

Garments



September 2009 US\$100



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The aim is to give international buyers new sourcing opportunities from experienced exporters, generating orders and create lasting jobs in developing economies.

GARMENTS

Supplier capability in Vietnam

EXECUTIVE SUMMARY

Vietnam is one of the world's most prominent supply centers of competitively priced garments. As the world's fifth-largest garment exporter, the country is home to more than 2,000 enterprises, most of which provide OEM services to a large number of prominent apparel and retail brands.

A few names included in the country's impressive clientele list are J.C. Penney, Tommy Hilfiger, Disney, Wal-Mart, Lee Cooper, Li & Fung and Itochu.

The industry benefits from a vast pool of skilled labor, and numerous modern factories equipped with imported high-tech machinery.

The line is highly export-oriented, with the US and the EU as the leading overseas destinations. Combined, these markets absorb almost two-thirds of exports.

Standards compliance, particularly with ISO 9001:2000, is prevalent. A small number of manufacturers meet SA8000 requirements.

Casual and formal wear dominate as the most commonly produced items. Secondary product lines include sports and children's apparel, underwear, and sleepwear.

Raw materials are obtained mainly from local suppliers. Some of these are cotton, polyester, silk, satin and nylon, which are purchased from fabric-makers in Hanoi and Ho Chi Minh City.

Even as most suppliers are experiencing growth, the industry faces a number of challenges. Chief of these is the high cost of production brought about by rising material prices. To cope, suppliers are increasingly using locally sourced fabrics and garment components. Some are also accepting lower profits.

The following are some of the key trends we see in Vietnam's garments industry:

- Suppliers are divided as to whether prices will increase or remain steady in the year ahead. The majority of those

planning to raise quotes will implement price adjustments of 5 percent or less. None expect quotes to drop.

- Manufacturers are confident that demand from key markets will improve over the next 12 months. As such, most are expecting export revenue to increase. A considerable number project sales to improve by at least 20 percent.

- High material and labor costs will be the most critical roadblocks for players in the industry. The ability to expand to new export markets is also a significant concern.

- Designs with simple styles, better fit and improved performance will be the main trend for new releases.

This report covers different types of garments produced in Vietnam, including shirts, dresses, blouses, tops, sweatshirts, jackets, pants, tracksuits, bras, panties, undershirts, camisoles, and baby and children's clothes.

The *Products & Prices* section details the features and price ranges of each key product category. It also includes the latest trends in style and materials.

The *Industry Overview* discusses key issues affecting exporters and elaborates on the composition of the industry, highlighting key characteristics of different types of suppliers.

The majority of garment suppliers in Vietnam are locally owned. A few are foreign-invested or publicly listed. Most state-owned companies have decades of experience in the line.

Production is concentrated in the major cities of Hanoi and Ho Chi Minh, where most of the suppliers interviewed for this report are also based. Some companies maintain production facilities in Hai Duong, Thai Nguyen, Nam Dinh, Thai Binh, Hung Yen and Thua Thien-Hue provinces.

In this report

- 13 in-depth company profiles
- 20 short company profiles
- 111 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics and charts

OBJECTIVE & METHODOLOGY

This Vietnam Sourcing Report is part of a series designed to provide buyers with information on new products from export manufacturers in supply markets that specialize in handmade merchandise.

The Developing Country Sourcing Report series is part of Global Sources' corporate social responsibility initiatives. It is offered in conjunction with The Kearny Alliance, whose mission is Aid Through Trade. The objective is to help create jobs in developing Asia through export promotion.

To produce this report, larger, midsized and emerging manufacturers—all with substantial export experience—were surveyed. The selection of suppliers is designed to reflect the composition of the industry in Vietnam in terms of geographic location, materials used and range of products offered.

For in-depth profiles, our researchers visited the facilities of each company and interviewed senior executives who discussed their recent performance and provided forecasts for the next 12 months. All other companies in this report were either visited or contacted by phone.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including a breakdown of exports by product type and market. Suppliers also participated in a survey designed to provide insight into the industry.

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INDUSTRY OVERVIEW

Vietnam has gained worldwide reputation for producing a range of competitively priced garments, and offering a host of advantages for foreign buyers looking for OEM suppliers.

The country is one of the world's most important supply centers of garments with a large number of well-established international apparel and retail brands sourcing from factories there.

Vietnam also boasts an expansive pool of skilled workers and automated manufacturing facilities that utilize equipment imported from Japan, Taiwan and South Korea.

World Trade Organization figures show that in 2007, Vietnam ranked as the fifth-largest exporter of clothing in the world. Of all outbound shipments from the country, garments account for roughly 15 percent. Brisk domestic and foreign demand has helped the industry become the second-largest export earner for Vietnam, after crude oil.

According to government statistics, the country sent \$9.1 billion worth of garments and textiles to different overseas destinations in 2008. This translates to a remarkable 18 percent growth compared with the previous year.

The sector, however, has not been immune to the effects of the global economic crisis. During the first half of 2009, Vietnam's garment exports generated \$4 billion, a 4 percent decrease over the same period last year.

The US is the largest export market for Vietnam, accounting for 56 percent of sales in 2008. Despite the slump, latest official data from the US indicates that incoming shipments of Vietnam garments have not gone into the red. In the first quarter of this year, US apparel imports from the country actually increased 5 percent in terms of value. This is dramatically lower, however, from the 31 percent

surge experienced during the same period in 2008.

The EU and Japan are the second and third largest overseas markets, absorbing \$1.7 billion and \$831 million worth of shipments, respectively, last year.

Challenges

Apart from the economic slowdown, the Vietnam garments industry is facing a number of difficulties caused by external and internal factors.

Foremost of these is high production costs brought about by increasing material prices. Fabrics such as cotton, polyester and spandex became more expensive by 5 to 10 percent in the second half of 2008, due to greater demand for textiles imported from the US, India and Taiwan.

Costs of components and accessories, including yarns, buttons, labels, hangers and packaging such as polybags have also gone up by at least 10 percent. The rising cost of petroleum in the early months of this year and Vietnam's high inflation rate

Supplier summary

| | |
|---------------------|-----------|
| Suppliers surveyed | 33 |
| Export sales | \$116.7mn |
| Export ratio | 68% |
| Capacity utilized | 75% |
| Full-time employees | 55,386 |

Data: All surveyed suppliers

are among the primary reasons behind the price upswing of these materials.

To address these challenges, garment suppliers are increasingly using locally made fabrics.

Other means of facing current roadblocks include absorbing losses and accepting lower profit. Several will also implement price increases of up to 10 percent over the next 12 months in order to sustain revenue.

Intense competition for skilled labor is another cause of concern. For many workers, a salary increase of \$3 is enough reason to switch employers.

In response, most suppliers are either matching or surpassing offers by competitors in an effort to maintain their workforce.

Another issue confronting the line

Major customers

| | |
|------------------------|--|
| Dong Phuong | Apparel Essential, Kavio, Apex Global, JNL (US); Karstadt Quelle GMBH, Fashy, Alberta, Firma, Vinatrade, Moded Martk. (Germany); Melcosa (France); Gunze, Sumitomo, Shinko, Three Bambi, Shikosen Cara (Japan); Korviet, Comars, Cachee Vina (South Korea) |
| Dong Xuan | Itochu, Katakura (Japan); Awana, Golden Wheat, J.C. Penney, Target, The Children's Place (US); JBS (Denmark) |
| Innovative Development | IBM, Ford, United Pharma (US) |
| My Y My | Disney (US) |
| Thai Son | FinnFlare, Baon, Cool Air, Steinberg (Russia) |
| Thanh Cong | JCP, SanMar, Eddie Bauer, Lamode, David Sullivan, Tonix (US); Chori, Itochu, Kanematsu, Kowa, Koei, Kuraray (Japan); Melcosa (Germany); Marubeni (UK, Germany, Spain, Italy) |
| Viet Hung | Celio, Monoprix (France); George (UK); Yongo (the Netherlands); Wehmeyer, Karstadt (Germany); Springfield (Spain); Kmart, Shopko Store, Supreme, AMC, Haggar, Wilk Shirt, BAW (US) |

is the overdependence on OEM orders from clients in the US, the EU, Japan and Taiwan. Although a key driving force of the industry, OEM business also presents a problem for suppliers since they are forced to focus only on cutting, processing and trimming, inhibiting them from producing their own designs and, consequently, imposing significantly higher prices.

To balance the situation, some companies have taken steps to establish their own brands. One way of doing so is by acquiring membership in the Vietnam National Textile and Garment Group. This industry association provides technical know-how in the fields of research, training and marketing. It is currently composed of about 100 manufacturers, wholesalers, retailers and investment firms.

Other companies are unable to break away completely from the OEM business. To compensate, they supply products to large state-owned corporations who enjoy greater export quota allocations.

Industry composition

Vietnam is home to about 2,000 garment suppliers, the overwhelming majority of which are private or joint stock companies. There are close to 450 foreign-invested makers and roughly 50 state-owned enterprises. The line employs almost 2 million people at any time and has the potential of creating 100,000 jobs every year.

Small and midsize manufacturers are generally owned locally. Large factories usually have investment by the government or foreign entities and are capable of turning out at least 250,000 pieces every month. They commonly employ advanced equipment.

Highly dependent on OEM work, the industry caters to a large number of prominent international brands. These include the J.C. Penney,

Tommy Hilfiger, Victoria’s Secret, Disney, Sara Lee, Wal-Mart, Kmart, Mast Industries, Gunze, Itochu, Li & Fung, Nissho Iwai, Lee Cooper, Seidensticker and Firma Jupiter.

Compliance with manufacturing and worker-welfare standards is therefore prevalent. In fact, close to two-thirds of companies featured in this report have ISO 9001:2000 certification. A small number meets SA8000 requirements.

Casual and formal wear dominate as the most commonly produced items, with the latter having a slight edge. Seventy-two percent of interviewed suppliers make items for both categories.

Other products such as sleepwear and underwear, and sports and children’s apparel are also widely available.

Manufacturing & QC

Most garment suppliers in Vietnam perform all key production processes in-house, including pattern-making, cutting, sewing, trimming, embroidering, finishing, washing, ironing, packing and shipping.

Some manufacturers have their own fabric-making and dyeing facilities. One such company is Khatoco, which produces cotton, polyester and nylon fabrics in-house.

Another is Legamex, which produces its own garment labels.

Production steps are often subcontracted, especially for bulk orders. For example, Hanoi Textile and My Y My outsource printing, washing and dyeing. For its part, Tinh Ngoc uses its network of 100 home-based workers to carry out various processes during peak season.

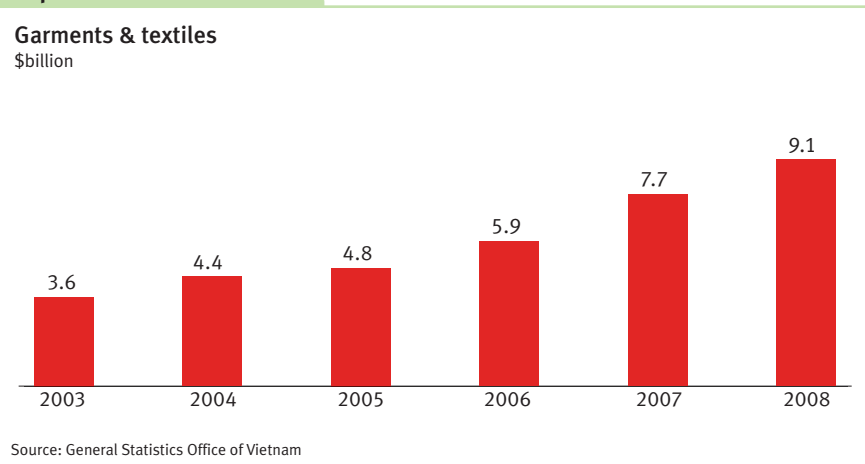
Irrespective of factory size, imported equipment is commonly used. These include cutting, sewing and knitting machines from Japan, Taiwan, Italy, Germany and Thailand.

The monthly capacity ranges from a low of 7,000 pieces to as high as 3 million pieces. Most featured suppliers can produce more than 200,000 pieces per month. Companies can have anywhere from 15 to 20,000 full-time workers.

QC checks can be carried out by two to 65 inspectors who check unfinished items after every production stage.

Some companies such as Khatoco carry out extensive physical and chemical tests. These involve checking raw materials, detecting broken needles on finished items and ensuring that products do not pose an allergic hazard. Others such as My Y My allow clients to personally inspect items.

Export value



C&T Import Export Co. Ltd

C&T is a manufacturer and exporter of garments and fashion accessories for women and girls. It was established in 2006.

The company sends its entire output overseas, with North America taking up more than half of shipments. One-fifth of exports go to the EU.

Annual sales reached \$700,000 in 2008. ODM orders account for 50 percent of turnout.

C&T emphasizes casual dresses decorated with applique, and embroidery, crocheting and smocking done by hand.

The main materials used are cotton, silk, satin and linen. These are purchased from suppliers in Hanoi. Decorative hemming is sourced from ethnic minorities located in the northern provinces of Vietnam.

Models are priced between \$7.50 and \$30. Women's shirts and tops adorned with handembroidery are usually offered for \$20. Handsmocked girls' dresses made of 100 percent cotton are available for \$7.50.

The design team is headed by the

company's director. It releases five new models per month. Orders with customized requirements are also accepted and usually finished within one week.

Current designs emphasize unique styles made of natural materials.

The head office is set up in Hanoi's Ba Dinh district. The company operates two production facilities, the larger of which covers 300sqm and has 15 full-time workers. It is located in the city of Hai Duong, which is about 40km away from Hanoi. The second factory has an area of 200sqm. Twenty employees are assigned to the various production lines in this workshop located in the Thuong Tin district of Hanoi. There are a total of 18 administrative personnel.

All manufacturing processes, including cutting, sewing, embroidering, washing and packing, are carried out in both facilities.

QC is performed by two inspectors who check unfinished items in each production stage. Before packing and shipping, the director carries out a final round of quality checks.

Capability

Materials used

| | |
|-------------------------------|-----|
| Cotton fabric | Yes |
| Polyester fabric | No |
| Nylon fabric | No |
| Functional fabric | No |
| Eco-friendly (organic) fabric | Yes |
| Silk fabric | Yes |

Exports by product

| | |
|--------------------------|-----|
| Casual wear | 50% |
| Formal wear | — |
| Sportswear | — |
| Underwear | — |
| Sleepwear | — |
| Baby and children's wear | 50% |

Exports by market

| | |
|----------------------|-----|
| United States/Canada | 60% |
| European Union | 20% |
| Europe (non-EU) | — |
| Asia-Pacific | 10% |
| Middle East | — |
| Other | 10% |

Contact details

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Company facts

| | |
|-----------------------------------|-----------------------------------|
| Year established | 2006 |
| Head office location | Hanoi |
| Ownership | Locally owned |
| Factory location(s) | Hanoi; Hai Duong City (Hai Duong) |
| Full-time employees | 55 |
| Total annual sales (all products) | \$700,000 |

Sales & output: Garments

| | |
|-------------------------|--------------|
| Annual sales | \$700,000 |
| Share of total sales | 100% |
| Annual export sales | \$700,000 |
| Total monthly capacity | 7,000 pieces |
| Average monthly output | 6,000 pieces |
| Capacity utilized | 86% |
| Average monthly exports | 6,000 pieces |
| Export ratio | 100% |

Popular export models



Model: CTV-110
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$7.50
Description: Girl's dress; 100 percent cotton; handsmocked; suitable for 3-year-olds



Model: CTV-111
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$7.50
Description: Children's romper; 100 percent cotton; sleeveless; suitable for 3-year-olds



Model: CTA-005
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$18
Description: Blouse; 100 percent silk; sleeveless; front band features floral handembroidery; size M



Model: CTA-009
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$20
Description: Dress; 100 percent silk satin; polka-dot pattern; size M



Model: CTA-901
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$20
Description: Hip-length top; 100 percent cotton; sleeveless; handembroidered front panel; decorative buttons; size M

PRODUCT GALLERY

Casual wear



C&T
(profile page 24)
Model: CTA-901
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$20
Description: Hip-length top; 100 percent cotton; sleeveless; handembroidered front panel; decorative buttons; size M



C&T
(profile page 24)
Model: CTA-902
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$20
Description: Blouse; 100 percent cotton; cap sleeves; handembroidered front trimming; drawstring at waist; size M



C&T
(profile page 24)
Model: CTA-903
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$20
Description: Dress; 100 percent cotton; sleeveless; four-button front closure; size M



C&T
(profile page 24)
Model: CTA-904
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$20
Description: Camisole; 100 percent cotton; sleeveless; size M



C&T
(profile page 24)
Model: CTA-005
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$18
Description: Blouse; 100 percent silk; sleeveless; front band features floral handembroidery; size M



C&T
(profile page 24)
Model: CTA-006
Minimum order: 20 pieces per color per size
Packaging type: Nylon bag, carton
Delivery time: 30 days
Indicated price: \$20
Description: Dress; 100 percent silk satin; full-length; size M

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