies who have experiences in sourcing garments from Vietnam

1. What types of garments are your main product groups?
 - a. Are they low-end, mid-end or high-end products?
 - b. How do your prices compare to the market in general?
2. Are the suppliers of your company mainly from Europe, the Far East, or somewhere else?

- i. Why have you chosen these suppliers?
3. Do you constantly look for new suppliers? Why?
4. What type of products that your company buys from Vietnamese suppliers?
(Clothes only, or shoes, bags...)
 - a. Are they low-end, mid-end or high-end quality products?
 - b. What is the price level in comparison with your other suppliers?
 - c. How big are the orders in general?
5. Which types of suppliers are used?
 - a. Are you working directly with manufacturers in Vietnam or with intermediates and agents? Why?
 - b. Are the contracts based on CMT (cut, make, trim) or FOB (Full package)? Why?
6. How long have you been working with the Vietnamese suppliers? How did you find your suppliers?
7. Have you had any problems with the Vietnamese suppliers? If yes, what kinds of problems?
 - a. How about the product quality and their services?
8. What are the difficulties when importing from Vietnam?
 - a. Do you have problems in communication due to cultural and language differences?
 - b. Do you have any difficulties regarding customs, certificates or required documents for export?

APPENDIX 4/3 Interview questions for personnel of VITAS

1. What are the main garments for exporting of Vietnam? (Woven, knitted, t-shirts, shirts, sport wears, casual or formal, etc.)
2. What is the industry structure?
 - a. How many garments enterprises are there in Vietnam?
 - b. How many are state owned, foreign, and private enterprises?
 - c. Could you tell in general the minimum and maximum orders quantities of these enterprises?
3. What are the advantages and disadvantages of labour in Vietnam?
 - a. Wages?
 - b. Skills?

- c. Productivity?
4. What are the advantages and disadvantages of fabrics in Vietnam?
 - a. What kinds of fabrics (cotton, wool, silk, nylon, polyester, etc.) that Vietnam can produce domestically?
 - b. What kinds of fabrics that Vietnam usually has to import?
 - c. What is the share of imported fabrics of the total garment exports?
 - d. What is the price level of domestic fabrics in comparison with other exporting countries?
 - e. What is the price level of imported fabrics?
5. What is the most common type of export:
 - a. Do Vietnamese manufacturers work directly with foreign buyers or do they work through agents? Why?
 - b. Which is more common among Vietnamese manufacturers: cut, make, trim contract or full package (FOB) contract? Why?
6. Do Vietnamese suppliers have problems in deliveries? Why?
7. How will Vietnamese garment industry change in the near future?
 - a. What will be the main competitive advantages?
 - b. What will remain to be the difficulties?

APPENDIX 5 SITC 84 & Top 20 garment products imported from vietnam to finland 2008

SITC lev.3	Descriptions
841	Men's or boys' coats, capes, jackets, suits, blazers, trousers, shorts, shirts, underwear, nightwear and similar articles of textile fabrics, not knitted or crocheted (other than those of subgroup 845.2)
842	Women's or girls' coats, capes, jackets, suits, trousers, shorts, shirts, dresses and skirts, underwear, nightwear and similar articles of textile fabrics, not knitted or crocheted (other than those of subgroup 845.2)
843	Men's or boys' coats, capes, jackets, suits, blazers, trousers, shorts, shirts, underwear, nightwear and similar articles of textile fabrics, knitted or crocheted (other than those of subgroup 845.2)
844	Women's or girls' coats, capes, jackets, suits, trousers, shorts, shirts,

	dresses and skirts, underwear, nightwear and similar articles of textile fabrics, knitted or crocheted (other than those of subgroup 845.2)
845	Articles of apparel, of textile fabrics, whether or not knitted or crocheted, n.e.s.
846	Clothing accessories, of textile fabrics, whether or not knitted or crocheted (other than those for babies)
848	Articles of apparel and clothing accessories of other than textile fabrics; headgear of all materials

SITC lev.5		Value (EUR)	% of total
84522	Men's and boy's garments made up of fabrics (not knitted or crocheted) of heading 657.32, 657.33 or 657.34	2822690	14
84821	Articles of apparel and clothing accessories, of plastics	2397659	12
84140	Trousers, bib and brace overalls, breeches and shorts	2006165	10
84530	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted	1386612	7
84151	Shirts;of cotton	1079563	6
84523	Women's or girls' garments made up of fabrics (not knitted or crocheted) of heading 657.32, 657.33 or 657.34	1037192	5
84219	Other overcoats, car coats, capes, cloaks, anoraks (including ski jackets), windcheaters, wind jackets and similar articles (other than those of heading 842.3)	805851	
84211	Overcoats, raincoats, car coats, capes, cloaks and similar articles	744009	
84119	Other overcoats, car coats, capes, cloaks, anoraks (including ski jackets), windcheaters, wind jackets and similar articles (other than those of subgroup 841.2 and heading 841.3).	707330	
84822	Gloves, mittens and mitts of vulcanized rubber	645407	
84130	Jackets and blazers	621707	
84587	Articles of apparel, men's or boys', n.e.s.	539398	

84540 T-shirts, singlets and other vests, knitted or crocheted	506425
84260 Trousers, bib and brace overalls, breeches and shorts	494945
84551 Brassières	460093
84482 Briefs and panties	347605
84381 Underpants and briefs	226734
84470 Blouses, shirts and shirt blouses	205616
84426 Trousers, bib and brace overalls, breeches and shorts	180167
84371 Shirts;of cotton	148129

65732	Textile fabrics impregnated, coated, covered or laminated with plastics, other than those of heading 657.93.
65733	Rubberized textile fabrics, other than those of heading 657.93
65734	Textile fabrics otherwise impregnated, coated or covered; painted canvas being theatrical scenery, studio backcloths or the like
65793	Tyre cord fabric of high tenacity yarn of nylon or other polyamides, polyesters or viscose rayon

APPENDIX 6 Vinatex's organization chart

