

goods. The risk, if it's a good vendor, could be worth the reward, he said.

Ultimately, the economic upheaval in the marketplace could help companies with strong underlying businesses and good practices rise to the top.

"Reputation doesn't matter," he said. "[Disgraced investor Bernard] Madoff had a reputation. Reputation is what other people think of you. Character is what counts."

RISKS IN PAKISTAN, BANGLADESH

Doing business in some of the world's cheapest sourcing markets continues to carry with it greater risks. Pakistan and Bangladesh carry some of the lowest costs available, but each carries a distinct set of risks, noted David Schwarz, vice president of merchandise support and global sourcing for Redcats USA.

Redcats has moved aggressively to more direct sourcing over the last five years. The company has lowered its risk factor despite this. Still, Schwarz said in previous years Redcats used to have "one major critical issue a month."

"Now we have one a week," said Schwarz. "We're doing a better job, but because of direct sourcing, the nature of our supply chain and our processes... and because of the increased volume, the frequency of the issues is up. I consider it normal."

Bangladesh is Redcats' third-largest supplier and, with labor rates as low as 22 cents an hour, represents one of the world's cheapest sources for cotton-dominant products. The country also has a 40 percent poverty rate and has been hit by cyclones at an average rate of one a year for the past 100 years. Recently, Schwarz said the country's government began offering millions of garment workers a 25 percent discount on rice, a subsidy that is expected to continue for several months.

"This is telling us how unpredictable and how vulnerable the emerging countries have become," said Schwarz.

The situation is far more precarious in Pakistan, where the Taliban appears to be making increasing inroads. Schwarz said studies have ranked the country to be as risky as Iran, Nigeria and Venezuela.

"There's almost a suicide bomb blast a week in Pakistan," said Schwarz. "It's increasing. Unfortunately it has been increasing year after year, and I don't see it improving."

Despite this, Schwarz acknowledged Pakistan is a top supplier for Redcats and that the "daily miracle" about the country is that product continues to be delivered on time and at a high quality.

A VISIBLE SUPPLY CHAIN

Even if owning the whole supply chain might be ancient history at many firms, brands still need to understand the influence their dollars have over suppliers, said Simon Constantinides, senior vice president and head of sales, trade and supply chain in the U.S. at HSBC Bank USA.

Constantinides calls this being "vertically aware" and believes it is vital to know how all the financial components of the supply chain work together. He advised companies to do their homework and be conservative in the down economy, but not greedy when it comes to negotiating with suppliers.

In addition to increasing visibility, working with fewer producers and being more important to them could also help companies when it comes to financing orders.

"We're more comfortable, I think, in looking at companies that have a smaller concentration of suppliers, where they have a meaningful impact on that relationship," Constantinides said. "If you're only two, three percent of a supplier's business, you don't have the impact to be aware of what's going on with a supplier."

Kathryn Cullen, senior partner with consulting firm Kurt Salmon Associates, also encouraged brands and retailers to consider their businesses in a vertical manner. The firm's research has also found that companies that take a greater role in developing product are more likely to succeed. Companies should look to move away from a focus on price and promotion in favor of developing an image of having more innovative product and a unique customer experience.

"That means they move from being merchants to also being product innovators," said Cullen.

She also encouraged forming stronger connections between designers, product developers and merchandisers.

"One of the key things that our better retailers are doing is really looking at collaboration," said Cullen.

Doing so may mean bringing these departments closer together geographically, she said. If done properly, product should improve while cost and time is removed from the development process.

— With contributions from E.C.

Keeping Tabs on Trade Policy

By Evan Clark

THE CAMPAIGN TALK OF PRESIDENT OBAMA MIGHT have morphed into a more politically pragmatic stance on trade policy, but in an area where small details can make expensive differences in supply chains, Wal-Mart Stores Inc. and other importers are still taking the measure of the White House.

"We're very much still reading the tea leaves for what the Obama administration is going to do on trade," said Sarah Thorn, Wal-Mart's director of international trade.

Obama sounded notes that were interpreted as hostile to trade last year, such as the potential renegotiation of the North American Free Trade Agreement, but Thorn said she was "fairly pleased" with the administration's policy agenda for the area, released last month.

"It's actually a fairly progressive approach to trade, that is open markets still matter, international trade still matters," she said.

duces 34.5 percent of the apparel sent to the U.S. in volume terms.

Thorn's reading of the import figures zeroed in on an overall drop in apparel shipments and a price increase, but she said there is validity to looking at the flow of trade on a category-by-category basis.

Should the domestic industry be successful in getting the administration to bring an antidumping, countervailing duty or other trade case against Chinese apparel imports, it is specific types of goods that would be impacted.

"As sourcing agents, watch your numbers coming from China," Thorn said. "Make sure that you're watching your categories and make sure you're preparing. If you're seeing monthly trends of prices declining and imports going up...you have to assume that you have a higher risk of some sort of government action."

China's currency policies, which critics say give producers in the country an unfair advantage by de-

pressing the value of the yuan, continue to draw the ire of many, but the financial crisis could delay any retaliation. This month, the Treasury Department again decided to not label China a currency manipulator.

"The rhetoric and the tone on China's currency has certainly changed in Washington, largely because they do hold \$700 billion of our debt and they remind of us that frequently," Thorn said.

In 2005 and 2006, Sens. Charles Schumer (D., N.Y.) and Lindsey Graham (R., S.C.) pushed legislation to impose a 27.5 percent tariff on Chinese imports if the country did not revalue the yuan.

If the temperature has come down on China's currency, it's only been turned up on safety issues, which also have a Chinese connection after the discovery of contaminated imports ranging from toothpaste to pet food.

Last year's Consumer Product Safety Improvement Act has had unexpected consequences for the fashion industry. The legislation requires reductions in lead levels in all children's apparel, footwear and toys, and defines children as 12 years old or younger.

"It's had an enormous impact on our suppliers," Thorn said, noting the company had pushed Congress for more time to implement the changes. "The attitude from the staff and certainly from the lawmakers was, 'I don't care, these are hazardous substances and they need to be out of the supply chain.'"

Already the legislation has complicated life for brands that have to certify their products are safe, said Mark Burstein, vice president of product life cycle management solutions at New Generation Computing Inc.

"The punishment for breaking this law could be millions of dollars in fines and prison," said Burstein.

Many brands are managing their certificates of compliance manually, sending hosts of e-mails back and forth to various suppliers to keep track of laboratory results for details as small as painted buttons.

Burstein said the safety certificates should be managed along with other shipping information and advocated his company's Web-based platform that helps keep all parties — from the factory to the brands — on the same page.

"This has to become part of a comprehensive sourcing strategy," he said. "It can't be stand-alone. It can't be one person in your company who's running it on their own laptop."



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— Sarah Thorn, Wal-Mart



Carol Miller

But trade policy as it relates to apparel and textile concerns is still a work in progress for the administration, which has yet to appoint a special textile negotiator or a chair for the Committee for the Implementation of Textile Agreements. New U.S. Trade Representative Ron Kirk did say last week any tweaks to the NAFTA agreement would likely be done without a full renegotiation of the pact, which reshaped economic relationships in North America.

Carol Miller, deputy textile negotiator in the USTR office, said Obama was focused on "making trade work for working American families."

"Trade does not stand alone from our education policies, our policies related to the environment, our policies related to energy, our policies related to transportation," Miller said. "This is all something that needs to be looked at as an integrated whole."

Much of the trade policy that concerns the fashion industry is tied in some way to China, an economic and global powerhouse that is locked into a broader strategic dance with the U.S., which often creates an overlap in political agendas.

Thorn said Wal-Mart was closely watching the regulation of apparel imports from China, which after years of waiting began flowing into the U.S. completely quota free in January.

"The domestic textile industry is extremely nervous about this," Thorn said. "They had spent a lot of time prior to the quotas coming off predicting that there were going to be surges in imports and slashed prices."

Last month, the National Council of Textile Organizations said January apparel imports from China surged in categories that had been covered by quotas, as prices dropped by as much as 20 percent. China pro-