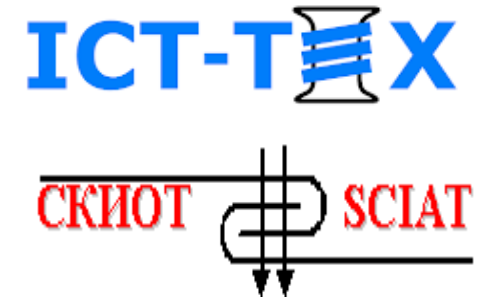




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TOPIC 7. VALUE AND SUBCONTRACTING CHAINS IN THE TEXTILE AND CLOTHING INDUSTRY

The course is developed under Erasmus+ Program Key Action 2:
Cooperation for innovation and the exchange of good practices [Knowledge Alliance](#)

ICT IN TEXTILE AND CLOTHING HIGHER EDUCATION AND BUSINESS

Project Nr. 612248-EPP-1-2019-1-BG-EPPKA2-KA

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AGENDA

- Value Chain in TCI
- Subcontracting Chain in TCI
- Supply Chain in TCI



Learning goals and objectives

In this topic the students will learn what are the value chains in the textile and clothing industry. Different models of textile, apparel and footwear value chains will be presented. The students will learn how important is the subcontracting process for the world's textile industry and for the local business and communities' growth and development. They will get acquainted with the work process and the role of the subcontractors, types of subcontracting and the main reasons for its existence. The students will learn more about the supply chains and their management.

Short summary of content

Value chain. Subcontracting and subcontracting chain. Supply chain.

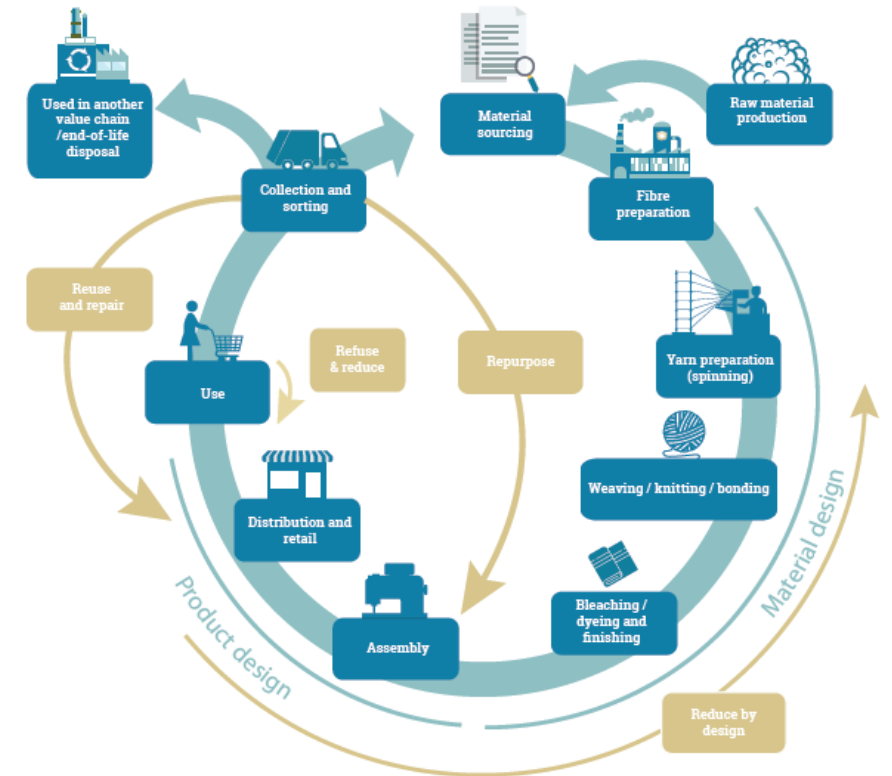
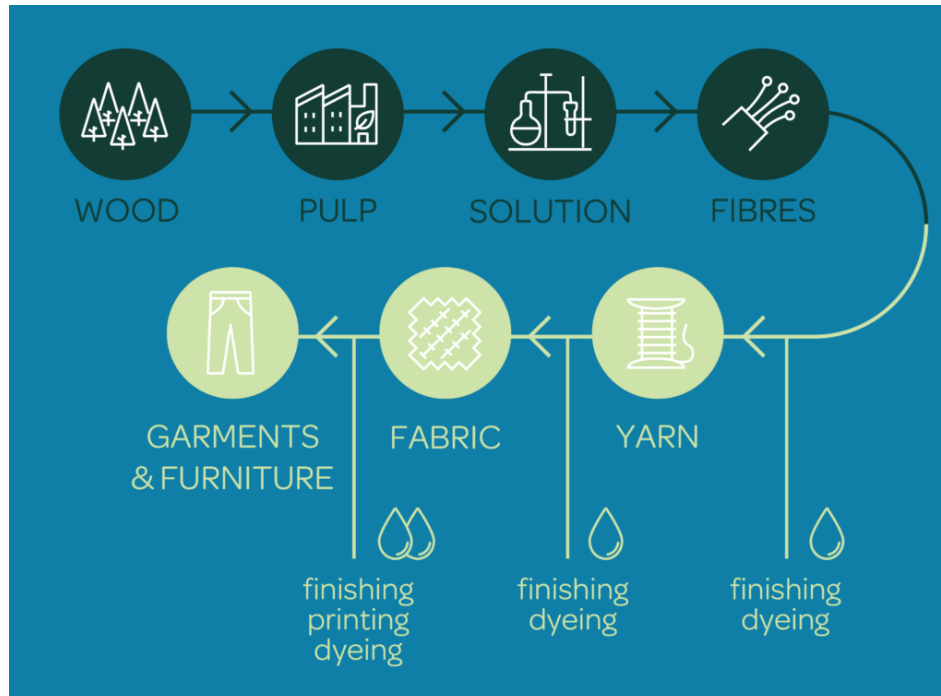
Expected results

Students to be able to identify the elements of the value chain of the textile and clothing business. To manage the subcontracting processes, as well as the supply chains of raw materials, needed for the manufacturing of textile and clothing products.



Value chain definition

- **Value chain:** All activities and organisations, associated with the flow and transformation of goods from the raw materials stage through to the end user, as well as the associated information flows.





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Water use
 Climate and energy
 Health, safety and rights



Subcontracting definition

- **Subcontracting:** Business arrangement by which one firm (the contractor or "principal"), contracts with another firm (the "subcontractor"), for a given production cycle, one or more aspects of production design, processing, manufacture, construction or maintenance work.
- **Subcontract manufacturing:** is the process by which a subcontractor performs all or part of the manufacture of the principal's product, to customized specification (of varying detail) provided by the principal.
- **A subcontracting chain:** is a part of total supply chain from raw materials to finished products including subcontractors. The subcontracting chain is responsible for manufacturing activities on a long-term basis.



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Definitions

- **Subcontractor:** The enterprise that is contracted by a contractor for the production design, processing, manufacture, construction or maintenance work.
- **Contractual agreement** to manufacture textile products usually states the quantity, type, quality, deadline, and price for which the subcontractor must deliver.





Reasons for existing subcontracting business in the T&C industry. Buyers' demands:

- Very short lead times as the time factor is increasingly important in the fashion industry.
- Uncertainty of order volume round the year;
- Getting control over manufacturing cost;
- Keep away labour issues;
- Last-minute changes as buyers may change designs, production volumes and production schedules;
- Lack of knowledge about the supplier's production schedule/capacity as the most famous brands and retailers have spread production over hundreds or even thousands of suppliers;
- Inadequate monitoring as the fashion industry rarely inspects their suppliers' factories.



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Reasons for existing subcontracting business in the T&C industry. Suppliers needs:

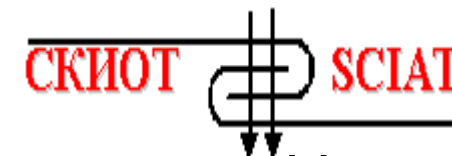
- Lack of capacity.
- Poor production planning.
- Late arrival of inputs.
- Money speaks.
- Worker actions.





Subcontracting characteristics

- In the T&C industry, large, high wage firms tend to play the role of the parent firm, and small, low wage firms the role of subcontractor.
- The subcontracting relations in the T&C industry seem to be short-term relationships. Long-term, specialization (and supplier) subcontracting seems to be quite important in the engineering industry.
- Subcontract offering firms tend to produce final products and spend more on advertisement activities than other firms.
- Foreign firms do not help in establishing a network of small subcontractors. Subcontracting flourishes where many firms are located in the same region.
- The subcontracted factories and workplaces are not formally part of the buyer's supply chain and thus corporate social compliance audits do not take place there.



Workflow of subcontracting business in T&C industry

- A subcontractor sets up a factory with sewing machines and contact with exporters for work. They show their expertise in products and facility they have to exporters and possible clients.
- Garment exporters contact with subcontractors in their location, show their samples to subcontractors and fix price per piece for making garment (in most cases – stitching only).
- Subcontractor gets cutting from exporters instead of fabrics.
- All trims and accessories are normally provided by exporters. If required, trims can be purchased by subcontractors. And expenses are billed to the exporters.



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Workflow of subcontracting business in T&C industry

- Subcontractor stitches garments. A partial garment stitch or complete garment stitching is done. Subcontractors employ piece rate operators for sewing. Stitching quality is checked by quality assurance team from the export house.
- Stitched garments are sent back to the exporter after inspection.
- Exporters check quantity received and product quality.
- Subcontractor generate invoice for each order.
- Subcontractors receive payment for their work.





Subcontracting types

- **Product subcontracting:** Principal firm contracts out complete products to subcontractor but performs marketing and sales functions. Complete apparel subcontracting by retailers/brands/buying houses is one of the common examples in the textile industry.

In selecting 'subcontractor', the most principal firms place greater emphasis on that subcontractor produces high quality products, cheaply in a given time. Other criteria are soundness of management, ability to chase delivery times, ability to offer quality assurance, ability to develop technology and planning and proposal capability.

In apparel supply chain garment exporters receive original contract from apparel brands, international buyers or retailers. These export houses get their excess production done from subcontractors.



Subcontracting types

- **Export garment manufacturers:** In pick seasons garment exporters book orders more than their own production capacity. In such situation, they look for subcontractors to get production done. In this business process, many times exporters get production done at lower cost than it would cost then by producing in-house.
- **Brands:** Domestic brands those don't have their own manufacturing facility, give cut-make-pack orders to subcontractors. Fabric and trims are sourced by brands and given to subcontractors.
- **Designers:** Designers need small quantity of garments in particular designs. They prefer sourcing fabrics and accessories by their own. They just need to stitching work by others. So they reach to subcontractors.



Subcontracting types

- **Subcontractors or manufacturers:** producers able to fulfill the orders on time according to the wishes and needs of the customer in the requested quality.

In the T&C industry, a subcontracting unit is a factory that mainly does garment stitching work. They do not need to set-up other facilities and staffs for layer cutting, garment finishing, and packing activities.

An export house can also work as a subcontractor. When an export house doesn't get enough direct business they take work from other export houses. So there is no fix definition that sub-contractors only sew garments. They can take subcontracting work from cutting to packing, provided they have in-house facilities for these.



Subcontracting types

- **Specialist subcontracting:** This type of subcontractor usually has specialized machinery or equipment and skilled labors to undertake complex and precision tasks.

Some specialist activities in the apparels like **printing, embroidery, stone effects, brushing, normal wash, enzyme wash, hand stitch, and special stitches** etc., are subcontracted to small firms/subcontractor.

CAD CAM Services offer solutions to some common problems such as:

- Problem with opening a pattern because of incompatibility of the software.
- Problem with graduation.
- If you just need to line or multiply markers and do not have the proper technique (for example plotters).



Subcontracting types

- **Suppliers of machinery and equipment:** Manufacturers can obtain the specific machinery or equipment. As manufacturer you can buy or rent (if necessary to execute a specific order, for example) a particular machine or equipment.
- **Supplier of basic (fabrics, lining) or auxiliary materials (buttons, threads, accessories etc.):** The producers need to purchase materials for their production from different type of suppliers - large and established manufacturers, as well as from smaller or retailers, according to the needs.



Subcontracting types

- **Bloggers, Influencers, Models** through which companies can present their collections of various fashion shows and events, promote their brand on social networks, as well as present their products the best way when advertising them.
- **Designers, Modelers Or Studios** with whose help companies can realize their new collections.
- **Logistics:** Services of courier and transport companies offered nationally and internationally.
- **Outsourcing (external services):** They offer various administrative, legal, consulting or marketing services in the field of fashion like **Lawyers, Notaries, Fashion Consultants and Studios, Marketing Agencies, Catering, Printers** and more.



Supply chain

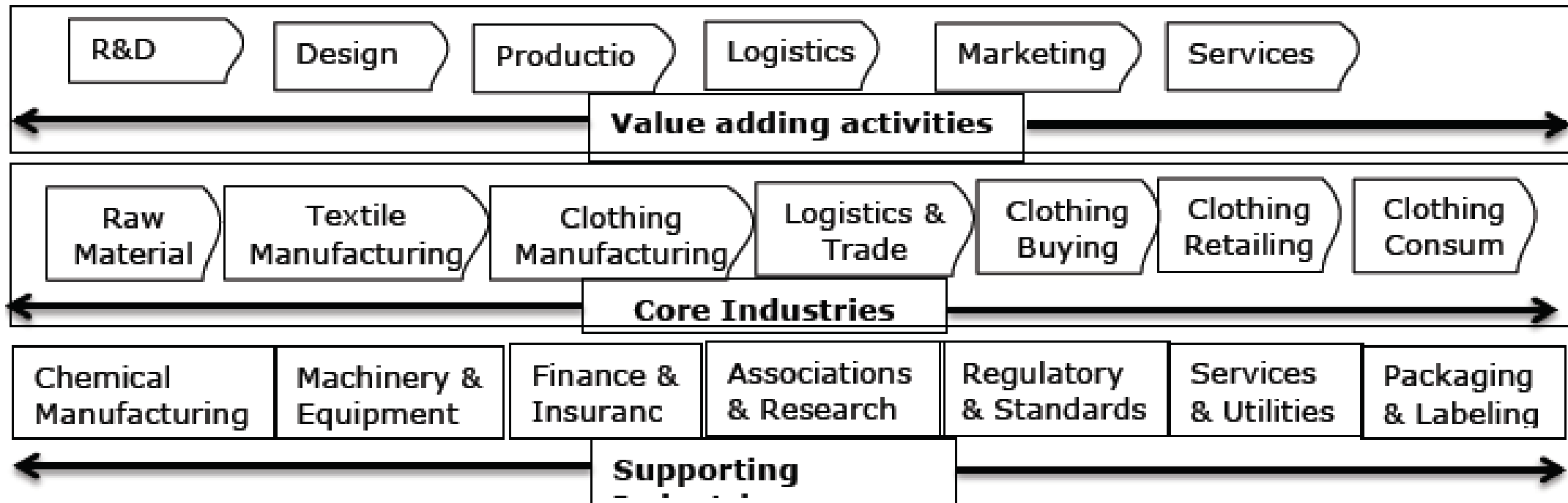
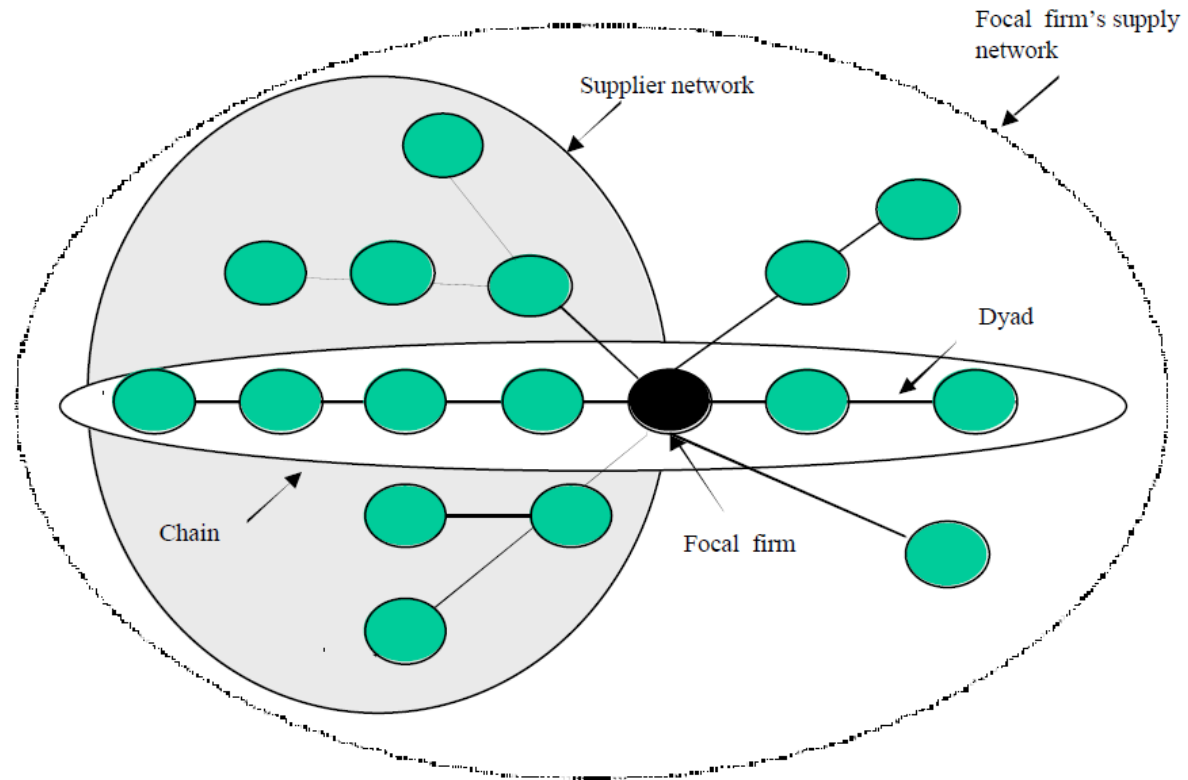


Figure 1: T&C Value Chain



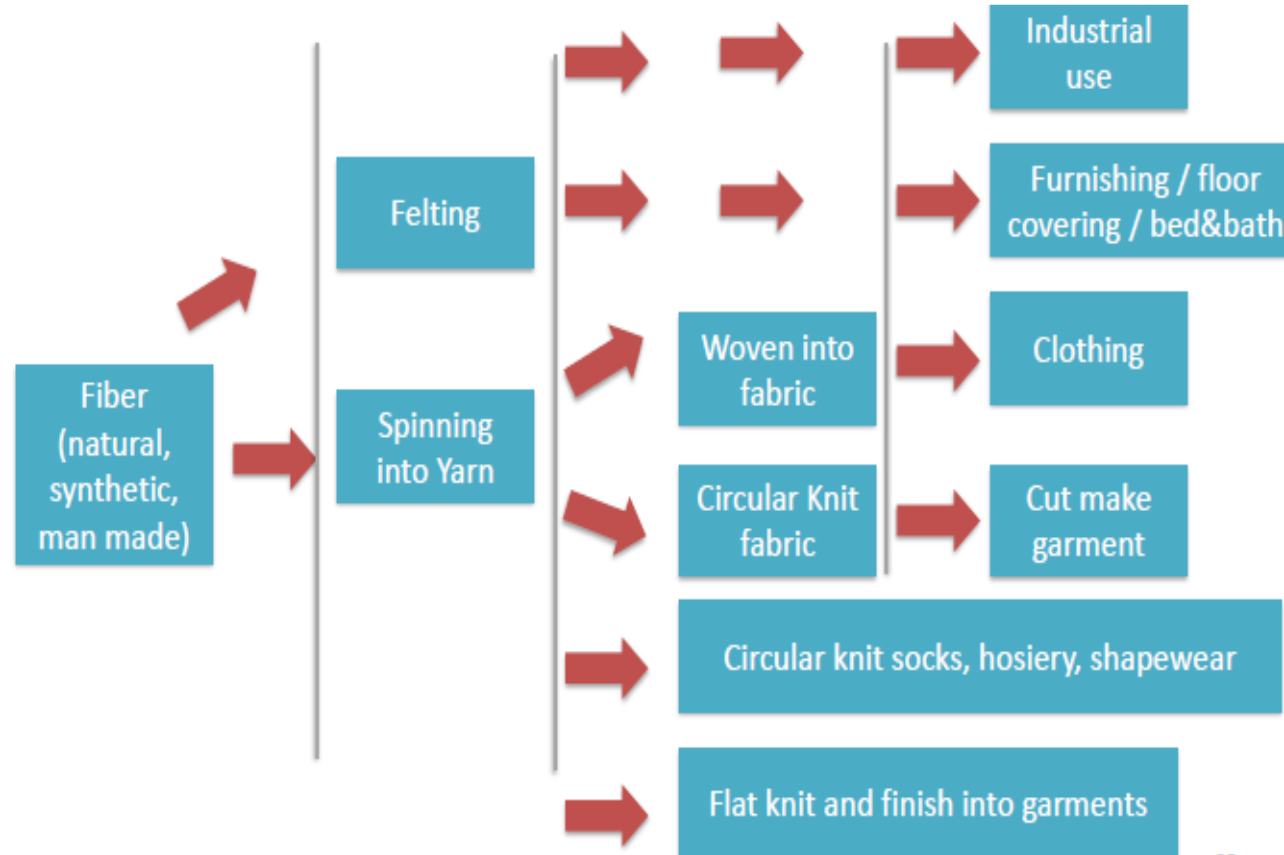
Entrepreneurial networks and short supply chains

- A supply network is defined as a set of inter-connected supply chains, embodying the flow of goods and services from original sources to end customers.





Typical short supply chains





Why short supply chain

- Lack of significant impact or outreach in initiatives focused on women's participation as work force (80 – 90 % in most garment factories are women).
- Workers' rights remains a concern despite many initiatives (mainly led by or in collaboration with ILO) in the past two decades.
- Too many audits, often with confusing requirements from different buyers, resulting in high costs for producers.
- Lack of transparency across the chain is a major issue.
- Environmental issues (water use, waste, energy) are overshadowed.
- Lack of clarity as to which initiative the factory should sign up to and what the added benefit could be compared to others.
- Price is still the determining factor for most buyers.



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The textile industry hotspots

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The textile industry supply chains, trade logistics and developing countries

- The COVID-19 outbreak led to production stops in China first, followed by closures of shops elsewhere around the world.
- Network, the body, which brings together representatives of the producing associations from Bangladesh, Cambodia, China, Myanmar, Pakistan and Vietnam, released a joint statement on the issue. It urged brands and retailers to consider the impact that their purchasing decisions during the coronavirus pandemic could have on workers and small businesses in the supply chain and, therefore, to honour their contracts with their suppliers.
- One of the concerns in this respect is that production of fashion goods could be moved away to other sourcing countries that are resuming activities faster in the Asian region or that are closer to retailers to diversify their supply chain risk. Governments in developed countries around the world are implementing unprecedented actions to ease the effect on their economies from measures put in place to limit the spread of the pandemic.



Assignment 1

See the given examples of textile or garment subcontracting [Hidden-subcontracting.pdf \(somo.nl\)](#). Think about the positive and negative sides of subcontracting.

Something
positive



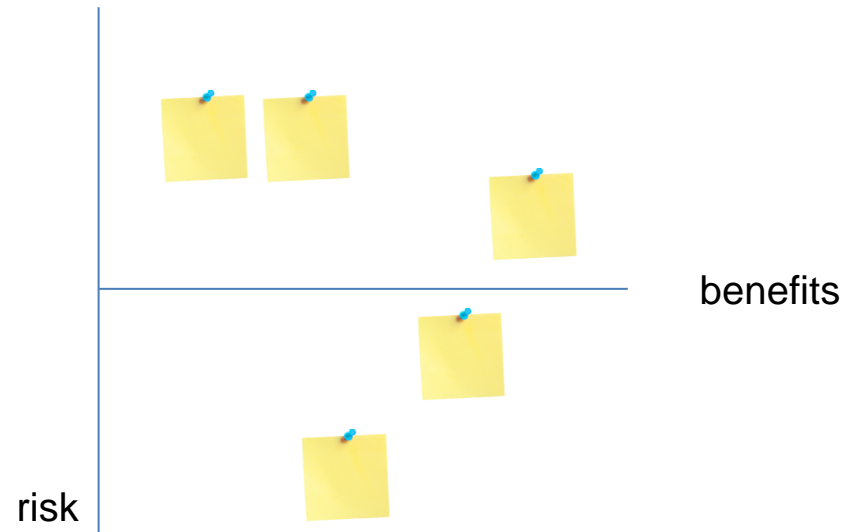
Something
negative



Assignment 2

Look at the P&G and Wal-Mart supply chain model in the article - [Textile and Apparel Supply Chains for the 21st Century \(ncsu.edu\)](#).

Discuss on risks and benefits of such networking?





Questions for discussion

- What is a value chain for TCI?
- What is subcontracting?
- What are the main reasons for existence of subcontracting?
- What types of subcontracting do you know?
- Looking at the different players in the subcontracting chain there will you place your T&C business idea?
- Make a list of apparel manufacturers you know and another list of apparel retailers that you know. Which brands and trademarks do these firms use? Do they make primarily fashion or basic products? How do the products differ?
- Which countries are the main source for subcontracting in the T&C industry?
- What are the advantages of the short supply chain?

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