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 Francas (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

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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
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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
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- Technology, online and new channels
- Compliance and standards
- Garment production, now a service industry
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