TRENDS AND PURCHASE POLICIES OF THE U.S. APPAREL IMPORTER – **NICHE MARKET OPTIONS FOR PERU!**

LIMA, Peru
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Sycamore Marketing Group Inc.

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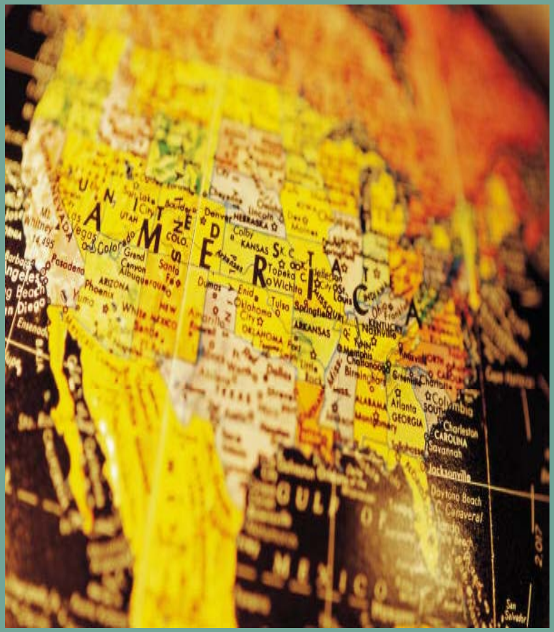
What we do!

- Organize special market events
- Market reports
- Create lists of potential clients
- Conduct telemarketing campaigns
- Prepare market trips to U.S.
- Edit monthly news updates

U.S. MARKET STRUCTURE: THE BASICS:



- **290 MILLION CONSUMERS**
- Personal **expenditures on clothing** in 2004 reached approximately **$360 billion**
- U.S. **Imports of apparel** rose to close to **$71 billion from 150 countries**
- Apparel consumption = **18.4 billion garments**

U.S. MARKET STRUCTURE: THE BASICS:

EXTREMELY SEGMENTED MARKET

CONSUMER GROUPS :

- RACE
- GEOGRAPHIC REGION
- POLITICAL PERSUASION
- EDUCTION
- INCOME

EACH STATE CAN BE CONSIDERED IN COUNTRY TERMS

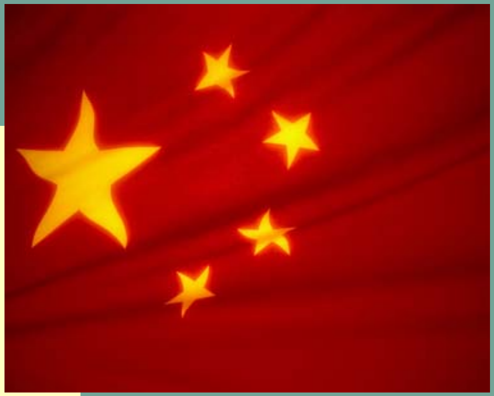
- California’s “GSP” is equal to the GDP of France

U.S. ECONOMY/ IMPACT ON SPENDING?

The U.S. Economic Outlook

- Worldwide oil crisis
- Ongoing War in Iraq
- Weak U.S.$
- Homeland security issues and costs
- U.S. deficit
- Consumer debt will curb spending
- Federal elections uncertain

Major sourcing regions for U.S. companies:



- **China:** now represent close to 15% of total U.S. imports of apparel product categories.

- Sourcing from China could be affected by many "unknowns"

- - political instability
- -increasing wages
- - infrastructure (electricity, port capacity, etc.)
- - currency fluctuations
- - U.S. govt. "safeguard" measures to slow the flow of goods.

Major Exporters to the U.S.:

CAFTA = the largest FTA exporter = $8.4billion

Source: USA ITA 0207

Rank	***Country***	***Market Share***
1	China	28%
2	Mexico	6.6%
3	Bangladesh	5.7%
4	Honduras	5.1%
5	Indonesia	4.4%
6	Vietnam	4.2%
7	Cambodia	3.8%
8	India	3.7%
9	El Salvador	3.2%
10	Pakistan	2.9%

PERU

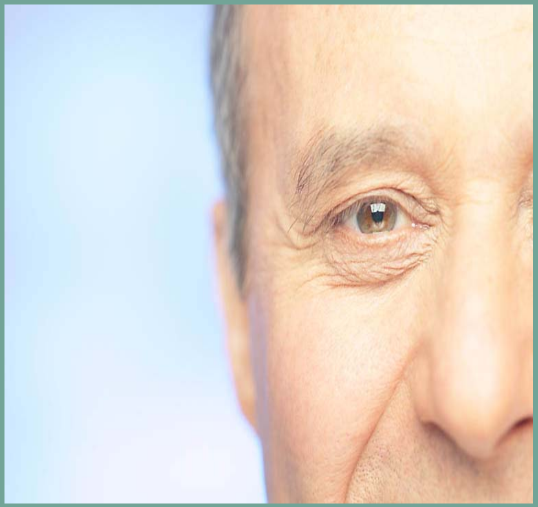
- **Peru = 1% of total apparel exports** to the U.S. market

- **Peru is the 5th largest supplier of knit tops** to the U.S. in 2005

- **PERU is a major importer of U.S. cotton** = advantage to play on for PARTNERSHIPS

Before you Export- Know the end user:

U.S.CONSUMER - EVOLUTION



AGING BABY BOOMERS

- 30% OF THE POPULATION
- Enormous spending power! Spending mostly on home, travel, health, etc.

- - Empty Nest = more disposal income
- - Attitudes have changed = more youthful consumer
- - Delayed retirement = continued income growth and younger attitudes

GENERATION Y / ECHO BOOMERS

- Largest consumer group in U.S

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-Most ethnically diverse generation in U.S. history

-Marketing savvy = difficult to sell

-First generation to be "raised" on the internet shopping

- More at ease with purchasing

THE NEW ETHNIC CONSUMER

HISPANICS

- 14% of U.S. population in 2005 and will become one of largest consumer groups by year 2020
- 64% of Hispanics are of Mexican background!
- U.S. is the 4th largest "Hispanic" country in the world
- 80% of Hispanics are under the age of 24
- Increasing purchase power (gross spending= $700billion)
- Different tastes in fashion, cosmetics, music, film and foods = a major consumer target group

HOW WILL THE NEW CONSUMER SHOP:

- Fewer stores visited = prefer "one stop"
- Looking for distinctive products = self expression = increase in private label apparel at all retail levels!
- Convenience will be paramount = smaller "malls" in more locations
- Catalogue and E-tailing will continue to increase especially for men's sports apparel

The Consumer's impact on apparel sourcing:

- Speed to market – they demand newness every few weeks!
- Knowledgeable consumers understand value/price ratio
- Decreasing for apparel spending due to cost of oil ?
- Shifting of population age parameters and sizing/styling

Before you Export: KNOW your potential market CLIENTS!

U.S. Branded Merchandisers

No longer manufacture anything:

What they do:

- **Product development and design**
- **Fabric research**
- **Sourcing and, at times, quality control**
- **Sales of brands to retailers**
- **Advertising and marketing of brands to consumers**

CLIENT: U.S. MERCHANDISERS:

MAJOR PLAYERS CONTROL MOST NATIONAL BRANDS

JONES APPAREL GROUP: (over 30 brands)

Jones NY, Jones Signature, AK by Ann Klein, Energie, Nine West (financial problems, sale pending?)

LIZ CLAIBORNE CORP: (over 40 brands): Liz Claiborne, Ellen Tracy, Laundry, Juicy Couture

KELLWOOD: (over 35 brands and licenses) Ralph Lauren, Liz Claiborne, Sag Harbor, Koret

VF CORPORATION: (over 50 brands) North Face, Vanity Fair, Vasserette, Lee, Wrangler

PVH – PHILLIPS VAN HEUSEN: Kenneth Core, Izod, G.H. Bass

CLIENT: Retailers of Private Label Merchandise

Approx ***45% of all apparel sold in the U.S***.

Why:

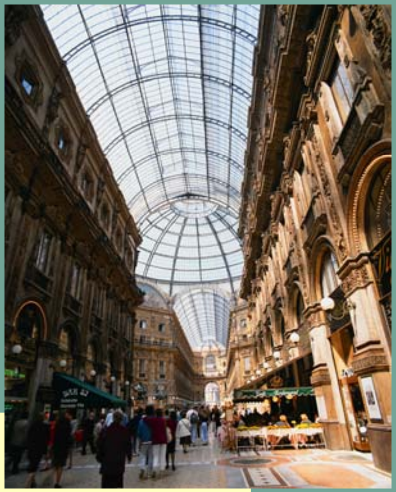
- Exclusive merchandise differentiates their store
-Increased profits for retailer who eliminates middlemen

Private Label Retail Distribution:

NATIONAL SPECIALTY CHAINS (i.e. The Gap, Ann Taylor, JCrew

- all merchandise under their own private label
- in-house sourcing teams as well as working with private label development companies
- global sourcing offices to oversea design, production

Private label retailers:



SPECIALTY STORES:

- Neiman Marcus, Saks Fifth Avenue, Nordstrom, etc.

DEPARTMENT STORES:

- Bloomingdales, Macy's, etc.

BUYING OFFICES:

- Federated Stores, TSS/A.M.C., Macy's Merchandising Group

<u>CLIENT: MAJOR CATALOG RETAILERS</u>:

Increasingly **<u>100% private label-driven</u>**

Many have moved into **<u>chain store development</u>**

Moving strongly into **<u>e-tailing</u>**

<u>Examples of leading apparel catalog firms are</u>:

- LAND'S END
- L.L.BEAN
- J. JILL

MASS MERCHANTS:
Wal-Mart, Target, Kmart, etc.

- Weak Economy = better sales
- National brands develop exclusive merchandise and private label

New trend in mass market:

- Licensing agreements with Famous designers and celebrities create private label = (i.e. Target Stores “collections” with Isaac Mizrahi)

CLIENTS: Club stores:

"PAID MEMBERSHIP"

Apparel is lower-end, name brand exclusives and increasingly PL

Warehouse atmosphere

Apparel, food, drugs, electronics, etc.

EXAMPLES:

COSTCO

SAM'S CLUB

B.J.'S WAREHOUSE

CLIENTS: Factory outlet stores:

- Initially retailed overstock, unsold merchandise and returns.
- Today, brands are creating and sourcing special apparel products for their outlet stores.
- Merchandise has similar look to original products but using lower priced fabrics, trims, etc.

CLIENTS: PRIVATE LABEL DEVELOPMENT COMPANIES

- Proprietary brands and sourcing under licensing agreements for major brands in specific product categories.
- Work with major brands, stores, catalogs, etc., in areas such as product development and sourcing.
- **Examples**: Innovo, Tarrant, Paul Davril, etc.

Overseas Buying Offices/Sourcing Agencies

- Major independent sourcing companies (i.e. Li & Fung) = trading houses
- U.S. company sourcing offices overseas : major retailers and brands have overseas offices to oversee production, compliance, Q & A, factory selection, etc…
- Overseas or U.S. based Sourcing agents – add an additional cost layer to your end pricing

CLIENTS: OTHER POTENTIAL CLIENTS IN THE U.S.

Promotional/ Incentive/ Uniforms/ Corp apparel firms:

One of fastest growing segments of U.S. apparel sales. Major brands now developing "corporate apparel divisions"

- private label developers specialized in promotional apparel for sports teams, food brands, etc.
- Major media (i.e. Time Warner)
- Major theme parks (i.e. Disney)
- **Examples**: Dunbrooke, Cintas

Where are Your Potential Clients?

MAJOR CLIENTS ARE NATIONWIDE – NOT COASTAL

LIZ CLAIBORNE – New Jersey and New York
WAL-MART – Arkansas
CHICO'S - Florida
NORDSTROMS, EDDIE BAUER, COSTCO, etc... – Seattle
THE GAP, LEVI STRAUSS – San Francisco
KOHL'S – Wisconsin
TARGET – Minneapolis

You must travel to meet them!

Who will you be working with ?:

- EVP and teams of sourcing directors
- Product Development Teams
- Quality Assurance Executives
- Compliance Executives
- Import Management Executives
- IT Management
- Transportation Manager, Warehousing and Supply Chain Management.

How do they work?

- Extremely diverse purchasing /business practices!
- Major corporations each have very strict rules for suppliers:
- Pre-vetting of suppliers by profile submitted – no contact with sourcing team unless vetted and selected by their office.

i.e. Target, Coldwater Creek

- First step is to pass their Supplier Compliance which is often a corporate system rather than an NGO
- Fewer and fewer U.S. firms are depending upon outside Sourcing agents! Cutting out middlemen to lower costs

CRITERIA FOR COUNTRY/FACTORY SELECTION:

1-**Quality /Price** RATIO

2- Ease of **Sourcing Fabrics and Trims**

3- **SPEED** to Market

4- **Full Package Service** + BEYOND :

- State-of-the-art production facilities
- Quality controls and compliance
- Packaging and labeling
- In house fashion & fabric service
- Shipping & doc prep

CRITERIA:

5. **Production Flexibility**: Small to massive product runs

6. Beneficial **Trade Legislation** with the U.S. :

- NAFTA U.S., Canada and Mexico
- CBI Caribbean nations
- CAFTA Central American Free Trade Agreement
- AGOA Sub Saharan Africa
- ANDEAN TRADE PACT – PPT?
- QIZ ZONE Israel, Jordan and the U.S.
- U.S./MOROCCO Free Trade Agreement

CRITERIA:

7- **Social Accountability /Codes of Ethics**:

The reasons for the growing emphasis on fair labor/fair trade social accountability are numerous:

- Negative publicity in the U.S. media impacting sales
- Shareholder concerns
- Concern for workers rights
- **Environmental** concerns

CRITERIA:

Codes of Ethics: What does it encompass?

- Overtime regulations
- Child labor
- Wage scale
- Working conditions (number of workers per sq. ft., natural lighting, fresh air, protective clothing)
- Workers' health care
- Accident reduction
- Worker safety training programs
- Worker housing

CRITERIA:

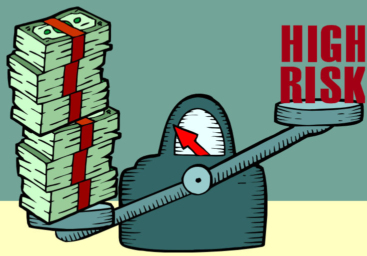
Who establishes codes?

- MAJOR RETAILERS AND BRANDS
- U.S. and International not-for-profit groups such as WRAP, SA8000, FLA, etc…

What is their role?

- Inspect factories
- Training session
- Interface with labor representatives
- Issue certificates of approval
- Establish a code of ethical standards

CRITERIA:

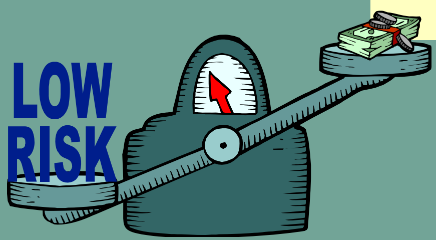


8 . **Political Stability** :

- Do Sourcing executives feel safe while in-country?
- Risk management for U.S. corporations

9. **Terrorism affecting travel** decisions both in-air, at airports and in-country

10. **U.S. Custom compliant**? (i.e. CTPAT, etc.)



CRITERIA:

11. **Availability of New Technologies**

- Collaboration, planning, forecasting systems and replenishment -compatible with your major client's systems.
- Three dimensional modeling software will enable you to cut design, sampling and product development lead-times.
- RFID.

The Apparel Supply Chain – an Example of Time Lines

SPEED SOURCING (6 weeks from concept to retail floor) :

- Mostly practiced by trend setting chain stores such as H&M, MANGO, ZARA, THE GAP, etc..
- Benefits = higher sell through of goods at full price
- Reduced production runs per style = less risk
- Gets consumers through the doors more often

The Apparel Supply Chain – an Example of Time Lines

AVERAGE SOURCING LEAD TIMES:

70 days +:

- Trending down to meet competition of chain stores
- Major brands now focus on approximately 7 collections per year rather than four.

Timelines: How to compete: LA HORA SIN DEMORA!!

Supply chain process = 100 steps= You must reduce timing at each step to compete:

- Design ,fabric research, sampling
- Approval steps at the client level
- Order placement
- Ordering of fabrics OR stocking!

Timelines: How to compete:

- Manufacturing, finishing, quality assurance, etc.
  - Labeling, packaging, organizing shipping documents, etc.
  - Shipping to warehouse vs drop shipping to stores

REDUCE TIME (invest: technology, U.S. . service office, regional shared services, etc)

OFFER ADDITIONALSERVICES

BECOME A PARTNER!!

<u>SELLING TO U.S. CLIENTS</u>:

1. <u>Evaluate Your Capabilities</u> and prepare a very detailed factory/company profile

2. <u>Form Trading Groups</u> or Clusters for services in Your Region or create a very strong sub-contractor network

3. <u>Take Steps to Remain Competitive</u>:
   - Move beyond a <u>full package</u> service
   - Build <u>personal relationships</u> with your existing clients
   - Create strong <u>relationships with textile producers</u>
   - Improve <u>worker training</u>
   - <u>Invest in technology</u>
   - <u>Know your competition but don't obsess!</u>

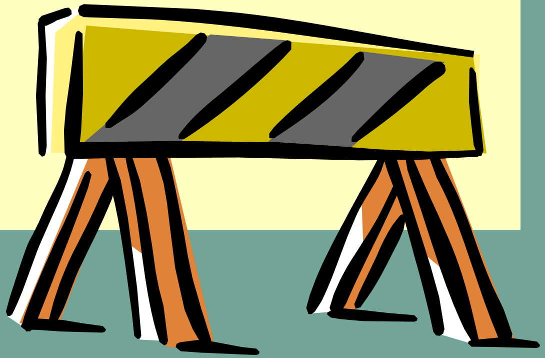
Penetrating the U.S. Market

- Visit and Study the market – SHOP!
- Who is making what where? Visit stores, see where items are made, at what price and evaluate your competitiveness while making a list of potential clients!
- Participate in sourcing trade events
- CONSISTENTLY! Once is not enough.
- Use the INTERNET ! Enormous amounts of information including Sourcing Director names, emails, etc.
- *TRAVEL: BE EVER PRESENT IN THE U.S. MARKET*

EXPORTING TO THE U.S. – WHAT TO KNOW:

NON TARIFF BARRIERS TO EXPORTING TO THE U.S.

- Global **disease** threats (SARS, Mad Cow)
- **Political instability** and **Terrorism**
- **Safeguard measures/quotas**
- New **shipping/security** regulations
- **Language**
- **Negative PR – “social accountability**”



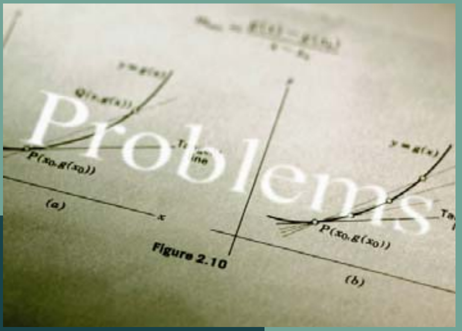
What are they saying about Peru?

- ***Reasons we source in Peru*:**

-Quality of the fabric and sewing execution
-Reliability of the supplier
-Flexibility of the supplier -- able to modify orders (colors, etc) while - in production.
-Cost was highly competitive but coming less so as Asian resources develop high quality fabrics and improve their flexibility of execution.

Based on phone interviews conducted by SMG Inc. in June 07!

What are they saying about Peru?



- *Why we hesitate to go to Peru:*

- Can they work with our short lead time
- Can they be extremely flexible
- Air Freight is very high
- Vessel schedules could be problematic
- Will their price be competitive without an FTA in place?
- Will Asia be able to supply similar product for the same quality ?

NICHE MARKETS/ PERU:

HIGH-END , DESIGNER LEVEL APPAREL FOR MID SIZE BETTER CHAIN STORES, BRANDS AND PRIVATE LABEL FOR DEPARTMENT/SPECIALTY STORES:

Chain Store Example: Chico’s, Talbot's (J.Jill), Orvis, Coldwater Creek

Specialty Store Private label programs: Nordstrom, Saks, Macy’s

Better Catalogue Examples: Land's End, L.L. Bean

Brand Examples: Columbia, Timberland, Jones New York, Polo RL, Lilly Pulitzer, Cutter & Buck

NICHE MARKETS/ PERU:

-**CORPORATE APPAREL** – major brands such as Cutter & Buck, Tommy Hilfiger, etc. are all in or entering this mega business.

- product is less “time sensitive”
- product tends to be higher quality = less price sensitive?

-**Promotional/Incentive Apparel** – growing quickly but products tend to be less quality driven and lower price points= could be a market for mass “basic” knit tops, etc.

-**Uniforms** - medical, hotel, restaurant, etc… Need to last = better quality but higher use of blended fabrics, easy care, etc.

NICHE MARKETS/ PERU:

GOLF/TENNIS/SPA/ : No longer just for men, companies expanding women's and children's collections!

What you need to offer:

-More use of new technical fabrics and blends

-Performance-based fitting advantages

-Moisture management, durability, comfort, breathability and UV protection

Example of companies: Ashworth, Dunning, Fairway & Greene , Slam Gear, Under Armour,

NICHE MARKETS/ PERU:

ORGANIC TEXTILES/APPAREL: It is "cool" to be concerned. All apparel categories and price points are "into eco". (i.e. H&M, M&S, Barney's, Eileen Fisher, Wal Mart, etc). Consumer willing to pay more?

Sales between 2001-2005:

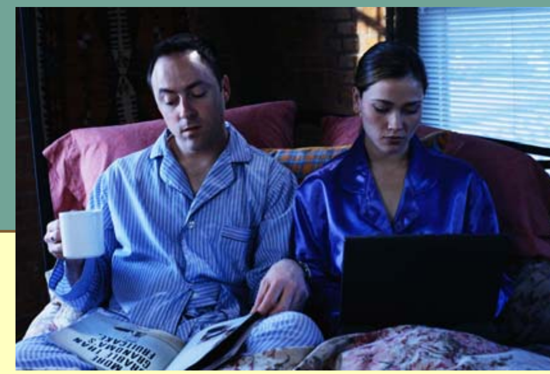
- U.S. organic cotton product sales increased 55% per year, from $86 million in 2001 to $275 million in 2005 and are projected to reach $2,6 billion by end of 2008!!

Other "Organic fibres"

-Soy, corn, and bamboo textiles/fibres are growing for both apparel and home décor

- Organic Wool

NICHE MARKETS/ PERU:



-***LINGERIE, SLEEPWEAR:***

Intimate apparel is now a $9.6 billion industry, up nearly 4 %in 2005

Sleepwear sales =nearly $4 billion in sales in 2005, a 10 %increase

- Product diversification (lounge, home wear, transitional)
- Now viewed as fashion items
- Major retailers launching new divisions (i.e. Chico's/Soma)
- Major retailers launching new lingerie lines (i.e. J.C. Penney)
-- Natural fibres are an important part of the mix along with new performance tech fibres

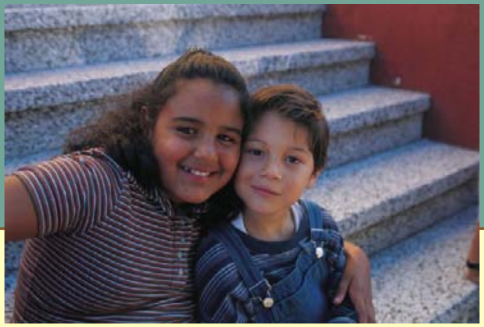
NICHE MARKETS/ PERU:

-***SEAMLESS KNITWEAR?***

- Applications not only for fashion (knits, swimwear, lingerie ,etc) but also for sport, medical, home wear and outerwear
- superior comfort and fit
- Growing demand by consumer
- Major firms on-board (Nike, Under Armour, Target, etc)

What will it take? Investment in technology , training, etc.?

NICHE MARKETS/ PERU:



-***HISPANIC MARKET*** *= WILL THEY CARE WHERE APPAREL IS MADE?*

- -Hispanic purchasing power is expected to hit the $675 billion mark in 2003, $928 billion by 2007 and $1.2 trillion by 2010.
- -The top areas where Hispanics spend more than non-Hispanics are: groceries, telephone services, furniture, men's' and boys' apparel, children's clothing and footwear, according to a study conducted by the Selig Center.

HOW TO DEVELOP THESE NICHE MARKETS:

- BRAND PERU as a “designer/quality” nation on par with Europe!!
- INVEST in high tech manufacturing methods
- GO BEYOND FULL PACKAGE
- ACQUIRE OVERSEAS niche players or invest in their development
- FTA = Critical to Peru’s continued success in the U.S. apparel market
- Partner within your region and with U.S. firms is imperative!

What to do?

- LEARN THE MARKET! You should be able to predict the market trends and speed up your exchanges with your U.S. client base
- Become a "one-stop" destination for numerous product categories = diversify as a Nation/ Region!! Sourcing execs are more likely to invest in travel to a region where they can source multiple product!
- Lower costs on Air Freight? Reduce shipping lead times by boat? GET ON BOARD WITH CTPAT which will speed the processing of your product into the U.S.
- Form relationships with clients

Trade Show Etiquette in the U.S. – Working at a Show

- SMILE!
- -Have Business cards at the front desk and always request one from visitors!
- -Professional brochures, video presentations of your factory, list important clients as well as any Social Compliance certificates prominently on your space
- • Be patient and tolerant
- • Be flexible. The Client is King in the U.S.
- • Give your visitors personal space
- • Do Not Complain about other exhibitors or the show
- • Keep appointments BE ON TIME!!
- • Speak a foreign language between yourselves