



The structure of the fashion industry

Introduction

The cut-make-trim (CMT) stage of garment production, where cloth is turned into clothes, is a highly labour-intensive industry: as yet, no invention has been able to compete with the speed and dexterity of a worker, usually a woman, at a sewing machine. And since sewing machines are cheap and mobile, investors have, since the 1960s, been shifting their factories around the world in search of low-cost, competitive locations¹. Today, at least 50 countries look to garments to provide valuable exports and thousands of manufacturers are vying for a place in big brands' and retailers' supply chains.

Global supply chains

Big brands and retailers have become 'global sourcing companies', outsourcing the production of the goods they sell to tiers of suppliers and producers through complex international networks known as 'supply chains'. There are several reasons for this:

Low cost: investors want quality, speed and flexibility at a low price so seek cheap and compliant labour – as long as it comes with a stable economy, reliable electricity and phone lines, efficient shipping and easy access to fabrics;

Government give-aways: many governments set up export processing zones (EPZs) in order to draw foreign investors to produce goods for export with incentives such as tax holidays, investment allowances and even a 'union-free' workforce;

Tariff reductions: during the 1980s and 90s, 'trade liberalisation' saw average tariffs² on manufactured products fall from 10% to 5% in Northern countries and from around 25% to 13% in Southern countries, cutting the costs of trade in goods³;

Cheaper, real-time communications: Internet-based software systems have made real-time information exchange possible and enabled 'just in time' production and delivery coordination between producers and retailers on an international scale;

Cheaper transport: with sea-freight costs falling almost 70% between the early 1980s and the mid-1990s and with significant growth in airfreight services, the delivery costs for distant producers have fallen dramatically.

¹ The high profit stages (innovation, marketing, retailing) are not relocated. It is the low profit stages only (sourcing raw materials, production and assembly, finishing and packaging) which are outsourced.

² Tariffs are taxes levied on imports.

³ Trading Away Our Rights, *Oxfam International (2004)*, p 33

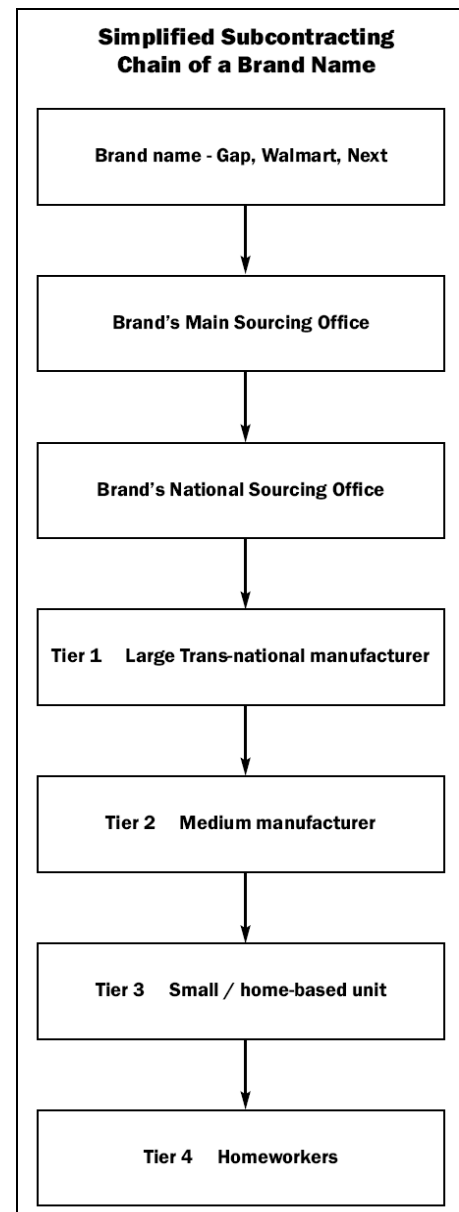
While at the top of the chain, market share has tended to concentrate between a few leading retailers and brand names, opportunities for low-cost supplier countries to join in the export boom have resulted in a dramatic growth in the number of producers and heightened competition among the world's factories for a place at the bottom of the supply chain. This imbalance – between intensely competing producers and relatively few buyers – gives retailers and brands enormous power to determine price, quality and delivery (as well as labour conditions) along the entirety of their supply chain. As one Brazilian shoe factory owner recognised: “We don't sell, we get bought”.⁴

Some retailers and brands use mid-chain suppliers to manage the production process, from fabric and component sourcing, design and product development, to identifying and negotiating with manufacturers, coordinating production, packaging and shipping services. These mid-chain suppliers have sometimes become multi-billion dollar transnationals themselves but are barely known by name. Li & Fung for instance, a leading Hong Kong-based mid-chain garment supplier, has offices in almost 40 countries⁵. It supplies major European and US garment retailers and brands, including Tommy Hilfiger and Gap, Tesco and Asda. Li & Fung started as manufacturers themselves, moving production overseas to cheaper locations when Hong Kong labour costs were judged too expensive. It now specialises in coordinating production in its own and in sub-contractors' factories. With a low public profile, mid-chain suppliers are unrecognised by consumers, are out of the eye of the media and face little scrutiny.

Sub-contracting

With or without resorting to mid-chain suppliers, the company with which an order has been lodged commonly sub-contracts the order to a second supplier, a procedure which may or may not have the approval of the buyer company. Labour Behind the Label has many times contacted retailers or brands to draw their attention to breaches of workers' rights in factories they did not know supplied them.

When UK-based Women Working Worldwide set out to research garment supply chains with partner organisations in several Asian countries, each organisation took local factories as their



⁴ H.Schmitz and P.Knorringa (2000) 'Learning from Global Buyers', Journal of Development Studies 37(2)

⁵ SOMO (2003) *Bulletin on Issues in Garments & Textiles* No. 2 July 2003

starting point. They then traced the chain first down to other manufacturers and units that subcontracted from the first factory then upwards to the retailers and brands driving the chains and the sub-contracting process.

The findings were that four-tier manufacturing chains are the norm for large retailers and international brands. Orders are sent to their sourcing offices and are then contracted out to the largest manufacturers in the producer country. These manufacturers sub-contract either all or part of the order to medium-sized manufacturers. They, in turn, sub-contract work out to smaller units and to homeworkers.

The research conducted by Women Working Worldwide highlighted the following aspects of the sub-contracting process:

The decentralisation of production: the primary motivation for relocation being to reduce costs, manufacturers relocate internationally (UK manufacturers for instance relocating to Asia), regionally (Hong Kong manufacturers relocating to Southern China) and nationally (companies relocating to smaller towns or the provinces where wages are lower and trade unions less active).

The increased informalisation of the workforce: production was found in all nine countries involved to be dominated by small-scale factories and workshops frequently employing workers on short-term or without contracts. Workers without contract cannot prove that they are employed and are thus often denied their rights. This is implicitly supported by law as several countries do not apply labour legislation to small companies. Some workers whose hours, pay and work were clearly organised by others had been told they were self-employed, most likely in order not to pay their social security contributions.

Further reading

Adapted/extracted from:

Trading Away Our Rights, Oxfam International (2004)

www.maketradefair.com/en/assets/english/taor.pdf

“Garment Industry Subcontracting and Workers’ Rights”, Report of Women Working Worldwide action research in Asia and Europe (2003)

<http://www.women-ww.org/Garment%20Report.pdf>