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WHITE PAPER

Focus on Africa:
The Dark Continent Brings New Light for Sourcing

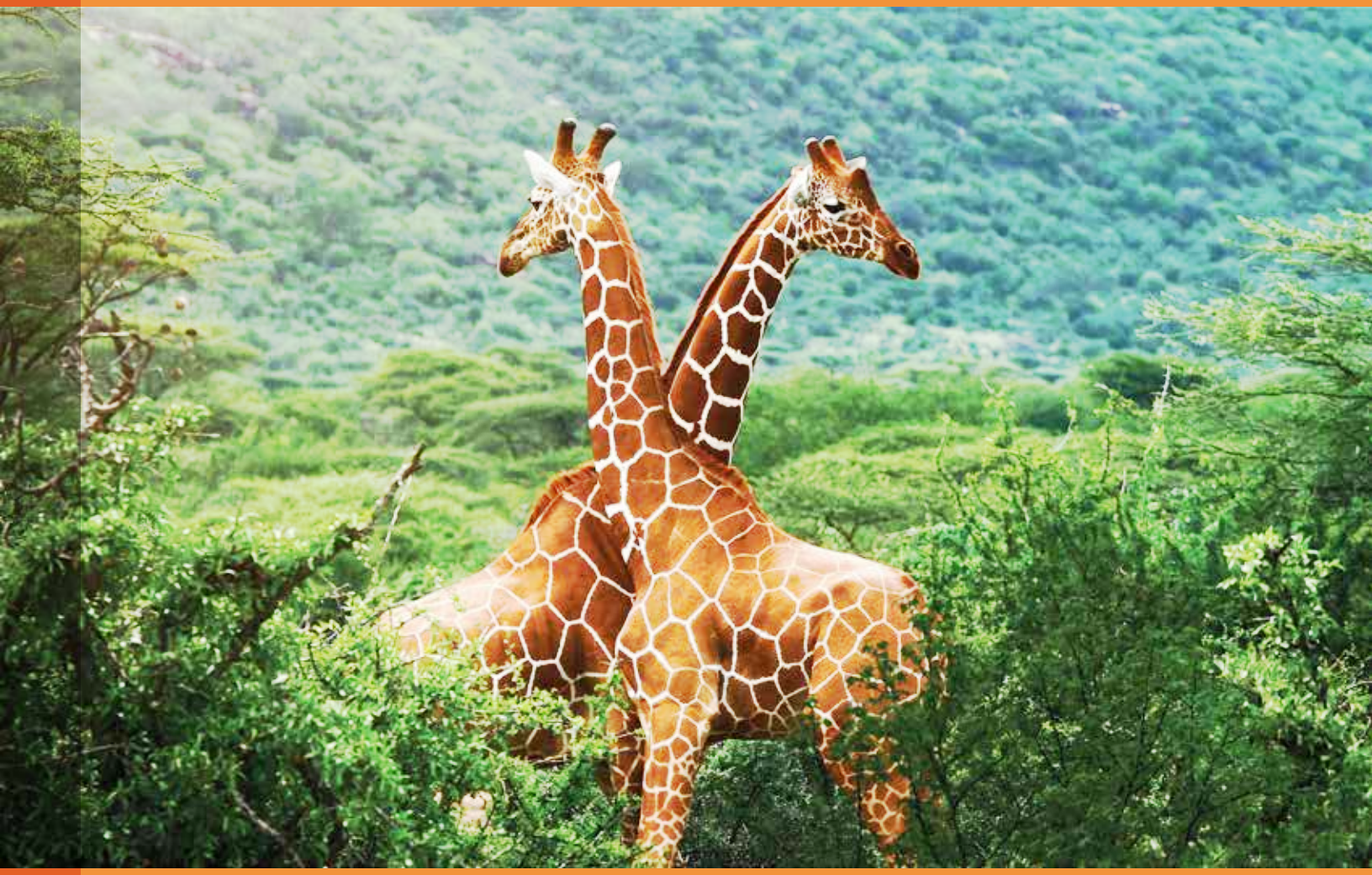


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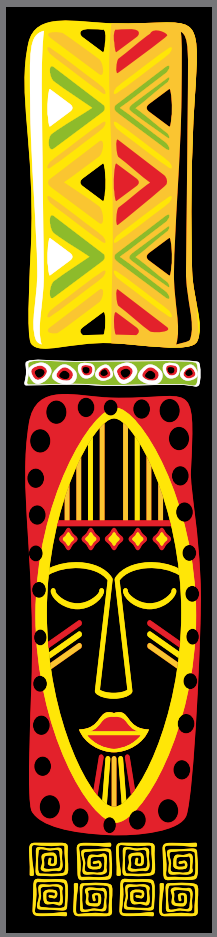


Introduction

In recent years, the apparel and footwear industry has shifted its sourcing away from China to other emerging markets due to increased labor, transportation, tariffs, and other supply chain costs. This isn't the first time that manufacturers have diversified their supply chains: "Made in the USA" has already moved to Mexico, Taiwan, Japan, China and now South America. But many apparel and footwear brands in particular have expressed deep interest in exploring the potential and untapped opportunities in Sub-Saharan Africa.

In recent years, Africa has emerged as a particularly attractive manufacturing option for U.S. apparel and footwear companies because of the preferential treatment granted under the Africa Growth and Opportunity Act (AGOA), which provides duty-free access to the U.S. market for eligible countries. In 2015, AGOA was renewed for 10 years – a monumental stroke that will surely allow Africa's sourcing base to grow.

According to a 2012 report from the American Apparel and Footwear Association (AAFA), roughly half of all its members sourced from Africa at that time. However, Africa is considered uncharted territory for many companies seeking to diversify their supplier base. To realize the cost savings of shifting production to this region, manufacturers will need to clear some significant hurdles.



Interest in Africa's Potential is Nothing New

In the late 19th century, Europeans and Americans were deeply fascinated by the "Dark Continent" of Africa and its many mysteries. Few did more to increase Africa's fame than Dr. David Livingstone, one of England's most intrepid explorers. In August 1865, he set out on what he expected to be a two-year expedition to find the source of the Nile River and work to abolish the slave trade devastating Africa's population.

Almost six years after his expedition began, little had been heard from Livingstone. The New York Herald decided to capitalize on the public's craze for news of their hero and sent Henry Stanley to lead an expedition into the African wilderness, either to find Livingstone or bring back proof of his death. After setting out from Zanzibar in March 1871, Stanley led his caravan of nearly 2,000 men into the interior of Africa. Nearly eight months passed–during which Stanley contracted dysentery, cerebral malaria and smallpox–before the expedition approached the village of Ujiji, on the shore of Lake Tanganyika.

Sick and poverty-stricken, Livingstone had come to Ujiji in July of the same year. When Stanley's caravan entered the village on October 27, villagers crowded toward the new arrivals. Spotting a white man with a gray beard in the crowd, Stanley stepped toward him and stretched out his hand to deliver what is now a famous question: "Dr. Livingstone, I presume?"

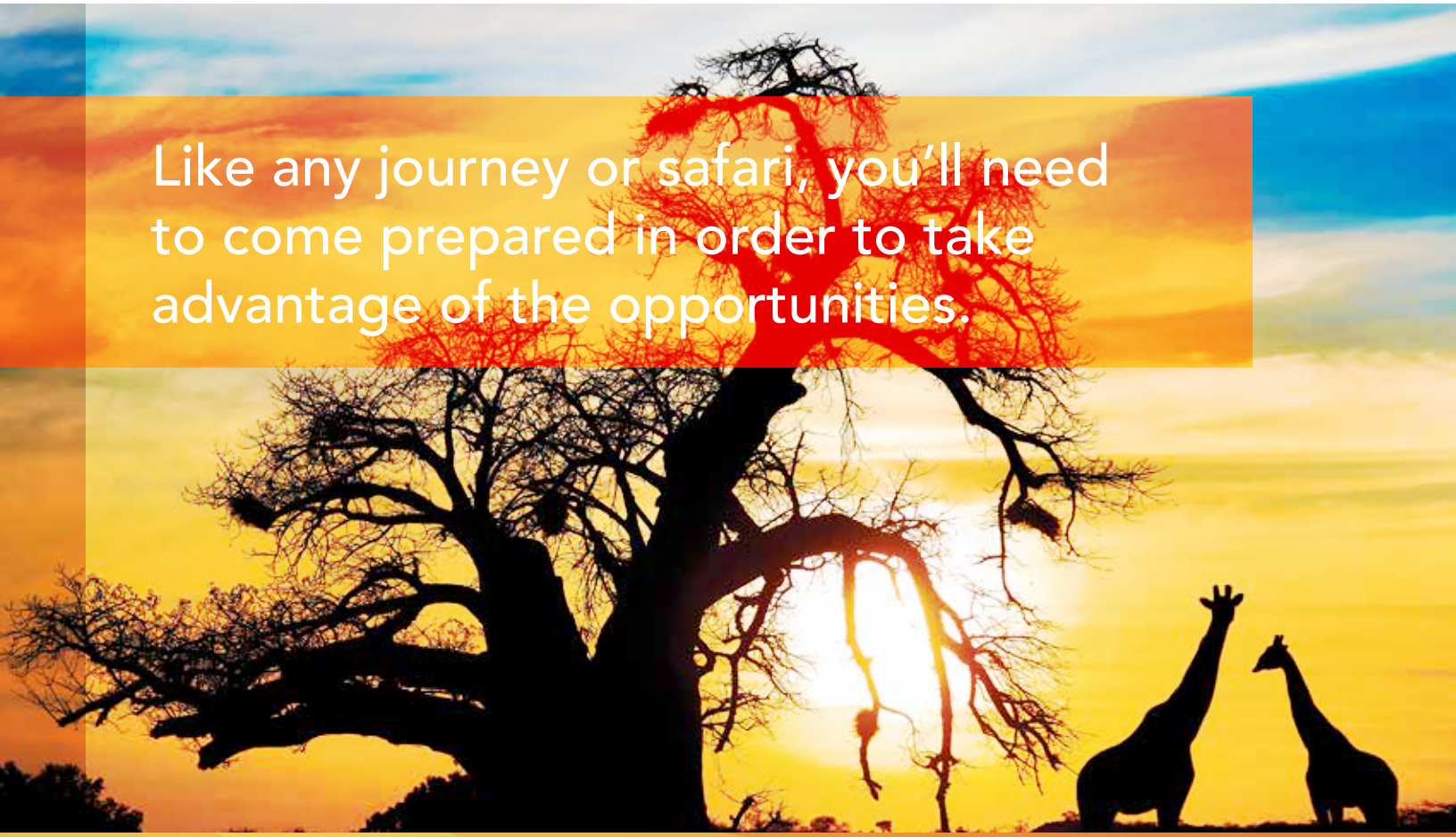
Going on a Safari

Each year, 1.5 million wildebeest, accompanied by vast herds of zebra, make the 3,000 mile round trip from Kenya's Masai Mara National Park to the southern end of Tanzania's Serengeti National Park. Known widely as the Great Migration, the animals will cross the Mara River. When they reach the shores of the river the animals stop and hesitate, sometimes for hours, before one exhibits the bravery to step into the current. And rightfully so, as the river may be running too fast, and there are sunken boulders and predators hidden beneath the surface. Once the first few enter the water the rest will herd through in a chaotic swirl of dust and white water, amid the trashing limbs and snapping croc jaws.

While not as dramatic as this scene, sourcing comes with its share of risk and obstacles. Like any journey or safari, you'll need to come prepared in order to take advantage of the opportunities. Safari experts and tour leaders offer this advice:

- Be prepared
- It's not a theme park
- You may not see the "Big Five" animals: lion, elephant, rhinoceros, buffalo, or leopard
- Not all safaris are the same
- It's amazing still

Let's apply these same points to sourcing in Africa.



Preparing

Set your expectations and arm yourself with the tools you need, including a strong understanding of the culture and people. This isn't Asia or the Chinese suppliers you are used to dealing with. The pace of Africa is a lot slower and business runs differently.

When on a safari, you will surely want a guide. Consult experienced sourcing agents, service providers already doing trade there, or government agencies seeking to assist Africa's growing business sector.

Don't forget binoculars. You may need to look far ahead for the benefits you are seeking; you might get lost or take wrong turns; or you may find sourcing paradise. Regardless, better vision will aid your journey.



KNOW THE LAND

Africa is a continent, not a country – the world's second largest and second most populated continent, in fact. Africa is 11.7 million square miles, covering 6% of the Earth's total surface area. 1.16 billion people live there, about 15% of the world's human population.

Africa is surrounded by the Mediterranean Sea to the north, both the Suez Canal and the Red Sea along the Sinai Peninsula to the northeast, the Indian Ocean to the southeast, and the Atlantic Ocean to the west. The continent includes Madagascar and various archipelagos. It contains 54 fully recognized sovereign states (countries), nine territories, and two de facto independent states with limited or no recognition.



Perhaps the most overwhelming challenge of sourcing and managing operations in most areas of Africa is the rampant corruption and theft at all levels.

It's Not a Theme Park: Hazards, Drawbacks and Concerns

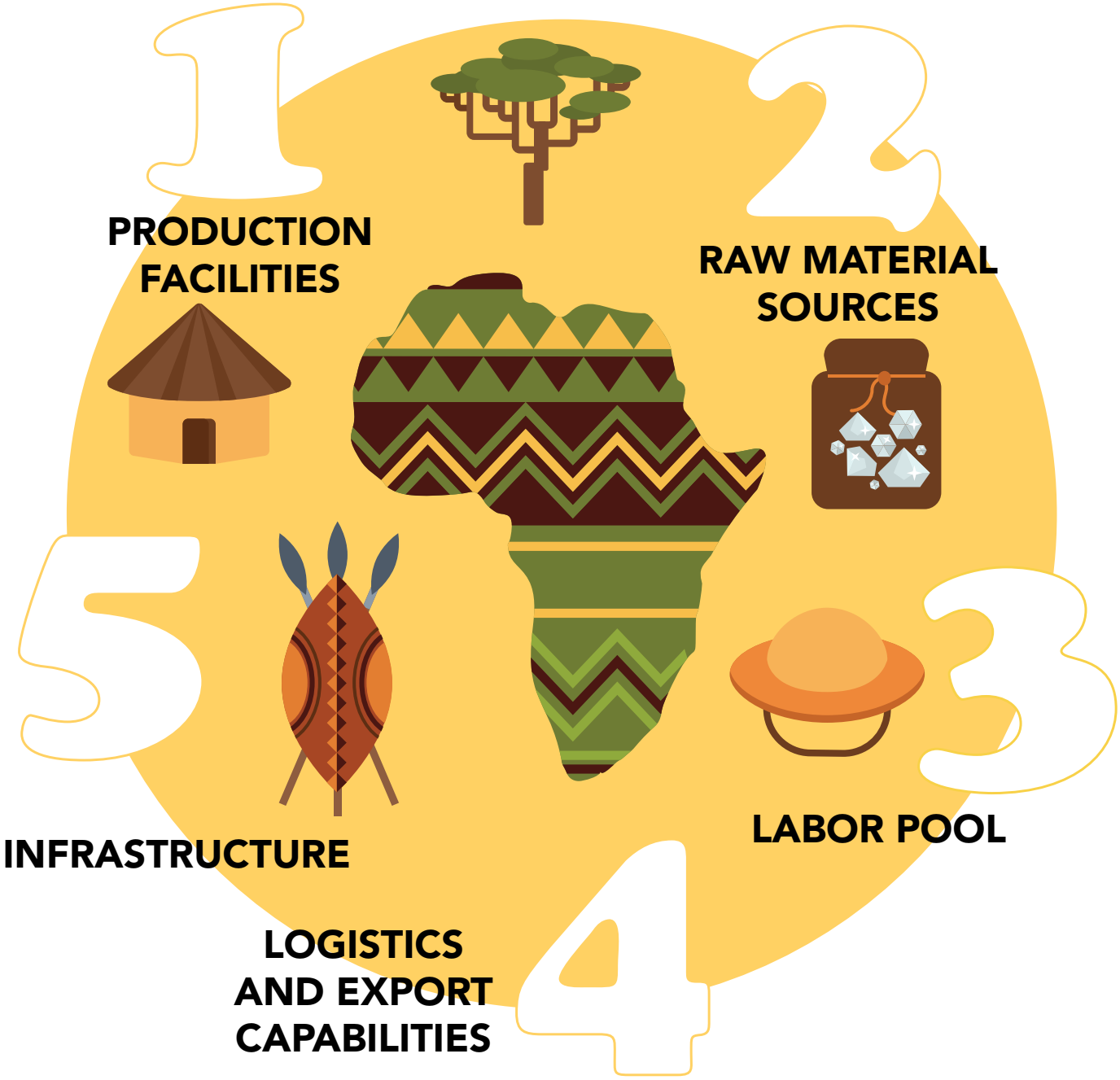
Although Africa offers many resources necessary to become a global trade center, it still faces substantial challenges.

Those who trade in the region have to acknowledge political unrest, as well as graft, corruption, and the looming presence of AIDS, tuberculosis, and malaria.

- Perhaps the most overwhelming challenge of sourcing and managing operations in most areas of Africa is the rampant corruption and theft at all levels. At least within China and India, corruption is predictable (and improving, in some cases), accounting for only a fraction of a product's export value. In Africa, corruption is a way of life.
- ISIS is growing in Africa; the number of Islamic State fighters in Libya has grown to more than 6,500 members who are in control of 150 miles of coastline. This has led to new US sanctions against that country. Recruiting operations are drawing new members in Algeria, Mali and Niger. In Morocco, a cell was caught planning a chemical attack in February.

The Big Five for Sourcing

While tourists on safari hope to see the Big Five animals, sourcing executives need to be on the lookout for these Big Five elements.



FACTORIES AND PRODUCTION FACILITIES

Most factories in Africa have actually been established by Chinese companies, a smart strategy to take advantage of free trade agreements while lending their expertise to this region's labor force. Local governments then build and manage large industrial parks and exercise greater control over who can produce goods there. This system provides oversight into social compliance concerns like those seen in other countries like Bangladesh and Myanmar.

There are now a rising number of success stories of manufacturing in Africa. VF Corp., which owns such brands as Lee, Wrangler and Timberland, is hoping to accelerate the move to Africa. It teamed up with its biggest rival, PVH, to convince suppliers to come with them. They invited their 20 best suppliers from China, India and Sri Lanka and other sourcing strongholds on a 10-day trip in April 2014 with the goal of getting them to invest in opening their own factories in Africa—with the promise that the American brands would place orders there in return. The suppliers, mostly from China, have started building many facilities to support this expanded operation.



2

RAW MATERIAL SOURCES

Africa's ability to produce raw materials is not comprehensive for every industry, but there is potential. It hosts 30% of the world's raw material reserves and produces over 60 metals and minerals, making it rich for manufacturers in need of resources. Africa's temperatures are ideal for cotton production (8% of the world's share is produced there) but processing is highly expensive, so most is exported to Asia for spinning. Fabric is then shipped back to Africa for cut-and-sew production. Some major brands only use South African facilities for assembly and not sewing. Footwear has a better chance to source raw materials closer to its production sites in Africa because these are readily available in-country. If necessary, the need to import raw material imports into Africa would add significant lead time to production until proper input channels are established.



3

LABOR POOL

According to United Nations projections, sub-Saharan Africa will have the highest growth in working-age population anywhere over the next 20 years. By 2035, the working-age population in the region is expected to be as large as China's today—more than 900 million people. This massive labor pool has captured the attention of several industries, including apparel.



4 LOGISTICS AND EXPORT CAPABILITIES

A chief concern is the lack of infrastructure in the region, which can delays speed-to-market and incur additional shipping costs. Although Africa is closer to the East Coast of the United States, reliable transportation from Asia to the United States still provides a more comfortable choice. Companies must addresses the actual practicalities of logistics and transportation before entering or expanding in Sub-Saharan Africa.

In 1971, the United Nations Economic Commission for Africa (UNECA) proposed a highway network that would traverse the entire continent and connect many emerging countries. They named it the Trans-African Highway (TAH). But nearly half a century later, those aims remain unfulfilled and progress on this road system is agonizingly slow.

Since sea transport is usually the most economical way to move bulk stock, the majority of global sourcing and trade depends on efficient harbors. There are 7 major shipping ports and most are located on the eastern coast of the continent.

5 OTHER INFRASTRUCTURE CONCERNS

The need for infrastructure improvements in the developing world is critical. Untold numbers of businesses suffer from lack of reliable power for industrial processes or getting their goods to market. At the most basic level, millions of lives are threatened every day for lack of clean water or safe sanitation.

Africa's largest infrastructure deficit is to be found in the power sector. Whether measured in terms of generation capacity, electricity consumption, or security of supply, Africa's power infrastructure delivers only a fraction of the service found elsewhere in the developing world.



This Safari is Different

In its 2012 report on sourcing in Africa, AAFA asked its members which factors were important to consider when selecting a sourcing destination. This question sets a foundation for general sourcing considerations worldwide and was used as a control question to assist in determining the factors most important when considering sourcing in Sub-Saharan Africa.

- Cost continues to be the dominant factor guiding sourcing decisions, followed by skill of labor. Low overall costs will continue to draw sourcing interest to Africa, especially in light of duty-free treatment for AGOA eligible countries.
- Speed to market, accessibility of infrastructure, availability of product components, and social issues all ranked similarly as important issues but were secondary to cost and skill of labor.
- Brand reputation and experience in a particular region have little bearing on sourcing decisions.
- In terms of sourcing in Sub-Saharan Africa, however, lack of experience in the region ranked as a very high concern. Much of this concern stems from Africa's history of widespread political and economic instability, which was discussed at length in the open answer questions in the survey.

It's easy to say that world trade will expand based on available global resources, but it's harder to do. We have become all too used to thinking of Asia as the prime—and almost exclusive—sourcing destination. It is important to mention that sub-Saharan Africa's potential as a sourcing hub is largely untapped at the moment. But it is a big world, and suppliers will need even more resources if trade is to double in the next decade, as many experts predict it will.

Successful sourcing, production and transportation in new regions requires stronger communication and collaboration between the multiple parties in the supply chain. Global trade professionals need to leverage technology to gain a complete picture of everything from supplier risk, product quality, overall cost, and logistics capabilities. Through a centralized platform, collaboration with suppliers earlier in the product lifecycle can reduce development time, lower sourcing risks, and improve compliance associated with each sourcing decision. An end-to-end global trade management solution is a key asset for enterprises embarking on any journey into new regions.

To learn more about sourcing solutions, visit www.amberroad.com.



About Amber Road

Amber Road's (NYSE: AMBR) mission is to improve the way companies manage their international supply chains and conduct global trade. As a leading provider of cloud based global trade management (GTM) solutions, we automate the global supply chain across sourcing, logistics, cross-border trade, and regulatory compliance activities to dramatically improve operating efficiencies and financial performance. This includes collaborating with suppliers on development, sourcing and quality assurance; executing import and export compliance checks and generating international shipping documentation; booking international carriers and tracking goods as they move around the world; and minimizing the associated duties through preferential trade agreements and foreign trade zones. Our solution combines enterprise-class software, trade content sourced from government agencies and transportation providers in 147 countries, and a global supply chain network connecting our customers with their trading partners, including suppliers, testing/auditing firms, freight forwarders, customs brokers and transportation carriers. We deliver our GTM solution using a Software-as-a-Service (SaaS) model and leverage a highly flexible technology framework to quickly and efficiently meet our customers' unique requirements around the world.

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