Central America Strategic Sourcing Review - a Focus on Guatemala, El Salvador and Honduras

Description: Continuing our latest series of reports, which strategically review apparel sourcing countries, this latest report is aimed at both buyers and suppliers to assess and compare the advantages and challenges of sourcing and manufacturing apparel garments in the Central American countries of Guatemala, El Salvador and Honduras.

Compliance and sustainable production seems to be the most discussed topic after labour laws and tax incentives in Guatemala. Its new generation of entrepreneurs in the textiles and apparel industry are taking on their parents’ or grandparents’ factories and mills, and introducing concepts such as recycling, product design and community development as core business principles.

Several factories have their own ‘codes of conduct’. These suppliers are starting to actively explore new export destinations beyond the conventional US market. With competitive pricing and better productivity rates, Guatemala's apparel industry is set to see a new phase in its ‘maquila’ history.

Approximately 66% of the apparel manufacturing industry in El Salvador now offers full package services and the industry makes up around 46% of the country's total exports. There has been impressive investment in the synthetic sector especially in the Zona Franca (Free Trade Zones). Several large brands have set up ODM / OEM manufacturing facilities in the country. With a focus on ‘speed to market' and ‘services', more than 20% of the factories are vertically integrated.

Will Honduras remain competitive and retain its leading exporter share in the US market if Vietnam starts exporting duty free to the US under the TPP agreement? With rising competition in the region along with the growth of Asian exporters such as Vietnam, the Honduran apparel exporting industry may face new competition. Can the ambitious National Economic Development Program live up to the expectations of reaching exports worth US$4.2bn from the sector?

These are some of the key questions discussed in this strategic sourcing review.

The report is categorised into four key parts:

Part 1: Background research into the three countries. Introducing the value chain approach that just-style has taken in developing its 15-point sourcing criteria.

Part 2: An overview of each country and comparison of their competitiveness based on buyer preferences and perceptions across the 15-point sourcing criteria. We also provide scoring for Vietnam alongside, given trade agreements may raise its potential as an alternative sourcing destination to Central America.

Part 3: Analysis of the countries from buyer and supplier perspectives, based on costs and comparisons at the manufacturing and investor level.

Part 4: Current and future sourcing scenarios based on vendor categorisation.

The 15 sourcing criteria this report measures:
1. Ability to provide FOB
2. Price
3. Tariffs advantages
4. Compliance and sustainability
5. Production quality
6. Efficiency
7. Lead time
8. Reliability
9. Ability to create basic products
10. Financial stability
11. Vertical integration
12. Political stability
13. Order flexibility
14. Innovation
15. Ability to create value-added products

Contents:

Part 1: The value chain approach to sourcing criteria
- Will Central American countries remain garment sourcing destinations?
- Why have we focused on El Salvador, Guatemala and Honduras?
- Adopting a value chain approach
  A. Sourcing (access to raw materials)
  B. Manufacturing
  C. Market access
  D. Business environment

Competitiveness and sourcing criteria

Part 2: Profiling El Salvador
- Background
- Scoring El Salvador on the 15-point criteria
- Industry snapshot
- Key points to look out for in the next five years

Part 2: Profiling Guatemala
- Background
- Scoring Guatemala on the 15-point criteria
- Industry snapshot
- Key points to look out for in the next five years

Part 2: Profiling Honduras
- Background
- Scoring Honduras on the 15-point criteria
- Industry snapshot
- Key points to look out for in the next five years

Part 3: Comparing El Salvador, Guatemala, Honduras and... Vietnam
From a buyer's perspective: as sourcing destinations
1. Ability to provide FOB
2. Price
3. Tariffs advantage (preferential agreements)
4. Compliance / sustainability
5. Production quality
6. Efficiency
7. Lead time
8. Reliability
9. Ability to create basic products
10. Financial stability
11. Vertical integration / ability to source raw materials
12. Political stability
13. Flexibility of order quantity
14. Innovation and ability to develop products with buyers
15. Ability to create value added products
From a supplier's perspective: as manufacturing destinations

Part 4: Sourcing in these countries over the next five years
- Trade agreements and their impact
- Technology, online and new channels
- Compliance and standards
- Garment production, now a service industry
- Vendor categorisation for Guatemala, El Salvador, Honduras and Vietnam
- Current scenario for the US market
- Five years ahead for the US market
- Current scenario for the EU market
- Five years ahead for the EU market
- Conclusions

List Of Figures

Figure 1: Central America's top garment exports in knits (HS 61) and non-knits (HS 62), 2015 (US$ value)
Figure 2: Exports of knitted garments (HS 61), 2005-2015, from key Central American countries (US$ value)
Figure 3: Top 10 exporters of knitted garments (HS 61) to the US (excluding China) in 2015 (US$ value)
Figure 4: Illustrating the value chain and business environment
Figure 5: The '15-point sourcing criteria'
Figure 6: El Salvador’s top garment world exports in knits (by 4-digit HS 61 categories), 2013-2015 (US$ ‘000s)
Figure 7: El Salvador’s top garment world exports in non-knits (by 4-digit HS 62 categories), 2013-2015 (US$ ‘000s)
Figure 8: El Salvador as a sourcing destination using the 15-point sourcing criteria
Figure 9: Key statistics of El Salvador and its garment industry, 2015
Figure 10: Guatemala’s top garment world exports in knits (by 4-digit HS 61 categories), 2013-2015 (US$ ‘000s)
Figure 11: Guatemala’s top garment world exports in non-knits (by 4-digit HS 62 categories), 2013-2015 (US$ ‘000s)
Figure 12: Guatemala as a sourcing destination using the 15-point sourcing criteria
Figure 13: Key statistics of Guatemala and its garment industry, 2015
Figure 14: Honduras’s top garment world exports in knits (by 4-digit HS 61 categories), 2013-2015 (US$ ‘000s)
Figure 15: Honduras’s top garment world exports in non-knits (by 4-digit HS 62 categories), 2013-2015 (US$ ‘000s)
Figure 16: Honduras as a sourcing destination using the 15-point sourcing criteria
Figure 17: Key statistics of Honduras and its garment industry, 2015
Figure 18: Comparing El Salvador, Guatemala, Honduras and Vietnam on the 15-point sourcing criteria
Figure 19: Comparing El Salvador, Guatemala and Honduras with Vietnam on key investment criteria
Figure 20: Comparing El Salvador, Guatemala and Honduras with Vietnam on factors of competitiveness
Figure 21: Vendor categorisation model - adapted for garment supplier countries
Figure 22: Current country classification based on our 15-point sourcing criteria for the US market
Figure 23: 2021 country classification based on 15-point sourcing criteria for the US market
Figure 24: Current country classification based on our 15-point sourcing criteria for the EU market
Figure 25: 2021 country classification based on 15-point sourcing criteria for the EU market
Figure 26: Comparing the size, costs and skills of the Southeast Asian sourcing countries


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