



福田實業(集團)有限公司

Fountain Set (Holdings) Limited

Scale and Diversity for a More Consolidated World

Dr Gordon YEN
Executive Director
Fountain Set (Holdings) Limited

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Presentation Overview

- Today's Consumers' needs
- Retailers/Brands Consolidation
- Implications on Supply Chain
- Other Considerations
- Conclusion



What do today's apparel customers want?

- Eco Friendliness

- Green Products



Organic cotton T-shirts



Organic cotton jeans

BUYERS TREND TO GREEN FABRICS

New eco-friendly fabrics and innovative yarns combined with different garment construction techniques typified Outdoor Retailer Summer Market 2006. Kathlyn Swantko reports.

(Source: "Organic Cotton T-shirts Debut at GAP," www.gapinc.com, 1 Apr 07;
"New H&M Collection Features Organic Cotton", www.hm.com, 30 Mar 07)



What do today's apparel customers want? (continued)

- **More innovative products**

- IZOD



Golf wear with Activated Carbon properties

- Liz Claiborne



Water Repellent quilted jacket



What do today's apparel customers want? (continued)

- **Diversified product range and frequent change in style**

ZARA

- Makes a new line in 3 weeks, against an industry average of 9 months
- Introduces 11,000 new garments in a typical year
- Many lines will only be available for a matter of weeks before being replaced

- **Shorter lead time with more frequent style changes**

H&M

- *"Speed is important. You need to have a system where you can react in a short lead time with the right products," says Chief Executive Rolf Eriksen of H&M*
- *"We have a flat organization. We have a shorter way to a decision," says Sanna Lindberg, president of H&M Hennes & Mauritz USA*

(Source: "Zara fashion," www.ifm.eng.cam.ac.uk, 10 Apr 07; "H&M: It's the latest thing – Really," www.businessweek.com, 3 Apr 07)



What do today's apparel customers want? (continued)


- **Aggressive Pricing**

-  : Madonna series silk dress **US\$76.79**



-  : Jumper viscose **US\$21.99**



-  : Athletic soft knit cotton pique golf polo shirt **US\$9.99**



(Source: "Mango: Catalogue," www.mangoshop.com, 16 Apr 07; "Gap:Departments: Sale: Ts & Camis," www.gap.com, 16 Apr 07)



Consolidation leads to Increase in size of Brands/Retailers

Merger/Acquisition of Brands/Retailers

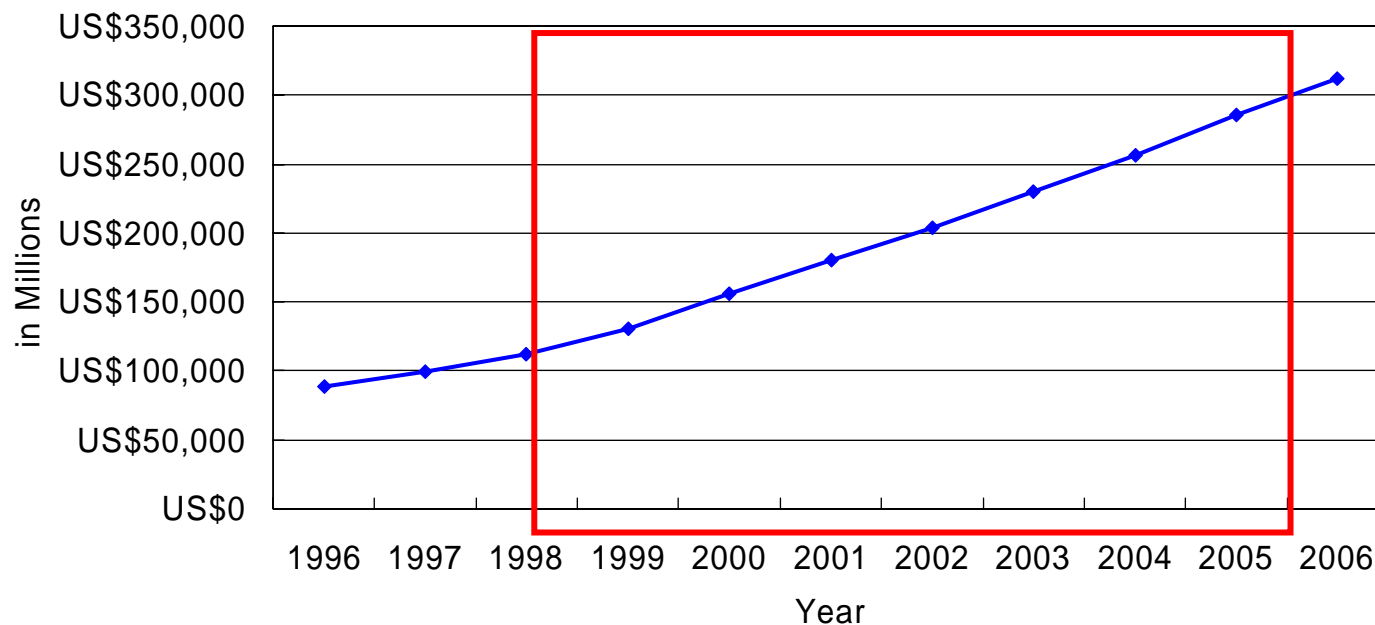
- Wal-Mart / ASDA
- Adidas / Reebok
- Nike / Converse
- Federated / May Co



Wal-Mart / ASDA

- Wal-Mart acquired ASDA on 1999 for US\$10.8 billion
- Gave Wal-Mart a quick entry to the UK market

Wal-Mart's turnover



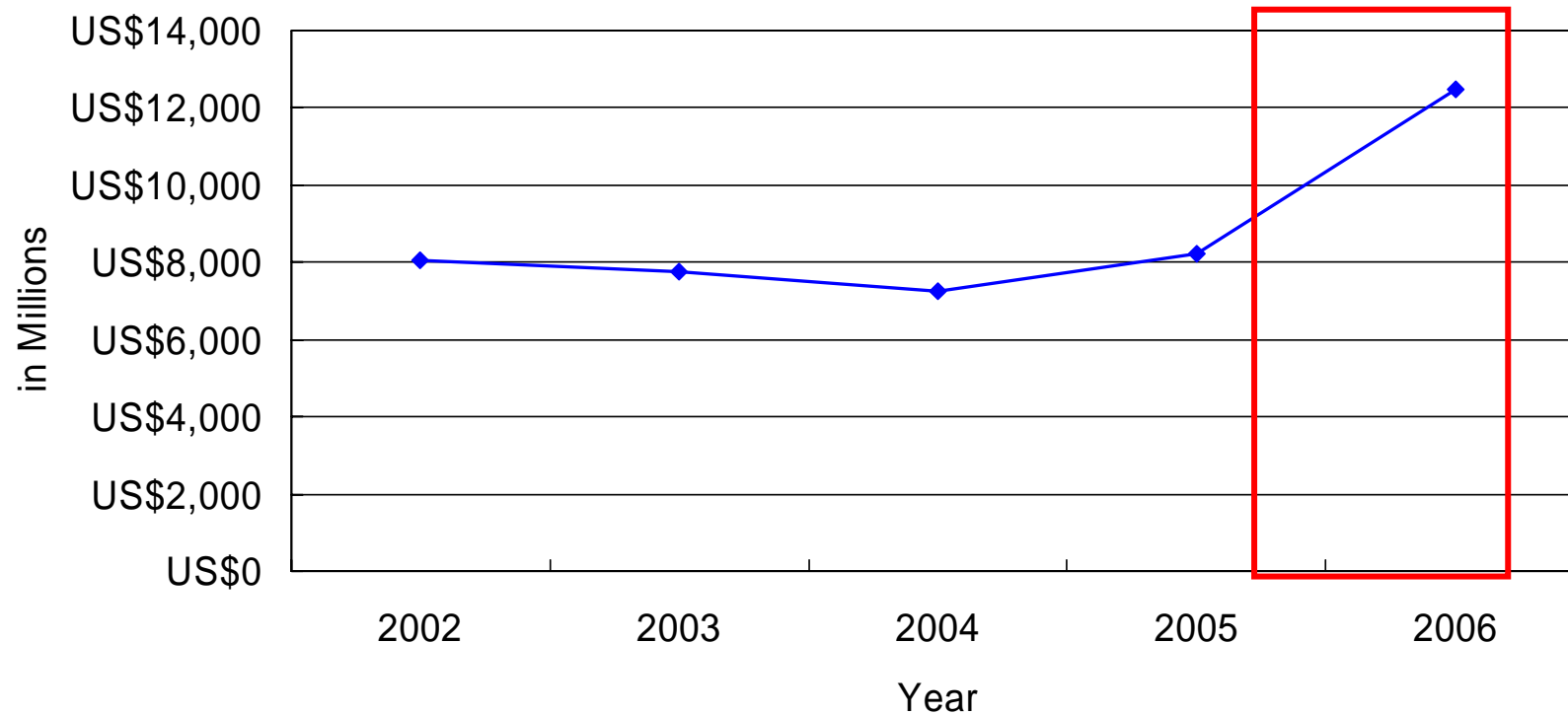
(Source: 'Wal-Mart declares offer for ASDA "Unconditional",' www.walmartfacts.com, 10 Apr 07)



Adidas / Reebok

- Adidas acquired Reebok in 2005 for €3.8 billion
- allow Adidas to reach wider geographic area such as Europe and Asia

Adidas' turnover

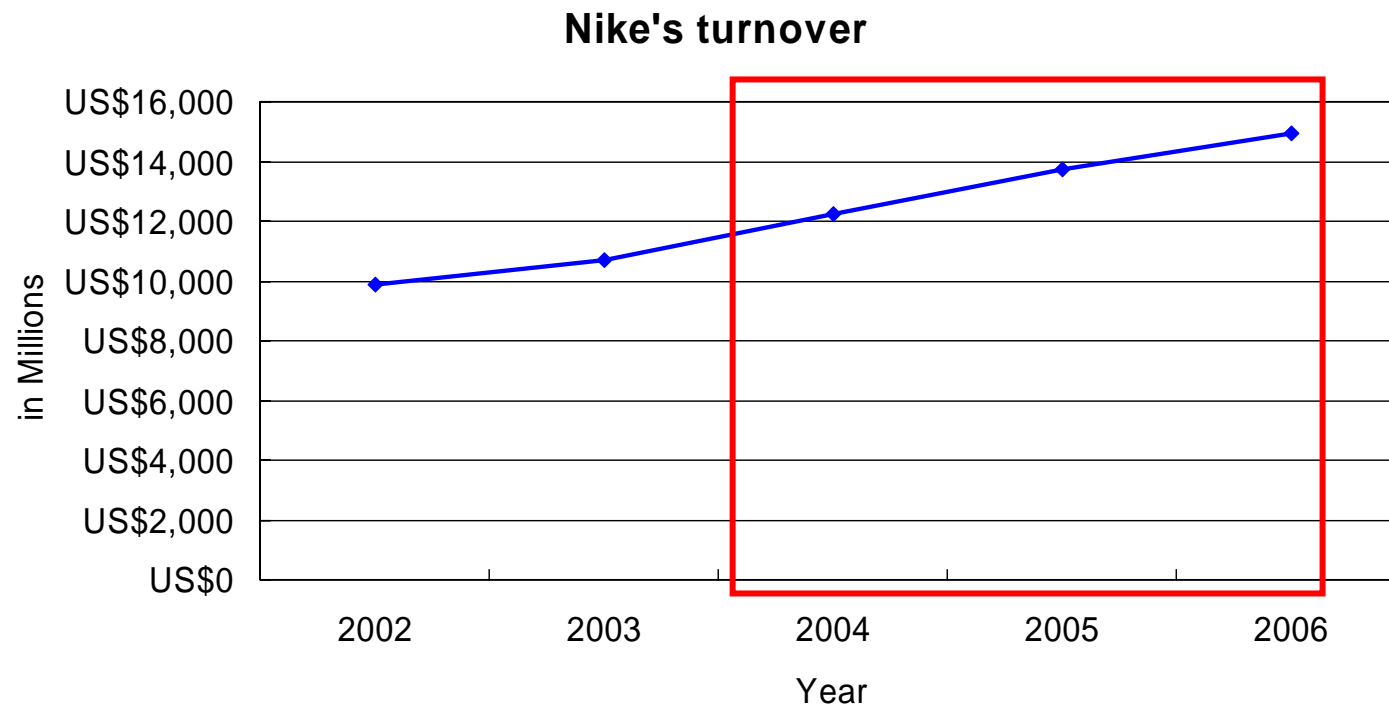


(Source: "Annual Report 2006," www.adidas-group.com, 14 Apr 07)



Nike / Converse

- NIKE acquired Converse in 2003 for US\$305 million
- Converse acquisition was intended for diversifying NIKE, Inc.'s portfolio and to contribute to creating long-term shareholders' value



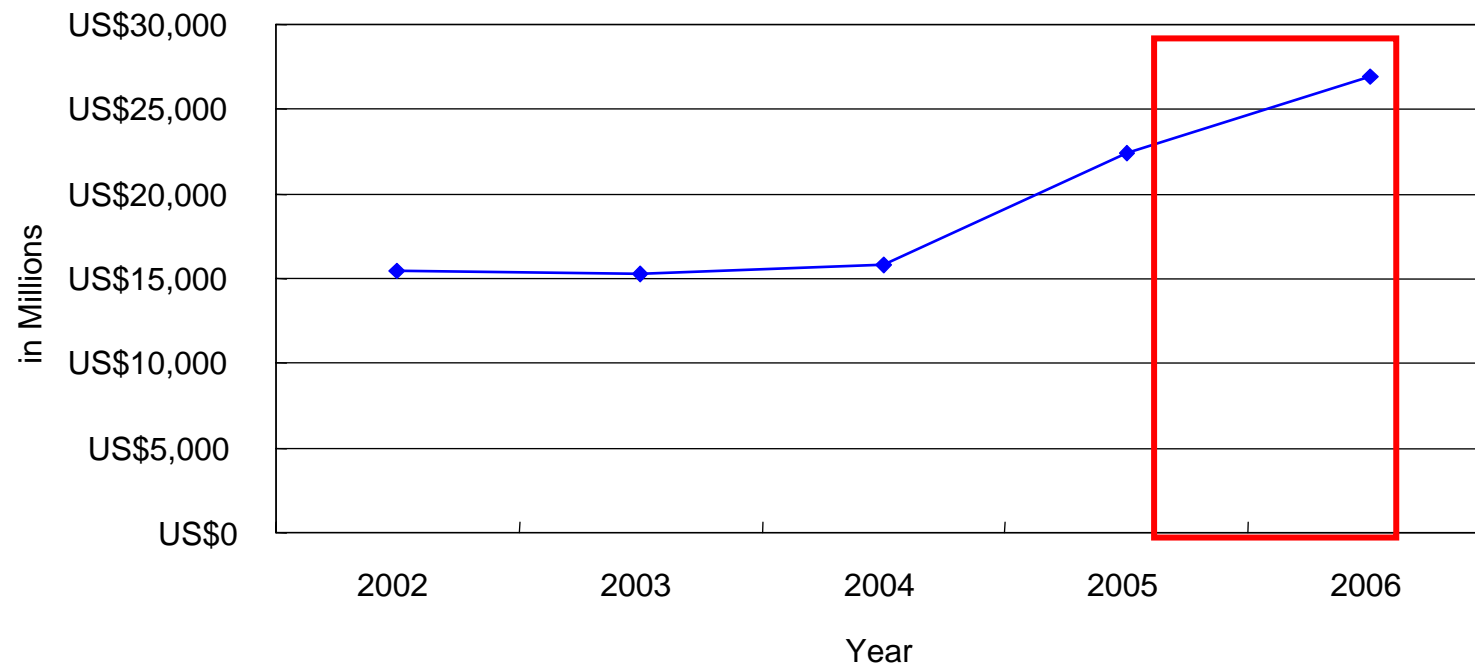
(Source: "NIKE, Inc. to acquire Converse, Inc.," www.nike.com/nikebiz/news/pressrelease, 14 Apr 07)



Federated / May Co

- Federated acquired May Co for US\$11 billion in 2005 and became the biggest department store chain in US
- Also the 3rd-largest retailer of general merchandise in US, behind Wal-Mart and Sears

Federated's turnover



(Source: "Annual Report 2006," www.fds.com, 2 Apr 07)



Import by the US

(Source: US Department of Commerce – International Trade Administration, OTEXA)

Category: 338 Knit Shirts, Cotton

Ranking	2004		2005		2006	
	%	Country	%	Country	%	Country
1	23.95	Honduras	21.59	Honduras	21.38	Honduras
2	14.20	Mexico	11.31	El Salvador	8.61	El Salvador
3	12.22	El Salvador	9.30	Mexico	7.90	Mexico
4	6.43	Pakistan	7.14	Pakistan	7.52	Pakistan
5	5.12	Haiti	6.06	Haiti	5.88	Haiti
6	3.95	Guatemala	4.76	India	5.64	India
7	3.33	Vietnam	4.56	China	3.86	Nicaragua
8	2.92	India	3.12	Guatemala	3.62	Bangladesh
9	2.28	Peru	2.38	Nicaragua	3.57	China
10	0.96	Cambodia	2.35	Bangladesh	3.30	Guatemala
11	0.95	Nicaragua	2.29	Vietnam	2.86	Indonesia
12	0.90	China	2.27	Peru	2.50	Cambodia
13	0.89	Bangladesh	1.77	Philippines	2.32	Vietnam
14	0.89	Philippines	1.68	Cambodia	2.18	Philippines
15	0.43	Indonesia	1.43	Indonesia	2.15	Peru
Others	20.57	World	17.99	World	16.73	World



Import by the US (continued)

(Source: US Department of Commerce – International Trade Administration, OTEXA)

Category: 339 Knit Shirts/Blouses

Ranking	2004		2005		2006	
	%	Country	%	Country	%	Country
1	13.56	Guatemala	12.21	Guatemala	10.74	Guatemala
2	13.52	Mexico	11.89	Mexico	10.20	Mexico
3	10.58	Honduras	9.05	Honduras	7.67	Honduras
4	6.70	Vietnam	5.45	El Salvador	6.26	Vietnam
5	5.22	El Salvador	5.15	Vietnam	5.85	Cambodia
6	3.88	Peru	3.86	Hong Kong	4.09	El Salvador
7	2.82	Jordan	3.53	Peru	2.99	Hong Kong
8	2.74	Turkey	3.33	Cambodia	2.96	Peru
9	2.35	Hong Kong	2.43	Jordan	2.73	Jordan
10	2.26	Dominican Republic	1.56	Pakistan	2.09	Pakistan
11	2.00	Cambodia	1.41	Turkey	1.12	Dominican Republic
12	1.97	Canada	1.38	Canada	1.10	Lesotho
13	1.84	Brunei	1.37	Lesotho	1.07	Turkey
14	1.78	Lesotho	1.30	Dominican Republic	0.97	Canada
15	1.78	Pakistan	1.23	Brunei	0.80	Brunei
Others	26.98	World	34.83	World	39.37	World



Import by the US (continued)

(Source: US Department of Commerce – International Trade Administration, OTEXA)

Category: 347 Cotton Trousers/Breeches/Shorts

Ranking	2004		2005		2006	
	%	Country	%	Country	%	Country
1	22.53	Mexico	22.03	Mexico	19.55	Mexico
2	8.61	Dominican Republic	7.74	Bangladesh	13.46	Bangladesh
3	3.98	Honduras	6.22	Dominican Republic	4.71	Dominican Republic
4	3.96	Bangladesh	3.94	Nicaragua	3.92	Pakistan
5	3.67	Egypt	3.83	Honduras	3.86	Egypt
6	3.67	Nicaragua	3.60	Egypt	3.86	Nicaragua
7	3.08	Hong Kong	3.42	Pakistan	3.57	Cambodia
8	2.97	Costa Rica	2.91	Cambodia	3.49	Honduras
9	2.92	Guatemala	2.62	Hong Kong	2.63	Hong Kong
10	2.46	Lesotho	2.39	Colombia	2.17	Lesotho
11	2.42	Pakistan	2.35	Costa Rica	1.92	Colombia
12	2.37	Colombia	2.27	Lesotho	1.81	Costa Rica
13	2.15	Cambodia	1.87	Guatemala	0.88	Guatemala
14	2.11	El Salvador	1.34	El Salvador	0.18	El Salvador
15	1.96	Russia	0.11	Russia	0.06	Russia
Others	31.15	World	33.38	World	33.93	World



Import by the US (continued)

(Source: US Department of Commerce – International Trade Administration, OTEXA)

Category: 348 Cotton Trousers/Slacks/Shorts

Ranking	2004		2005		2006	
	%	Country	%	Country	%	Country
1	6.08	Hong Kong	6.17	Hong Kong	6.89	Indonesia
2	5.33	Vietnam	5.17	Vietnam	6.50	Vietnam
3	4.65	Guatemala	4.87	Cambodia	6.18	Hong Kong
4	4.09	Jordan	4.54	Indonesia	5.82	Cambodia
5	3.68	Honduras	3.94	Jordan	3.99	Jordan
6	3.61	Turkey	3.72	Guatemala	2.72	Guatemala
7	3.48	Cambodia	3.28	Philippines	3.92	Philippines
8	3.18	Egypt	2.94	Sri Lanka (Ceylon)	3.57	Sri Lanka (Ceylon)
9	2.89	Nicaragua	2.77	Honduras	2.62	Honduras
10	2.83	El Salvador	2.51	Kenya	2.58	Nicaragua
11	2.70	Kenya	2.50	Nicaragua	2.47	Egypt
12	2.64	Indonesia	2.31	Egypt	1.91	Kenya
13	2.63	Philippines	1.82	Turkey	1.27	El Salvador
14	2.32	Dominican Republic	1.64	Dominican Republic	1.03	Turkey
15	2.04	Sri Lanka (Ceylon)	1.57	El Salvador	0.92	Dominican Republic
Others	47.86	World	50.26	World	47.62	World



Implications on Supply Chain

- Consolidation of Brands/Retailers
 - Consolidation of supplier base but maintain geographical diversity
 - Drive efficiency through economies of scale and streamlining
- Frequent Changes and Shorter Lead-time
 - Reduction in lot sizes
 - Quick Response
 - Dynamic inventory and production planning



Implications on Supply Chain (continued)

- Product diversity
 - Continuous product development
 - Wider material sourcing network
- Supply Chain Collaboration
 - Higher service level
 - More responsibilities and risks for suppliers



Other Considerations

- Different Market Segments Have Different Requirements
- Emerging and High Growth Economies
 - China, India, Dubai, Eastern Europe, etc.
- New Customers Opportunities
 - There is always a new customer around the corner



Conclusion

- To achieve appropriate Scale and Diversity, the supplier of the future should:
 - Choose your market segment(s)
 - Be large enough to achieve economies of scale and to support the required infrastructure (R&D, Sourcing)
 - Increase product diversity and reduce lot sizes at the same time;
 - Be able to operate as flexible and as innovative as the smaller competitors;
 - Provide customized and high level of service as if there is only 1 customer.





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Q&A





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