

## Why Sourcing from China? A Case Study on VF Corporation's Textile and Apparel Sourcing and Supply Chain Strategy

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### Background

This study aims to explore the key factors that affect U.S. fashion companies' choice of China as a sourcing base for apparel and their textile intermediaries. Existing studies on related topics mostly looked at country-level macro trade data or focused on finished garments only (Guan, Xu, Jiang, & Jiang, 2019; Datta & Kouliavtsev, 2020). Instead, we conducted a *firm-level analysis* of VF Corporation's *entire apparel supply chain* in 2020, which included a total of 327 factories worldwide, making either finished garments or their textile inputs (VF Corporation, 2021). A case study on VF Corporation (VF), one of the most historical and largest U.S. apparel corporations, will significantly enhance our understanding of U.S. fashion companies' latest China sourcing strategy and offer unique insights into today's T&A supply chains.

### Literature review

A review of existing literature suggests a few factors that may affect U.S. fashion companies' selection of China as a T&A sourcing base. First, as China has one of the world's most complete T&A supply chains (Lopez-Acevedo & Robertson, 2012), U.S. fashion companies are likely to source from China for apparel items with a longer and more sophisticated production process (H1). Second, China is heavily involved in an Asia-based regional textile and apparel production network (Lu, 2019). Thus, U.S. fashion companies are more likely to source from China when other production processes across the apparel supply chain also occur in Asia (H2). Third, U.S. fashion companies likely use China more as a textile supplier than an apparel supplier today (H3). Notably, while U.S. fashion companies are increasingly moving sourcing orders from China to other Asian countries for finished garments, many of these garments still contain textiles supplied by China (Goto, 2017; Ngo, 2017). Additionally, product pricing and social and environmental compliance risks matter for vendor selection (Yadlapalli, Rahman, & Rogers, 2019). However, researchers could not conclude whether considering these two factors would increase or decrease T&A sourcing from China (Guan, et al.; Lu, 2020).

### Methods and data

Logistic regression was performed to evaluate the key factors that affect VF's selection of China as a sourcing base over other suppliers for apparel products and their textile intermediaries. The logit model uses *China* (sourcing from a Chinese T&A factory =1 and otherwise=0) as the binary dependent variable and includes six independent variables corresponding to the hypotheses:

- *Supply chain length* (an apparel item's total production stages as specified by VF)
- *Asia%* (the percentage of an apparel item's total production stages that occurred in Asia)

- *Textile* (VF used the factory to source any textile intermediates =1; VF used the factory to source finished garments =0)
- *n* (an apparel item's average retail price in the U.S. market in 2020). The data was collected from EDITED, a market analytics tool that tracks U.S. fashion retailers' pricing records for apparel items at the Stock Keeping Unit level (EDITED, 2021).
- *Environment* (a factory received third-party certification related to environmental or sustainability compliance=1; otherwise=0)
- *Social compliance* (a factory received third-party certification related to social compliance=1; otherwise=0)

### Results and discussions

The regression was statistically significant (likelihood ratio=59.0,  $p=0.00$ ). Specifically, the results show that, first, the odds ratio for variable *Asia%* is as high as 33.68 and statistically significant (Wald  $X^2=33.1$ ,  $p=0.00$ ), meaning VF will be more likely to source T&A from China when a higher percentage of production processes across the apparel supply chain happens in Asia (support H2). Second, reflecting China's shifting role in the supply chain, the result shows that VF is 5.93 times more likely to use China as a supplier of textile intermediaries than finished garment when other factors held constant (Wald  $X^2=6.63$ ,  $p=0.00$  for variable *Textile*; support H3). Third, not supporting H1, the result shows that as the total production stages for an apparel item get longer, it will reduce VF's likelihood of sourcing from China (Wald  $X^2=8.73$ ,  $p=0.00$  for variable *Supply chain length*; odds ratio =0.95). The exact reasons can be explored further. Additionally, no evidence suggests that an apparel item's retail price (Wald  $X^2=0.53$ ,  $p=0.46>0.05$  for variable *Price*), and a factory's record in environmental compliance (Wald  $X^2=0.03$ ,  $p=0.85>0.05$  for variable *Environment*), or social compliance (Wald  $X^2=0.16$ ,  $p=0.68>0.05$  for variable *Social compliance*) affect VF's consideration of sourcing from China significantly.

### Implications and future research agendas

The study confirms that China remains a critical T&A supplier for U.S. fashion companies like VF. Even though U.S. fashion companies are diversifying their sourcing base for finished garments, the value of "Made in China" stays in the supply chain. The findings also suggest that U.S. fashion companies' specific sourcing factors and how they affect vendor selections seem to be much more complicated than illustrated in existing studies (Moore, Rothenberg, & Moser, 2018; Lu, 2020). Whereas the current literature often regards price competitiveness and environmental and social compliance as fashion companies' primary sourcing factors related to China (Arrigo, 2020; Datta & Kouliavtsev, 2020), this study's findings suggest otherwise. Instead, the results call for more attention to the nature of the apparel supply chain, including its length, sophistication level, and geographic concentration, as a more influential factor affecting U.S. fashion companies' China sourcing strategy.

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