Which Apparel Sourcing Factors Matter?

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Today, fashion companies consider a long list of factors when deciding where to source their apparel products, ranging from cost, speed to market, flexibility to the risk of social and environmental compliance (Ha-Brookshire, 2017). This study aims to quantitatively evaluate the influence of primary sourcing factors on fashion companies' determination of apparel sourcing destinations. The findings will fulfill a critical research gap and enhance our understanding of fashion companies' sourcing criteria and their sourcing behaviors in today's business environment. The results will also offer valuable new perspectives to understand the secret of becoming a preferred apparel sourcing base.

A review of the existing literature suggests that fashion companies typically consider two groups of factors when deciding where to source their apparel products. One group is the perceived sourcing benefits, such as low sourcing cost, fast delivery, good quality of products, and access to new markets (Uluskan, Godfrey & Joines, 2017). The other group is the perceived risks or additional costs involved in sourcing, such as the risk of complying with labor or environmental regulations, political instability, and supply chain disruptions caused by trade barriers (Lu, 2020; Arrigo, 2020). However, researchers couldn't conclude whether any particular sourcing factor is more or less important than the other. The quantitative relationship between sourcing factors and the sourcing volume is also unclear (Jin & Farr, 2010; Winter & Lasch, 2016).

For the study, we collected the detailed evaluation of the world's 27 largest sourcing destinations in 2019 against 15 specific performance indicators from GlobalData, one of the most popular sourcing analytics tools (GlobalData, 2020). The evaluation uses a 5-point rating scale for each performance indicator (1=poor and 5=best).

Because some of these 15 performance indicators measure similar items, we first conducted an exploratory factor analysis, which reduced these indicators to five principal sourcing factors (all with an eigenvalue>1.2; cumulative total variance explained =75.9%) based on their correlation matrix scores (Ho, 2013). These five principal sourcing factors cover the following themes:

- *Capacity*: It covers seven performance indicators that measure a sourcing destination's capabilities (including flexibility and lead time) of providing apparel products and other value-added services.
- *Price & Tariff*: It covers two performance indicators that measure the financial implications of sourcing from a particular destination, including eligibility for preferential import duties.
- *Stability:* It covers two performance indicators that measure a sourcing destination's macro-business environment, specifically sourcing-related political and economic climates.
- *Sustainability*: It encompasses all social and environmental compliance issues related to apparel production and sourcing.

- *Quality:* It covers two performance indicators that measure whether a sourcing destination obtains skilled workers and the overall quality of its products.

Next, we calculated the 27 apparel exporting countries' average scores of these five principal sourcing factors. Based on the results, we further conducted a multiple regression analysis to evaluate the impact of the five principal sourcing factors on the value of these 27 countries' apparel exports to the U.S., EU, and Asia in 2019, respectively. These three regions combined accounted for more than 80% of world apparel imports that year; however, fashion companies in each area are suggested to have unique sourcing preferences (GlobalData, 2020). The trade data came from UNComtrade, the most authentic source available (UNComtrade, 2020).

The regression models were statistically significant at the 99% confidence level ($p<0.01;$ R^2 larger than 60%), suggesting that U.S., EU, and Asian fashion companies overall consider these five principal sourcing factors when deciding how much to source from a particular sourcing destination (Wooldridge, 2010). Regarding the effect of specific sourcing factors:

First, the result suggests that improving the performance in *Stability* and *Quality* can help a country enhance its attractiveness as an apparel sourcing base in the U.S. and Asia markets ($p<0.01$), but not so much in the EU market ($p>0.05$). **Second**, a higher score for the factor *Sustainability* does not result in more sourcing orders at the country level in all three markets examined ($p<0.01$). It seems fashion companies' current sourcing model does not provide substantial financial rewards encouraging better performance in sustainability. It is also likely that sustainability and compliance are treated more as pre-requisite criteria instead of determining the volume of the sourcing orders. **Third,** the impact of *Price & Tariff* and *Capacity* on the value of apparel imports is not statistically significant in any of the three markets examined ($p>0.05$). This result does NOT necessarily mean price and production capacity is irrelevant. Instead, the result implies that fashion companies' sourcing decision today is not merely about "chasing the lowest price." Meanwhile, due to concerns about supply chain risks, even the most "economically competitive" sourcing destination won't receive all the sourcing orders (Lu, 2020).

The findings of the study suggest that fashion companies' sourcing decisions today appear to be more complicated and subtle than what is revealed by the existing literature and the public perception. Notably, the findings present different views from previous studies regarding how sourcing cost and sustainability affect fashion companies' selection of sourcing destinations (Uluskan, Godfrey & Joines, 2017). The findings also call our attention to the significant impact of non-economic factors on companies' sourcing decisions, particularly the perceived political risks. This result explained why fashion companies had quickly reacted to the recent forced labor concerns in Xinjiang, China, and the military coup in Myanmar and halted sourcing from the regions (USFIA, 2021).

Given the sweeping impact of COVID-19, it will be meaningful to continue to interpret and decode fashion companies' sourcing behavior in the post-Covid world in response to consumers' shifting shopping behavior, the dynamics of primary sourcing destinations, and the new trade policy environment. It may also be interesting to explore whether fashion companies apply different sourcing criteria for any specific categories of apparel products.

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