BRIDGING THE GAP

A look at Gap's supply chain from the workplace to the store

Women Working Worldwide

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INTRODUCTION

Gap is a chain of well-known retail outlets spanning the globe. Behind this well-known chain of stores is an invisible chain of factories and workers. This booklet takes Gap as an example of how supply chains operate in the garment industry.

The aim of the booklet is to understand how the chains function and what the issues are for workers in those chains. It is not to allocate blame or initiate campaigns focused on particular factories, but to heighten awareness of the complexity of these chains. For this reason, the names of people and companies in this booklet have been changed, as the purpose of the booklet is to understand the structure of Gap's supply chains.

The booklet is divided into four sections. In Section 1, we begin by looking at how supply chains operate in the garment industry. Section 2 builds on this by explore the issues that arise for workers as a result of the current structure of supply chains in the international garment industry. In Section 3, we look at two international campaigns that have focused on workers' rights in particular manufacturers that supply Gap. Finally, in Section 4, we examine Gap's response to the issues raised in this booklet.

HOW THIS BOOKLET CAME ABOUT

In 2002 Women Working Worldwide (WWW) carried out a year-long action research project on subcontracting and supply chains in the garment industry. The project was undertaken with partner organisations in Bangladesh, Bulgaria, India, Pakistan, Sri Lanka, Philippines, Thailand and Hong Kong/China.

The main aim of the research was to enable each organisation to understand more fully how the garment industry operates in their locality and what the implications are for workers.

Each organisation took local factories as the starting point for their research. They traced the chain down to other manufacturers and units that subcontracted from their first factory. Then they traced the chain upwards from the factory to the retailers and brand-based companies driving the chains and the subcontracting process. Finally, they spoke with hundreds of workers to find out how their pay and conditions vary at different levels of the supply chain.

The focus of the research was not on Gap. However, the size of company and the global reach of its supply chains meant that many of the researchers found workers producing for Gap. For this reason, we have taken Gap as an example of the current trends and structures within global supply chains as it provides a readily identifiable case study of industry-wide issues.

SOME BACKGROUND INFORMATION

Gap is one of the largest clothing retailers in the world. It is based in San Francisco and has over 4,200 stores throughout the world. It sells casual clothes - including jeans, T-shirts and shirts - for men, women and children. It employs 165,000 people. In 2002 its sales were $13,848 million.

Gap is a retailer: it focuses on design, merchandising and branding. It does not make any clothes itself. Instead Gap contracts out its production to manufacturers around the world. In 2001 it bought clothes from 3,600 companies in more than 50 countries.

Gap has several brand names. They are

Gap

GapKids

BabyGap

Banana Republic

Old Navy

There are many different workers, companies, agents and offices involved in any supply chain. It is helpful to understand these roles in order to explore how garment industry supply chains function (see map on page 10).

Gap Store

Gap is main business focus is design and marketing, so the store is the central focus of its operations. Sales data are constantly relayed to Gap Regional Headquarters in order to monitor what products are selling and those that are not. This information is used to plan and refine sourcing and design strategies.

Gap-USA

This is the headquarters. There are also regional headquarters for Europe, Canada and Japan. Departments responsible for design, sourcing and monitoring factories are located in Gap USA as well as in regional headquarters.

Gap International Sourcing - Regional Office

The regional sourcing office is responsible for sending out contracts to manufacturers. Generally, they choose the manufacturers to whom the designs are contracted.

Gap International Sourcing - National Office

In countries where significant production is carried out for Gap - such as the Philippines, Pakistan and Bangladesh - they have national sourcing offices. The national sourcing offices are generally responsible for quality control and monitoring conditions for workers in factories. Sometimes they are also responsible for shipping finished garments.

Blue Textile and Garment Manufacturing (Blue T&G)

This is the headquarters of a large textile and garment manufacturing company. Blue Textile and Garment Manufacturing is a TNC with factories in several different countries. It does not solely rely on getting orders from agents and buying houses, as it has an in-house buying office. It receives orders from large companies like Gap, through Gap International Sourcing - Regional Office. Large TNCs like Blue T&G are then responsible for sourcing raw materials, production and distribution of the finished garments.

Blue Textiles

This is a subsidiary of Blue Textile and Garment Manufacturing. It makes some of the textiles that will be used by Blue Garments.

Blue Garments

This is also a subsidiary of Blue Textile and Garment Manufacturing. Garments are cut and sewn here. Not all production is done in this factory. Blue Garments is a first tier manufacturer because Gap directly contracts the work out to BlueT&G. First tier manufacturers are manufacturers that are directly contracted to do the work. For large brands and retailers first tier manufacturers tend to be large manufacturers due to the volume of orders they require.

Blue small factory

Big companies like Blue Textile and Garment Manufacturing often have smaller factories that take the over-flow work or time consuming work. Conditions are generally worse in these units than in Blue Garments, the first tier manufacturer, as the smaller units employ women on short contracts or without contracts and pay piece-rate wages. This is a second tier manufacturer.

Purple small factory

This is also a second tier manufacturer. This is a small factory that is not owned by Blue T&G. Small factories like Purple are often funded through local capital rather than foreign investment. It subcontracts orders from Blue Garments.

Agent

Agents function at all levels of the chain and they may work with large or small volumes of production. At the top of the chain there are buying houses with many agents, at the lower ends of chain, agents tend to operate individually. The Agent is subcontracted by the company - either a first tier or second tier company - to carry out either part or all of an operation: this is frequently stitching or finishing. The agent may have his or her own workshop or network of homeworkers. Smaller agents frequently have personal contacts in the factory: they may be former employees or related to someone in management. They are often paid in advance and many earn over 20% commission.

Homeworker

Homeworkers generally work from home or in small workshops, often based in a neighbour's house. They get jobs because they know the agent personally. They normally pay their own overheads, from machines and thread to electricity. Work is infrequent: sometimes they go for months with no work. At peak seasons they may have to work 12-14 hours a day, seven days a week.

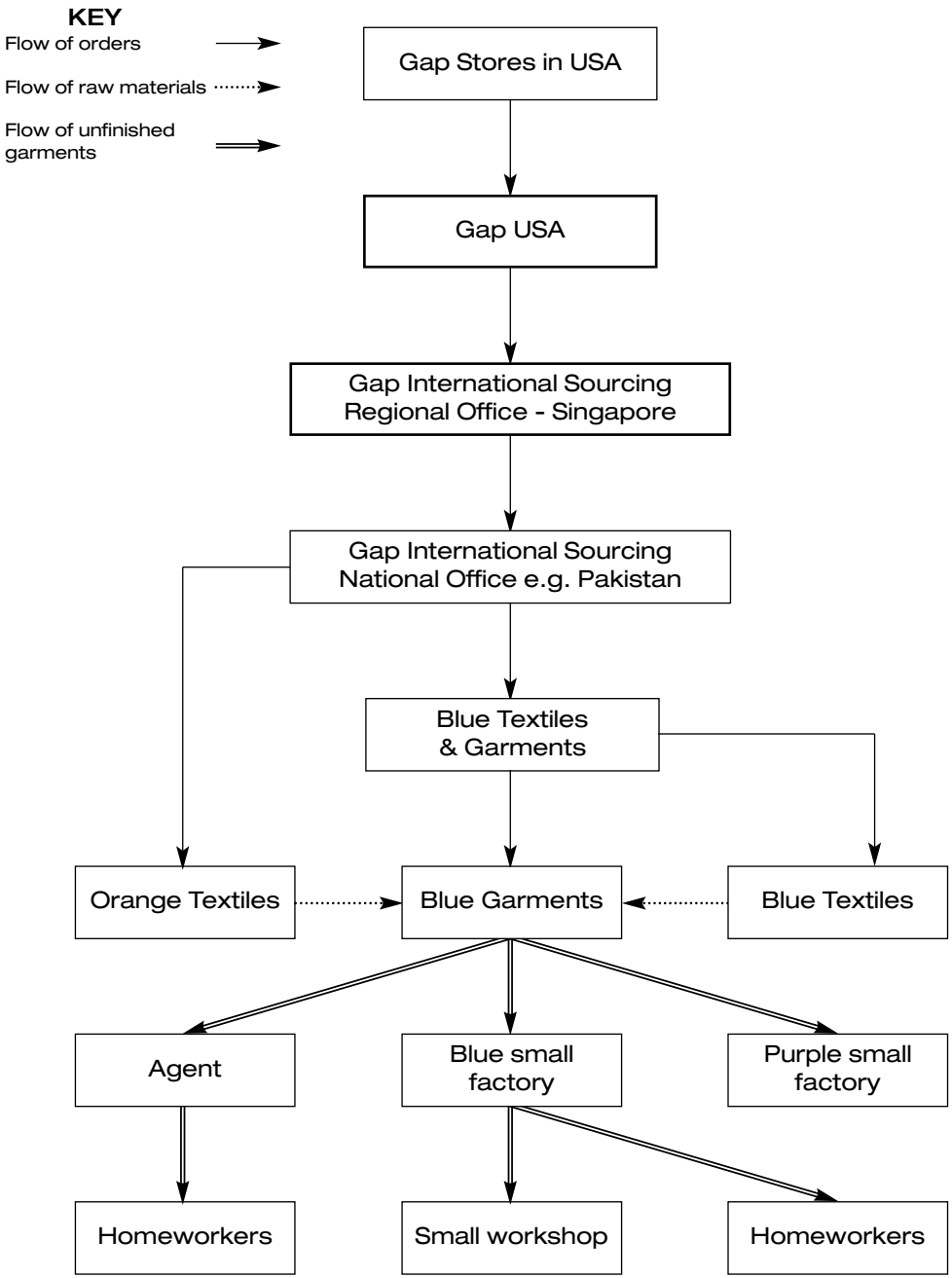
THE SUPPLY CHAIN: HOW DOES IT WORK?

Now that we understand the roles and functions of the various participants in the chain, we can look at the structure of the chain. This section is based on two maps. The first map looks at movement down the chain. It begins by following the flow of orders down the chain. It then looks at how raw materials are sourced to fill the order and finally how production is organised. The second map shows the movement of garments up the chain, from unfinished garments to finished garments.

THE FLOW OF ORDERS

Orders can be divided into two categories. The first type of order is new designs. These designs are sent to Gap International Sourcing - Regional Office in Asia. We are looking at the office in Asia, but there are other regional sourcing offices e.g. South America and Europe - which passes the order on to Gap International Sourcing - National Office. The Asia office is based in Singapore. The Singapore office will give the order directly a large manufacturer, like Blue Textiles and Garments. Gap likes to work with big manufacturers who are able to produce large volumes of garments and have high quality. The manufacturers will make up samples of the designs. If the samples are accepted by Gap, they will negotiate on price, materials and delivery.

The second kind of order is re-orders. Computerised check-out tills send all sales information from every store in the country to the Regional Headquarters, Gap-USA. This information tells the brand managers and merchandisers what garments are selling well and they reorder these garments. These orders are sent to Gap International Sourcing - Regional Office. Pakistan is our example, but there are national offices in many countries, both in Asia and in other regions. This office passes the order on to their First Tier Suppliers, normally a large factory like Blue Textiles and Manufacturing. The Gap International Sourcing - National Office also places some orders and its responsibilities can include monitoring quality, scheduling, shipping and factory checks.


KEY
Flow of orders
Flow of raw materials
Flow of unfinished garments
Gap Stores in USA
Gap USA
Gap International Sourcing Regional Office - Singapore
Gap International Sourcing National Office e.g. Pakistan
Blue Textiles & Garments
Orange Textiles
Blue Garments
Blue Textiles
Agent
Blue small factory
Purple small factory
Homeworkers
Small workshop
Homeworkers

In the diagram, our example of a large, first tier Manufacturer is Blue Textile and Garment Manufacturing. Despite the huge number of manufacturers from whom Gap sources, according to employees in Gap International Sourcing - National offices, it tries to build up long-term relationships with 10-20 large manufacturers, depending on the country. They are often international companies that have textile and manufacturing companies in other countries.

It is easier for Gap to work with big companies that also produce textiles. This is cheaper and reduces the production turnaround time as both sections of the company work together on deadlines. In our example Blue Textiles and Blue Garments co-ordinate their schedules so that production can be planned more efficiently.

Gap also orders textiles from large mills that do not have manufacturing firms. The example from our diagram is Pluto Textiles. When the textiles are ready they are sent to the Blue Garments. Although Blue Garments produces textiles it does not have the capacity to supply all Gap's needs.

The first stop for the raw materials is the first tier manufacturer like Blue Garments. In our example, this is the company that Gap have contracted to produce the clothing.

Another advantage for Gap when it works with big companies is that it can easily monitor the quality and conditions in the factories. It does not like factories to subcontract the work to smaller factories, but this does happen. The diagram we have is a simplified version of what happens. It shows three common ways that unfinished garments leave the main contractor. They are:

1. To smaller factories that Blue Garments own
2. To smaller factories or homeworkers that are independent of Blue Garments, eg. Purple small factory
3. To an agent

In the first case, Blue Garments may send work out to smaller factories that they also own - in our diagram this is Blue small factory. For the purposes of this research, this is a second tier manufacturer. Although it is owned by Blue T&G it is not the unit that was contracted to undertake the work. In some cases these factories have worse work conditions and the workers there are temporary and work on a piece rate. This gives the company flexibility to hire and fire workers according to demand. When there is less work they let workers go and when there is more work, they can hire extra workers on contracts. The number of workers in the main factories is much more stable.

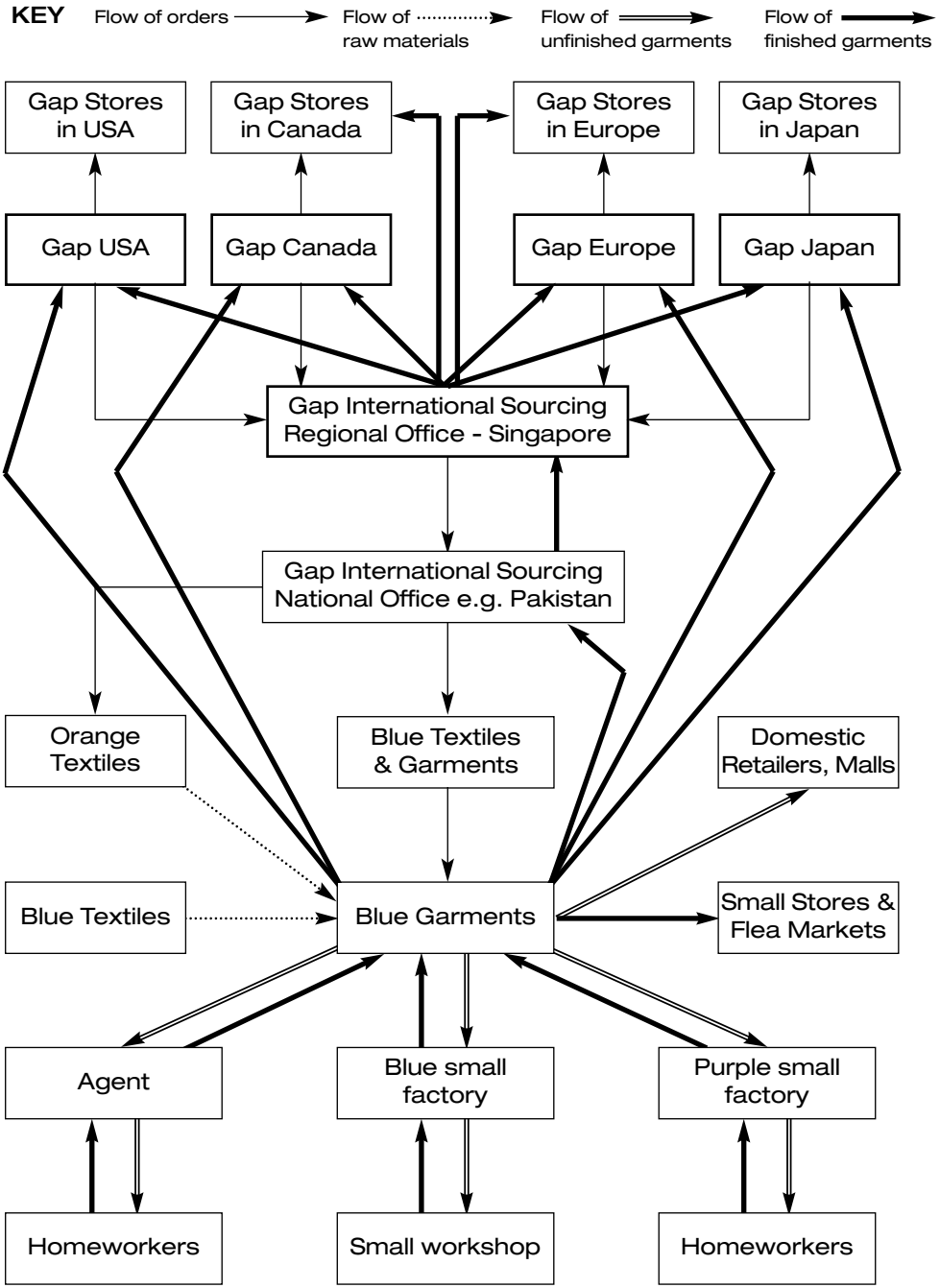
Blue Garments also subcontracts work out to smaller factories that it does not own, like Purple small factory. These are second tier manufacturers. In some cases Blue Garments will complete all the

work for Gap in its own factory, but subcontract work for other brand names to second tier manufacturers, like Purple small factory. This is done for three reasons: volume, time and price.

1. Volume: Blue Garments accepts orders that are bigger than it can handle
2. Time: Blue Garments is required to deliver more quickly than it can manage
3. Price: Purple small factory's management agree to do the work for a cheaper price than Blue Garments.

When this happens Blue Garments needs help to do the work and to finish on time. Sending work to smaller factories is normally done through the administration department or the managers. The research found that owners of small units like Purple small factory frequently have a personal connection with the management of the company from whom they subcontract. They may be former workers, related to a member of management or they may be a member of management that has set up their own small factory.

Blue Garments may also subcontract the work to an agent. The research found that many agents also have personal contacts with the management. They may be a former worker, or sometimes a line leader in the factory. The agent may subcontract the work out to second or third tier manufacturers. If the agents supply homeworkers, they are frequently family members, friends and others in their community. The agents do not pay these home workers the same price that they are paid by the management for this work. Home workers are paid less than factory workers would be for the same work. Geri's story, in the next section, gives a breakdown of a homeworker's payment and an agent's payment.


KEY
Flow of orders
Flow of raw materials
Flow of unfinished garments
Flow of finished garments
Gap Stores in USA
Gap Stores in Canada
Gap Stores in Europe
Gap Stores in Japan
Gap USA
Gap Canada
Gap Europe
Gap Japan
Gap International Sourcing Regional Office - Singapore
Gap International Sourcing National Office e.g. Pakistan
Orange Textiles
Blue Textiles & Garments
Domestic Retailers, Malls
Blue Textiles
Blue Garments
Small Stores & Flea Markets
Agent
Blue small factory
Purple small factory
Homeworkers
Small workshop
Homeworkers

THE FLOW OF FINISHED GARMENTS

The second map follows the flow of garments up the chain. It shows dark arrows going up the chain from homeworkers to small factories, like Purple small factory, and on to Blue Garments.

Distribution used to be organised by the retailer/brand name through logistics and distribution companies. The research found that this function is increasingly taken on by big firms like Blue T&G, directly from its manufacturing company, Blue Garments. This is either done in partnership with big distribution companies or through an in-house distribution department. Some manufacturing TNCs taken over logistics and distribution companies in order to gain this expertise within the company.

The finished garments are shipped to three different destinations. These are:

1. Gap International Sourcing - National Office
2. Gap Regional Centres - e.g Gap-USA
3. Domestic Markets

Sometimes Gap International Sourcing - National Office requests that the goods are sent to them. They then send the goods on to Gap International Sourcing - Regional Office in Asia who then send the goods to Gap-USA, Gap-Canada, Gap-Europe or Gap-Japan. This can increase profits, through transfer pricing, or may be for quota reasons.

It is more usual for the Blue T&G to send the garments straight to Gap-USA, Gap-Canada, Gap-Europe or Gap-Japan. The benefit for Gap is that Blue T&G must pay the price of transport, distribution and administration. This saves time and money for Gap.

Finally, some of the garments go to markets in the country they are manufactured. They go to department stores, malls and flea markets. This happens when too many garments are produced, an order is cancelled or the garments did not pass quality control. Often these clothes are sold very cheaply so they force down the prices of clothes that are made for the domestic market. This makes conditions even worse for the women who work in companies that produce clothes for the domestic market as it forces their employers to produce even cheaper clothes to compete with surplus clothing from big companies like Gap.

This can happen for several reasons. When extra materials are left over manufacturers must use them in order to recoup their costs. Therefore, using the same patterns and the same labels, they make up additional garments which are sold off to other distributors. This can also happen when garments are overproduced - due to changes in orders - or garments fail quality control checks. Manufacturers need to get as high a return as possible to cover the costs of raw materials and labour. A lower profit from a local distributor is better than loosing money on an order.

Now that we have a basic understanding of how the supply chain operates, we can look at the problems that arise for workers in the supply chain. Across the garment industry the structure of the supply chains are changing. These changes have resulted in sustained downward pressure on workers' rights and conditions. The issues that are raised here are the issues raised by the women workers during the research project. These are industry-wide issues that are of direct relevance not just to Gap but to all retailers and brand names.

Underpayment of wages and social welfare entitlements

Workers across the production chain are frequently underpaid and paid late. In many cases, payment methods are very complex. In some cases they are based on a combined, time and piece-rate payment. This complicated system makes it very difficult for workers to calculate their wages in advance or to check that they have been paid the correct amount. Many workers report signing a blank sheet of paper when they are given their wages, which means that their employers are not declaring the actual earnings of the workers. There are also many cases where workers who are entitled to social welfare contributions find that their deductions have not been remitted, but kept by their employers, leaving them without medical or social welfare cover.

Hours of work

The research shows that working hours fall between two extremes: either too much work or too little. Workers frequently work 10 -16 hours a day with no days off during peak season months. Equally, as a result of increased informalisation, many workers are either on short-term contracts or have no contracts, so they are retrenched during the low season. Overwork can also be linked to sub-minimum wages. There are cases where overtime is unpaid and workers are obliged to do it, those who refuse to do overtime may be fired and new workers hired to replace them. To compensate for the low pay levels, workers do overtime in order to increase their wage.

Health and safety issues

The health and safety issues cover a very wide range of issues. They include: excessively high temperatures; dust; inadequate ventilation; inadequate lighting; excessive noise; lack of fire-fighting equipment; blocked exits; bad sanitation; unhygienic canteens; and lack of drinking water. Apart from specific illnesses brought on by these conditions - such as asthma - many workers complain of constant fatigue, headaches and reoccurring fevers, yet most workers find it very difficult to take time off due to illness.

Harassment

Harassment is an issue that often has a very gendered impact, as female workers are more likely to be harassed than male workers. Some workers report that they are subjected to verbal, sexual and physical harassment. As Rani's case study shows, harassment and intimidation can be closely linked, as the worker may be threatened with dismissal if they do comply. In an industry where jobs are increasingly insecure, the threat of dismissal is a forceful form of intimidation. The reports from Pakistan and Bangladesh also highlight the link between excessive overtime and harassment outside the factory. Long overtime means that women finish work late at night when there is no secure transport, as a result they are more vulnerable to sexual harassment and physical attacks late at night.

Repression of the right to organise and negotiate

There are very low levels of union organisation throughout the global garment industry. The reasons for this include repression of trade union activists. "Yellow unions", which are controlled by management are tolerated in some factories. In others workers are simply dismissed if they form or join a trade union. The high levels of subcontracting also make trade union organisation very difficult. Without the right to organise workers ability to remedy problems in the workplace is severely limited.

CASE STUDY 1: Rani, a factory worker supplying GAP

Rani works in Turquoise Knitwear in the finishing department. There are 15 women and five men in the department. The supervisor is male. The company is located in Lahore, in the province of Punjab. It exports T-shirts and jeans to the USA and UK. In total, 500 women work in this factory aged between 14 to 30.

Rani has been working here for three years but she is still a temporary worker. She starts her work at 7:00 A.M. and finishes at 10 P.M. or 11:00 P.M. She has no fixed working hours, so she has no idea when she will finish work. She told us "When boss allows us we g.12.