Chapter 1
USA Apparel Manufacturing and Domestic Sourcing

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Abstract This chapter presents a study on domestic manufacturing and how domestic manufacturers are surviving in the global marketplace. The study identified garment categories using OTEXA (Office of Textile and Apparel) information that had low percentage change in imports. Five case studies highlighted that the uses of balanced manufacturing and niche market were some of the main reasons why the companies were able to produce garments domestically. The models used as a framework for the analysis did not explain fully why some companies were able to remain competitive and use domestic production. A new model, the 'Domestic and Balanced Sourcing Model' was created to help explain the reasons why some garments are maintaining a domestic presence more than others and how certain companies are able to remain competitive in today's global marketplace.

Keywords Domestic sourcing · Niche products · Business models

1.1 Introduction

Over the past 25 years, the USA apparel manufacturing industry has undergone changes that have resulted in the country being affected by the global shift of the industry.

Increased global production has put the assembly sector of the USA garment industry under a great deal of pressure. Due to the availability of cheaper production costs overseas, manufacturers have found it difficult to retain domestic sewing operations and remain competitive. The result in the shift of manufacturing to overseas locations has been large-scale job losses. US studies on the impact of the Quota phase have shown massive employment disruption as increased global competition leads to even greater pressure on wages (Foo and Bas 2003). In the USA, wage and salary employment in the apparel industry declined 16% between

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the years 2004 and 2014 compared with an increase of 16% for all other industries combined (United States Trade and International Commission, USITC 2014). The decline translates into 153,000 lost jobs over the period, greater than the decrease in almost any other industry (US Department of Labor 2016). Declining employment has been caused by growing imports, fierce cost cutting, pressure imposed by retailers and international competition. A change in trade regulations has almost certainly been the single most important factor influencing future employment (USITC 2014). Many manufacturing companies are establishing overseas units where the workforce is cheaper (Deutsche and Kern 2007). This then leads to the closing of their domestic factories and moving their production overseas. These moves give them the option of reducing prices to remain competitive or increasing their profit margin.

Since the mid-1980s there has been an increase in apparel production worldwide but a decline in domestic production in developed countries (Oh and Moon 2003). This is partly due to '. …result of adverse economic circumstances, shifting patterns of demand, structural changes in distribution, developments in new technology and above all: a sharp escalation in international competition' (Kilduff 2005, p. 182). High-wage apparel manufacturers need to embrace new technologies to enable them to enhance their quick response capabilities which will give them a 'legitimate cost effective role' (Warburton 2004). Kilduff (2005) also points out that in order for USA apparel manufactures to be 'successful', they need to 'invest in new technologies…production and logistics'. More and more companies are sourcing manufacturing offshore but upgraded domestic production in the USA will continue to help 'produce leading edge products' (Kilduff 2005).

1.2 Literature Review

1.2.1 Smaller Firms: Niche Markets

Small firms play a limited role in mass production by providing reserve capacity during peak periods of demand (Scott 2002). They do, however, play a central role for the fashion industry with its highly uncertain markets and to niche market producers when order sizes are too small to outsource offshore. It was suggested by Dana and Hamilton (2007, p. 63) that '…the speed and flexibility of smaller suppliers could have been an asset in helping larger manufacturers to compete against imports'. Italy, however, made different choices to most other developed countries. Small manufacturing firms still continue to maintain a strong domestic foothold in their apparel manufacturing sector (Pellicelli 2006). They specialize in fashionable products which rely on flexibility, specialization and quality. Bailey-Todd (2008) suggested that large firms producing domestically using subcontractors that they have a long working relationship with help maintain domestic production. Bailey-Todd (2008) also states that Benetton, for example, performs the major part of its production in Italy , where it has a wide network of domestic subcontractors that ensure high productivity and flexibility (Bailey-Todd 2008).

The USA has two main areas of apparel manufacturing remaining, Los Angeles County, California and New York City. Apparel manufacturers have an advantage if they are located where there are related industries or clusters. These firms can produce faster due to the close proximity of the fabric and trim suppliers than a company that is located with low subcontractor clusters (Winger 1999). Los Angeles ranks first and NYC second in terms of clothing manufacturing facilities. With the largest number of manufacturing establishments left, LA can boast a strong infrastructure with the appropriate labour and capital for onshore apparel manufacturers to succeed (Bailey-Todd 2008). The area focuses on high value-added activities such as design and marketing. Due to this specialization, high-end fashion producers in LA may gain a competitive advantage (Scott 2002). High fashion that is often produced in LA can be produced with short lead times, quick turnaround and small order quantities (Bonacich 1998). Many firms in LA are, however, small- to medium-sized businesses that supply the niche market and often the firms can consist of less than nine workers (Scott 2002). Bailey-Todd (2008) suggests that historically the workforce in LA has been made up of immigrant workers. It has now transitioned from focusing on mass market to becoming a fashion centre for design-intensive apparel companies, where production and marketing allow the industry to survive (Bailey-Todd 2008). The LA market demands quick turnaround giving local producers an advantage over offshore producers. The ability to have control over quality and make last-minute adjustments based on specific market demands makes domestic production advantageous (Winger 1999). Many companies have invested in new equipment and technology to help stave off competition (Scott 2002). USA companies, especially in NYC and LA, continue to produce niche market apparel that have '…little labor content but commands high prices' (Bailey-Todd 2008, p. 262). New York City is the only other state in the USA that has a significant domestic apparel presence. It is also the major USA fashion centre that houses the design and buying offices of many of the large manufacturers and retailers in the USA (Dana and Hamilton 2007). The bulk of the industry that is left in NYC comprises small manufacturers and contractors that supply clothing to a fragmented set of niche markets (Bailey-Todd 2008). NYC's existing clusters of small manufacturers and contractors can provide quick turnaround times and manufacture products faster than their global counterparts (Crean 2002). Although foreign competition is causing many of these niche markets to decline, many are too small or orders are time-sensitive to be outsourced offshore (Doeringer and Carson 2006). The quick style changes and need for quick responses to new seasons trends require a direct collaboration between producers and designers, which would only be possible where there is a concentration of small and medium producers in close proximity to fashion markets (Kumar and Arbi 2008). NYC is also a centre for training new designers who often aspire to careers as independent designers. Young designers use the apparel producers in the city due to the size of their orders and their inability to meet minimum order quantities for global contractors. However, even these small orders can often be too small to be produced by small contractors (Crean 2002). If, however, there is any prospect for the USA apparel industry to carve out durable market niches for which it has a competitive advantage, it is likely to be in high value-added fashion producers where design, quality and speed matter and where orders are too small to tempt offshore competitors (Doeringer and Carson 2006).

1.2.2 Porter's Five Forces Model

The first concept of competitive advantage strategy was developed by Porter (1998) and is described as taking aggressive action to create a defendable position in the industry. These actions it is suggested will enable a firm to successfully manage competitive forces and create a higher level of economic return (Porter 1998). Porter's Five Forces Model illustrates the competitive strategies that have been implemented by many industries to help them maintain a competitive advantage. The clothing industry is a very competitive marketplace where the main goal is to entice the customer to buy their product. The retailer is constantly thinking of new ways to maintain and increase their customer base through advertising and product type. Independent designer labels also have their own advertisements in magazines and storefronts. The price point is a very important factor for the consumer and, in today's fast-changing marketplace, it is increasingly important. Customers are constantly looking for the best value for money even when buying designer labels. The price point is something that all companies consider no matter what size they are. The apparel industry, due to its low barriers to entry, is one of the most highly competitive manufacturing sectors in the world (Standard and Poor's 2004). As obstacles to trade among nations have declined due to improvements in transportation systems, technology transfer and government cooperation, the industry has seen a rapid increase in globalization. Porter (1998) indicates that potential new entrants pose a threat due to the increased level of capacity they afford. Such additional supply could drive down prices and cut into the profits of current producers. Potential entrants into the clothing industry are very high as the start-up cost is relatively low. Grunsven and Smakman (2001) suggests that due to the low capital investment and low technology needs it is very easy for apparel manufacturers to establish new businesses and low barriers to entry help facilitate competition within the industry. Not only the initial setup is low cost but also the wages are usually significantly lower in the offshore locations adding to their appeal by developed countries. Jones (2006) also pointed out that the apparel industry is not a knowledge-based industry and therefore research and development is not an area that is heavily invested in. Textile development, however, is a constantly evolving area with new fabric developments emerging on a regular basis.

There is not a great amount of research into smaller niche market companies. Jones (2006) pointed out that the UK concentrated on long production runs, whereas Italy adopted management strategies that incorporated niche-marketing policies, which appear to have achieved success. Smaller niche market companies could remain competitive through their product type and being smaller gives the companies greater control of their product and gives them flexibility when reacting quickly to changes in trends and demands. The threat of competition from substitute products occurs if multiple products are found to perform the same function (Porter 1998). Porter (1998) asks whether large companies are more profitable than smaller firms. He suggested that larger firms are more 'protected by mobility barriers than smaller firms' (Porter 1998, p. 145) and that they are more insulated from rivalry than smaller companies, and due to this the larger firms will be more profitable than smaller ones. However, smaller firms are able to follow specific strategies, and therefore are able to achieve higher product differentiation or a superior service as in niche market products. Porter (1998) acknowledges that in these instances smaller privately owned companies may be more profitable than larger ones.

1.2.3 Diamond Model

Porter's five-force model was not really designed with a global marketplace in mind, so he developed the Diamond—Comparative Advantage of Nations model or The Determinants of National Advantage model as it is also known. It was developed for companies that were competing in a global marketplace. Porter included factor conditions, such as skilled labour, as necessary factors for industries to remain competitive in the global market. As mentioned earlier, the USA and many other developed countries are losing their skill base and this is a major concern for companies that still wish to manufacture within the USA. Companies that outsource do so because of attractive low labour costs, but as Warburton and Stratton (2004) stated this does not always produce high-quality work. However, this does not mean that low-cost producers never produce good quality work. Jones (2006, p. 157) suggested that Porter's diamond framework highlighted the reasons for the use of offshore manufacturing to 'offset the disadvantages which are predominantly high wages'. Most companies outsource because of the attractive low-cost labour, but this does not always produce high-quality goods. A constantly monitored production process will produce better quality as problems are highlighted through the process rather than at the end. The fashion industry relies upon supporting industries. The textile industry supplies the fabric for the garments and the sewing machine industry provides the equipment to make the product. There is very little fabric manufacturing left within the USA. For the USA, many companies source fabrics from Europe, which are subject to tariffs that were originally put in place to protect the domestic industry, which no longer exists. Also, high exchange rates can affect companies sourcing fabric from outside of the USA. The conflict between the costs of domestic manufacturing and offshore manufacturing is always being debated (Lowson 2003). While domestic manufacturing is more expensive, there can be many hidden costs when using offshore producers. Fogarty (2006) suggests that the hidden costs include export taxes, additional warehousing, transportation and insurance charges. Transportation is one of the greatest costs, but

Porter suggests that transportation improvements have lowered the cost of exchanging goods around the world. This of course does depend on how the product is going to be transported. Porter believes that industries today 'do not resemble those that the theory of comparative advantage was built on' (Porter 1998, p. 13). Technology has become an important factor in industry today. As long as the skills to produce the product efficiently and effectively are available alongside the technology, then companies are able to establish new businesses easily (Porter 1998).

1.2.4 Lean and Agile Manufacturing Concepts

According to Halevi, the industrial era that has been dominated by mass production is drawing to a close (Halevi 1999). Halevi postulates that the concept of Agile manufacturing will dominate the manufacturing industry. Agile manufacturing would be suitable for the fashion industry as it often has short product life cycles and high variety (Stratton 2004). Halevi stated that with agile manufacturing 'competitive advantage will be determined by the new criteria of quality and customer satisfaction' (Halevi 1999, p. 46). Halevi (1999) suggests that only highly competitive companies will use this approach due to the fact that the products are usually custom designed. This approach would lend itself to niche market products, as they are perceived as being exclusively designed. Although niche market products could fit into this approach, he also stated that the companies that embrace this idea would also consider environmental issues, which at this time many companies within the apparel industry do not. Suri (1998) suggests that Agile manufacturing is an evolving approach, but the core principles of how to implement it are still being evolved. He suggests that agility may take companies beyond Quick Response Manufacturing but QRM can also be applied to custom one of kind products and short production runs. The effect of this strategy is to reduce lead times and costs and thereby improving competitiveness and performance (Jones 2006). Porter (1998) suggests that long lead times require firms to base their decisions on projections rather than demands. Warburton and Stratton (2004) pointed out that it is not unusual for both retailers and manufacturers to make a 25% error in sales forecasting of a significant percentage of styles, but for fashion items this forecasting can be much worse. Porter (1998) pointed out that firms are often left behind even though the decision-making process or placing orders is in itself risky. The Just-in-Time approach is best applied to high-volume products that are repetitive and of a stable demand which for the most part is synonymous with most mass production processes. This is also the idea behind the principle of Lean Manufacturing when the product type is usually commodities with low product variety and long production cycle (Stratton 2004). This approach can be adopted by companies that have little style change and long production runs but is the opposite approach and contradicts the thought process of Agile manufacturing. It was also suggested by Stratton (2004) that Lean and Agile supply approaches could be used together as they enable companies to remain competitive as fashion goods usually have a short production life due to the ever-changing fashion trends. They can also be delivered at speed due to the fact that many niche market products are produced domestically.

1.3 Case Studies

The five companies selected for the case studies were based on the following criteria that each of the companies produces at least one of the garments that have been identified as having a low percentage change in imports from OTEXA website. The low percentage change in imports suggests that the products may be being produced domestically. The garment categories identified were as follows:

- Women's dresses MMF (Man-made Fibres)/Cotton/Wool,
- Men's and boys Wool suits,
- Men's and boys MMF/Cotton shirts not knit,
- Women's MMF shirts not knit,
- Men's and boys Cotton knit shirts,
- Men's and boys Cotton pants and shorts, and
- Women's Foundation Garments.

Two out of the five companies use both domestic and offshore productions, while the other three produce solely in the USA. All of the information was obtained directly from the owners of the companies.

1.3.1 Case Study 1: Tyndale

Tyndale is a privately owned company-based out of Pipersville PA. The owner Robert Whittenberg has been in business for over 20 years offering a varied product line.

Their product base varies from Flame-Resistant (FR) workwear to men's and women's casual wear. Their core business is supply managed apparel services to investor-owned utilities in the USA, but they also produce jeans and knit shirts for independent stores and through their website and catalogue. Whittenberg stated that 'Our made in the USA line is the broadest and deepest available in the market place'. They distribute to all major manufacturers, which enables them to provide virtually any product that their customer base wants. Their main customer is the utility industries which purchases FR garments. The labour union supports 'Made in America' products and is therefore prepared to pay higher prices for their products. In addition, they have a 'Made in the USA' catalogue that they distribute to customers who may be willing to pay a premium for 'Made in the USA' garments. They also sell through independent stores and through their website. One of their customers is a Japanese company that wants ‘Made in America’ jeans. As a manufacturer, Tyndale competes with divisions of VF Corporation (a fictitious name to reflect the more diverse product line.), Dickies, Carhartt and Riverside manufacturing. As service providers, they compete with Cintas and Wearguard who are manufacturers of workwear products. Cintas has a higher design aspect to their work wear collection. Robert Whittenberg, owner, mentioned that ‘we have noticed that many of our competitors have switched from substantially manufacturing in the USA to substantially all imported’. Generally, Tyndale’s pricing is higher than other manufacturers that are selling directly to the end user, but they offset this by providing a ‘better service, broader product choice and “Made in the USA”’, Whittenberg said. Their strength lies in the fact that they can provide garments quickly and cost-effectively with minimum wastage. They can keep products in stock, which enables them to provide their customers with what they wish to buy. Their customers want ‘Made in the USA’ products, whether they are American customers or Japanese customers that want ‘Made in the USA’ jeans. Their ability to be flexible is important but creativity is not. Due to their main business type, their product changes slightly from year to year. Advances in fabric are often the biggest changes that are made to their product. This therefore restricts any creativity that is often associated with the garment industry. They manufacture relatively close in American standards to their main office, which enables them to keep transportation costs down. The IT system that they have allows the customer service team to manage large complicated orders, while still having a personal touch in knowing their customers and their needs. Increased technology has allowed the company to use the most up-to-date computer software to provide the best service to their customers. They are leaders in the Flame-Resistant (FR) area of the industry, Whittenberg commented, which is the feedback he receives from competitors and vendors. They are respected in the industry as an honest and trustworthy organization.

1.3.1.1 Domestic Versus Offshore Production

Tyndale manufactures 100% of its products in the USA mainly in North Carolina and in Pittsburg, which are close to their distribution centre in Pipersville. The ‘Made in America’ label is their business and is a major selling point. Owning their own factories means that Tyndale has no need to subcontract any of their manufacturing, and, are therefore able to have hands-on approach with their production and the quality of the finished product. They have never used offshore manufacturers because of their products quality and their position in the marketplace. There will always be a need for clothing, Whittenberg commented, and the lowest cost producer for the most part is going to be sought. This will almost always be where textiles are also being produced. As a company, Tyndale does not want to use the lowest cost producer as they feel that they will not get the quality of work that they are looking for and therefore cannot match their current workmanship. In addition, their garments are made from domestic textiles, which have economic benefits because of lower transportation costs than international shipping. Whittenberg also believes that it is environmentally friendly to produce domestically as he is not shipping garments around the world. ‘Our customers want products that are made in the USA’ , Whittenberg said. ‘Because our fabrics are expensive compared to our labor costs, it is somewhat cost efficient to do so’. He expressed that US manufacturers are increasingly capable of doing small runs with quick turnarounds, which international manufacturers cannot do because of lead times. Manufacturing in the USA gives the supplier the ability to restock an item when it becomes out of stock. Ninety percent of their business is restocking. Whittenberg commented that you cannot simply stop selling an item just because it is out of stock; you need to get back into a stocking position to give the customer what they need. They manage all of their design and product development in house but send their pattern making and grading to a freelance pattern maker in Pittsburg. They develop two–six new products per year, but also make incremental improvements to their established products throughout the year. They also make order for their larger companies continually. When looking at the market level, Whittenberg commented that quality was a major consideration. ‘I have been able to produce superior products in the USA compared to internationally because there seems to be a general preference towards quality over cost cutting which is difficult to identify internationally’. Tyndale differentiates ‘Made in the USA’ garments from international ones. They include the location of manufacturing on each of their products. They have an IT system that allows them to manage extremely complex service requests for large customers in an efficient manner. The sales department is extremely experienced which enables them to offer their customers the best product for its end use. Over the past 20 years, there has been a huge increase in companies’ abilities to produce overseas. They no longer have to employ people in the same state or even in the same country. Technology for Tyndale has helped with placement of orders rather than outsourcing. They employ around 100 machinists of which many have been with the company since its beginning 20 years ago. Because of this, they have a strong skill base, which is something that many other companies feel that they do not have because of the movement of labour to offshore locations. Whittenberg commented that he thinks that there is not only a lack of skilled labour but also a lack of low-cost labour. Although a lack of skilled labour does not affect Tyndale at the moment, they know that in the future with the prospect of employees retiring they will need to replace and retrain new employees. Whittenberg commented that he terminated two machinists employment with him in the past year because of their inability to produce the standard of work that he is looking for. Over the past 10 years, it has been difficult to source employees in rural areas even though there are not many other jobs. Now urban areas employ mainly Latin and Asian workforces not Americans. Twenty years ago, after high school a girl would go to a sewing factory to find work. Today, they are now moving to the cities to find work in high-tech positions. Whittenberg said that ‘We seek to continue to improve all areas of our business, but we will continue to focus on a narrow segment of the overall FR market place’.

1.3.2 Case Study 2: 3fe Apparel

Angela and Joseph Farrell established 3fe Apparel in 2006. Their goal is to offer traditional products with unique aspects of detail, focusing on providing customers with the finest quality products. As a company that uses domestic production, 3fe offers quality and originality in their designs Farrell commented. Their price point is high because of their product; quality seems to be the most notable cause of the difference in relation to where garments are produced. They offer a range of women's contemporary dresses and tops as well as accessories such as their Pidge scarf that launched their business venture. Their target customer is a 20–50-year-old woman who is looking for good design. Because of their design's individuality, the company has developed a customer following and brand loyalty that has developed over the past few years. Farrell believes that this is due to the quality and originality in their designs, which have uniqueness to them. Small additions make a difference, Farrell pointed out. Just by adding nice buttons instead of plastic ones makes a product more appealing but can add a disproportionate value. 'The luxury apparel market has become a niche market for America', owner Angela Farrell said. Many designers are taking the high-end 'Made in America' approach, attaching their names to quality and quality products, Farrell commented. Their ability to produce something quickly that is unique reduces the amount of competitors that they have in their market area. A number of luxury manufacturers are beginning to return to the USA for quality control, having had difficulty with quick changes and monitoring their production in overseas factories, which could increase 3fe's competitors. The company's greatest strengths are its control over production quality, customer service, packaging and delivery. 3fe Apparel manages all aspects of the company in-house, with dedication and precision that cannot be attained throughout-sourced services. Their greatest weaknesses and threats are that of monetary concern. By producing in the United States, they pay an extraordinary amount on labour, insurance and rent. But, to stay competitive, they must keep prices low by reducing the profit margin. This leaves little room for going over budget, expanding through advertising, or further product production. Although they have many new product ideas that could be realized, the required funds to expand are greater and more difficult to secure without a large increase in sales. As a company, they have put in a great deal of effort to hire only USA-based suppliers. Farrell commented that there is a lack of skilled tangible physical labour. 'Americans no longer want to work in manufacturing; it seems to be only low income families that want to do this. American's have lost their pride in their work', Farrell said. As the economy changes, almost two-third of the suppliers have gone out of business, leaving them with the difficult task of continually finding new USA-based suppliers. Farrell commented that they are constantly struggling with USA suppliers to get their products made at a reasonable price. They will try to maintain domestic production but are unsure if they can do this due to an ever decreasing manufacturing base and cost increases. As a company, they are trying to maintain domestic production but are finding it increasingly difficult because of the reasons mentioned above.

1.3.2.1 Domestic Versus Offshore Production

The domestic wage and salary structure have hurt local manufacturers' ability to compete against international competition, Farrell commented. In the state of Connecticut where 3fe is located, the minimum wage is $7.65 per hour, but to gain competent employees a company must pay at least $9 an hour for even menial tasks (making boxes, counting buttons and sticking labels) was another comment. On the other hand, overseas $9 would be for a full day if not a week. 'My labor costs are 70% of my total costs', Farrell said, 'but if I manufactured overseas the labor would be 10–15%'. Below is an example of her cost for the knitted Pidge scarf. This is one of the reasons why Farrell is constantly struggling to keep her products made in the USA. 'We are hoping that our items from next season can also be locally made with reasonable costs, but if they cannot, we will produce overseas instead of pushing and fighting to make our products domestically, as we pushed and fought for our current line'. With the ever-rising fuel costs, it is also getting more and more expensive to ship products even within the USA. Some luxury manufactured goods are still being produced in the USA for quality control, because many companies have had difficulty with quick changes and the monitoring of production in overseas factories, Farrell commented. Although the order quantities are at present too small to produce offshore, lead times and quality control are the main reasons why they use domestic production at this time. If they want to change something, they can re-sample or re-make in 4–5 h, which would be impossible if they used overseas manufacturers. Outsourcing leads to a loss in quality, Farrell commented, especially when the product is being produced thousands of miles away in another country. The ability to have hands-on approach enables domestic producers to oversee the production and quality. Farrell works closely with the factories that produce their product. This helps ensure that products are produced in a cost-efficient manner as the factories have product development engineers that work with her to ensure the best product for the price. Farrell often finds it difficult to source good quality workmanship as many of the companies that were able to supply her are now going out of business and machinists and such like are moving into other positions. As a relative newcomer to the industry, 3fe is finding it difficult to compete on price. They currently use domestic production but are finding it more and more difficult to do so due to cost. The another problem that they are facing is being able to find manufacturers to produce their products. Factories are continually closing and that in itself is a problem. Producing goods domestically allows for hands-on approach and the ability to ensure that the goods are produced to the highest quality. Neither of these would be easy to access if using offshore suppliers. There is a lack of skilled labour available and any that are available will be expensive and therefore increasing the cost of the end product. Being at the end of the market that is perceived as luxury, the 3fe label is significant to their customers. Their customers know that when they buy this named brand they are going to get quality and a product that is supporting the local economy.

1.3.3 Case Study 3: Lela Rose

Lela Rose is a privately owned company based in New York City and was founded in 1996 by Lela Rose. Lela Rose's vision was and is to create women's clothes that were unique in their design. She pairs unconventional fabrics and techniques, which have become trademarks of her designs. 'My philosophy of design is about creating beautiful, hand finished clothes that exude a casual luxury and refinement', Lela Rose. The collection is strategically targeted at the opening price point of designer collections. The company has been positioned to offer accessibility, without sacrificing the quality and design standard of the designer market. Occupying this niche has been crucial in helping to broaden the Lela Rose customer base and brand awareness. Their target customer is a 30–65-year-old woman who is looking for good design. As a brand, they have intentionally positioned themselves to fit the niche for customers that shop for other feminine collections like Thakoon and Chloe while admiring the detailed craftsmanship of Oscar De La Renta. Because of their design excellence, the company has developed a strong customer following and brand loyalty. The Lela Rose collection is merchandised on the designer collection floor in major upscale department stores like Neiman Marcus and Bloomingdales alongside designers such as Zac Posen, Thakoon, Chloe, Peter Som and Derek Lam. The company's major strength rests on the ever-evolving design of the collection. In recent seasons, they have expanded their collection by launching a new division in sportswear, which maintains the well-known attention to rich detail and offers their customers a new direction. The brand has developed committed customers and retailers who know that each collection will be both unique and consistent and who continue to support the brand season after season. Beyond design, the company has strengths in sales and production that are due in large part to the cohesiveness of the working environment. The Lela Rose Company is growing but is still small, and they are using that size to their benefit. The studio environment resembles the workings of a family unit and boasts an extremely dedicated staff. Everyone has independent responsibilities and tasks but is still involved in all aspects of the company business. This cohesiveness works to their advantage in many ways. They are able to give and receive immediate feedback; the sales and production teams collaborate to analyse past performance at a retail level and provide a roadmap for the next season. This information enables them to accurately revisit silhouettes, fit, fabric weights as well as help to insure an overall well merchandised collection. The flipside of the benefits of operating a relatively small yet growing company is that physical space is limiting and has begun to show as a weakness. As the company continues to expand and hire new employees, available space for desks and computers and other work-related products has shrunk. The size of the studio's showroom has also presented a challenge. Each season the number of pieces in the collection grows and available merchandising space becomes limited. More retail accounts are coming into view the collection each season and seating can be hard to accommodate when more than one account is in the showroom. Additionally, only one sample of each piece from the collections is made and must be shared among trunk shows, editors and stylists. Only one piece from each collection is made for cost purposes. This at times leads to a frustrating inability to fill a request for a sample and thus has hampered orders and sales on a garment.

1.3.3.1 Domestic Versus Offshore Production

Lela Rose does not own their own manufacturing facility and therefore all but one of their products is manufactured in New York City. They work closely with their manufacturers as they also produce the initial sample garment. The close proximity of the factory allows Rose to be involved in all aspects of the garment construction. She is able to work with the sample machinists to ensure the garments ease of transition from the sample stage to the production. The factory advises Rose on product development to ensure that the appropriate equipment and techniques are used. The only product that is not produced in the US is their knitwear which is one hundred percent produced overseas. The cost of producing knitwear in the USA would not be cost-effective, but having said that Rose still needs to consider the cost and how many pieces she can import from the production location and what the current exchange rates are at that time. The hourly rates for workers (seamstresses, cutters and machinists) are far higher in the USA and NYC especially than those in low-wage countries. This does of course make a difference when costing a garment. 'Fortunately, economics are not the only consideration used when costing our garments', Rose said. Cost is the main reason that goods are produced overseas, she commented, but quality and the ability to control her products is why she produces her products in the USA and control over timely delivery of goods. Rose believes that the first garments into the stores are the first things out of the stores. Many NYC manufacturing companies can no longer compete with overseas manufacturers and it is only companies like Lela Rose that keep the industry alive there. Many still produce samples for NYC designers but they know that the product is never going to be put into production because it is too expensive. Their sample is shown to overseas producers and made for a fraction of the cost. Rose feels lucky to be situated in NYC, but she feels that many manufacturers in the USA are losing their knowledge and skill base from an industry that provided jobs for many years. 'I personally feel sadness over the loss of knowledge, but understand the economics of it', Rose said. She also commented on the loss of skills that have been passed down through generations, such as tailoring in Italy and laces and embroideries from Europe, which could all be lost for good. Lela Rose produces all but one of their products in the USA. They produce their high-end luxury women's wear domestically so that there is control over timely deliveries and their ability to work directly with the manufacturers of their products to ensure that the quality is what is expected. Their customer knows that the Lela Rose brand stands for quality and uniqueness, which allows it to stand alongside other major designer brands on the sales floor. The loss of skill in the USA is very apparent in NYC, which is where Rose is located. Along with the closing of factories is the loss of the fabric and trim stores that used to supply them. This makes it difficult for companies like Lela Rose to find the components they need to produce their products and in turn is sending them further afield to source them.

1.3.4 Case Study 4: Trina Turk

Trina Turk is a privately owned company based in Los Angeles, California and was founded in 1995 by Trina Turk. They are a California inspired lifestyle brand with a west coast point of view. 'Our customer loves fashion', Turk said, 'but is not a fashion victim'. Their product is vintage inspired with a basis in classic American sportswear. As a brand, they have become associated with a 'Palm Springs/Resort lifestyle'. Bold graphic prints and colour are an integral part of their brand identity and they are also known for making great fitting pants. Trina Turk produces women's contemporary sportswear and women's swimwear, which is licensed by Apparel Ventures. They have an amount of men's wear that they sell through their own retail stores but do not keep it as stocked as the women's wear. Turk currently has three retail store locations with plans for an additional two stores in the near future. Their lifestyle products include signature scented candles, pillows and vintage furniture upholstered in their signature prints. New product lines upcoming are a licensed gift collection that will include needlepoint and embroidered pillows, rugs, coasters, guest towels, a licensed guest designer programme with the hosiery company HUE and a licensed indoor/outdoor upholstery fabric collection with Schumacher which will be to the trade only and sold thru Schumacher showrooms. Their target customers are 25–50–year-old women with 30–45 year olds being their core customer. Turk believes that her customer is more about attitude than an age. The price point that Turk sells at is lower than many other designer labels and is therefore more affordable. They also have customer brand loyalty, which they have worked at through an excellent product and good customer service. Turk launched her website in 2003 which is operated by OneStop.com. They receive between 160 and 250 orders per week at present and the average order is $238 and contains an average of 1.5 units. Their website gets an average 12,000 visitors per week and volume is fairly steady throughout the year as they are not a highly seasonal design product. Increased technology has improved Turks sales because of the Internet and has increased their customer base. They have been able to reach customers in all areas of the USA that would not normally have had access to Trina Turk's clothes.

Her collections are merchandised on the designer collection floor in major upscale department stores like Nordstrom, Neiman Marcus and Bloomingdales as well as in selected locations of Lord and Taylor, Saks and Macy's. Turks main competitors are Theory, Diane Von Furstenberg, Nanette Lepore, Rebecca Taylor, Milly, Vince, Catherine Malandrino, Alice and Olivia, Tory Burch and BCBG. Store buyers will buy from established brands and Turk's 13-year record portrays her as a proven entity especially in this current economic climate. Companies know that she will ship on time that the quality is going to be good. The price point that Turk sells at is lower than many other designer labels and is therefore a more affordable product. They also have customer loyalty, which they have worked at through an excellent product and good customer service. The biggest percentage of their profit is lost in department store arrangements. With more of their own retail stores, they have more control over their own destiny. Although the setup of retail stores is costly, Turk is using both the stores and the Internet to attract more customers. When department stores are struggling and their sales are bad, it affects Trina Turk as they are just one of the long lists of brands that the store represents. In house, Turk feels that they give a real customer experience and they are able to sell their brand more efficiently. The margin agreement that Turk has to take out with the department stores also works to her disadvantage. If the garments do not sell through at a certain rate, then Trina Turk either needs to take it back or make a loss on a newly agreed price.

1.3.4.1 Domestic Versus Offshore Production

Turk uses domestic production for control and the ability to oversee the production process. She sees this as an advantage over many of her competitors as her ability to re-cut or re-sample a garment at short notice is a distinct advantage. Lead times for her production orders that are placed overseas always causes Turk concern, especially in today's economic climate. She feels that she cannot change her orders if things are not going well and that things are out of her control until the garments arrive at her warehouse. Thirty–thirty-five percent of their production is made in China and sixty-five to seventy percent is made in California. More complicated and detailed designs as well as sweaters are made in China as the labour content is high and would be cost prohibitive to produce in the USA. Turk commented that the market is working—only high-price point garments will continue to be produced domestically or low-work content, compounding skill loss. The fabric that Trina Turk uses comes from all over the world from China and Korea to Turkey and Italy. Turk pointed out that because of the exchange rates with European companies, this often affects her ability to buy fabric and get them imported. The tariff on imported woollen fabrics, which is thirty-two percent, Turk said, 'is out of date'. It was initially put into place to protect the domestic industry but there is very little if any left. All of the USA production is done in California allowing for a hands-on approach with the production. Their samples are made in-house but Turk works closely with the manufacturers on product development to smooth out any potential production issues. This is not possible with the offshore manufacturers that Turk uses without continual visits to the factory location, which would be both costly and time-consuming. Turk mentioned that the ability to find factories that make the quality of work that she is looking for is difficult. Only a handful of companies produce good quality work in L.A.'s San Gabriel area. She commented that contractors could be trained to produce good quality work. Contrary to other comments made, she feels that quality is reduced because of domestic production. Turk sees her main advantage over her competitors is the fact that she produces domestically. Her ability to make changes last minute whether it be to the design or the fabric or to cut extra of a garment that is selling well is something that she would not be able to do if dealing with offshore producers. Lead times are another reason for domestic production. Orders have to be placed up to 6 months in advance, but this does not necessarily mean that the order will be delivered on time. The lack of skilled labour reflects the quality of some of the manufacturing units based in the Los Angeles area. Only a handful of manufacturers can produce the quality of work that Turk requires and suggested that contractors could be trained to produce better quality goods. Turks customers know that when they purchase a garment that carries the 'Trina Turk' brand label that they are going to get a good quality product at a price that is slightly more affordable than other designer labels.

1.3.5 Case Study 5: Green 3 Apparel

Green 3 is a design, marketing and distribution company which contract sources environmentally friendly apparel, made in the USA. The founding partners of Green 3 have a combined 40 plus years of apparel experience with multi-billion dollar global brands such as Osh Kosh B'gosh. Having worked for companies that constantly outsourced, Jim Martin and his partners wanted to manufacture in the USA. They target upper-end stores and produce moderate to higher price points. Their core products are an assortment of woman's knit shirts with original prints. Green 3 also do all of their own artwork in-house and have highly skilled artists. Their shirts retail in most locations from $32 to $48 dollars. Green 3's customer base is better-end specialty store, and moderate to better catalogues.

Their product is 100% 'green' from fibre, through dye, screen, wash and finish. They also use domestic production so their 'Made in the USA' label is also a strong selling point. They therefore target themselves in a patriotic and Eco-friendly way. Their primary business is wholesale, although they do sell some of their items directly to the consumer via their website. Green 3 competitors are actually very limited, owner Martin commented. It is currently very difficult to market any company as completely 'green' unless they use eco-friendly fabrics, dyes and finishes, as does Green 3. The larger a company gets, the more difficult it is to achieve. Their niche is that they are able to service the catalogue industry as a 'full package contract product development' house. Meaning that they can be 'your' one stop for developing, executing and delivering product with very minimal input from the customer. They are finding very few competitors that can do this.

They knew at the outset that they were going to be costlier than products that were imported but they hoped that people would be patriotic like themselves and buy 'Made in the USA' products that are eco-friendly. The sales volume has grown approximately 12-fold in 3 years, which is better than they could ever have expected in the current climate. Green 3 is both parties first experience of entrepreneurship, with a network of approximately 300 specialty stores coast to coast, and a rapidly expanding base of catalogue customers. They market their company through international trade shows in various locations across the USA.

The combined experience of the partners allows the company to have executive-level experience in a small company, but who understand big business. Their ability to produce garments quickly and have short lead times gives Green 3 an advantage over any of their potential competitors. The prints that are used on their garments are done in-house which is also a distinct advantage.

1.3.5.1 Domestic Versus Offshore Production

Producing domestically greatly reduces delivery problems and allows for a more hands-on approach with the quality of the product). Although fuel costs make it costly to transport products around the world and within the USA, Martin thinks that there are several factors that will affect where companies source their manufacturing. The things that he thinks will come into play are as follows:

i. Continued depression of product prices with consumers driving down prices by going to lower cost stores;
ii. Retailers are lowering the bar to remain competitive. Wal-Mart and Kohl's are passing savings on to the consumer less and less. The only way to remain competitive is to make garments of lesser quality. Also, third world countries producing lower quality products and lowering garment pricing;
iii. Retail price point and the weakening dollar.

'Niche market products will continue to be produced domestically because of small runs that make it cost effective', Martin said. Like other companies that have been questioned, owner Jim Martin commented that it is difficult to find people that want to work in the manufacturing industry. He feels that there is a lack of skilled labour but there are different factors that he attributes to this such as their location in North Carolina, the pay that machinists make, although it is not substandard, and the ability to develop a skilled labour force. The ability to hold on to machinists is a problem that Martin thinks contributes to quality issues. As employees are always looking for a better job, manufacturers have a high turnover of employees and the ability to develop a skilled labour force is difficult.

Green 3 is an eco-friendly domestic manufacturer. Their major selling point is that they use eco-friendly cotton to make their shirts as well as eco-friendly dyes and finishes on their garments, which is something that their customers are looking for. The company produces domestically not only to support the local economy but also to protect the environment. The ability to produce good quality products and not have to deal with lead times is the main reason for the owners to produce domestically as well as not flying garments halfway around the world.

1.4 Analysis of Case Studies

The five companies used for the case studies all use domestic production although not all exclusively. They each produce garments that have a low percentage change in imports. Each of the companies conveyed that some of their main reasons for using domestic production are as follows:

i. Made in the USA,
ii. Short lead times,
iii. Achievement of quality standards,
iv. Brand loyalty,
v. Small order quantities,
vi. Loss of skill base and
vii. Quick response.

The companies did express a concern about their ability to compete with offshore producers, but because of their customer loyalty to their brand they were for the most part able to sustain their price points. Several of the companies expressed concerns about the cost of transportation when deciding on where to get their products produced. At the time of this research, gas prices in the USA had reached an all-time high and all forms of transportation costs had increased. The ability to oversee their production and have an amount of control over their products quality was high on their list of priorities when considering where to get their garments produced. Only Trina Turk expressed a concern that manufacturers in the USA did not necessarily produce good quality products. She is, however, located on the West Coast and the other four companies are based in the North Eastern part of the USA, which historically was a major location for the clothing industry. Both Trina Turk and Lela Rose produce their knitted sweaters offshore due to the fact that it would be cost prohibitive to produce domestically. All of the companies expressed a concern over the lack of skilled labour, and with the constant closing of garment production facilities, skilled workers are now moving to other jobs and industries which is leaving a shortfall in quality skilled labour that is available. The ability to find skilled labour is something that affects each of the companies. As manufacturers are constantly closing and production is moving offshore, machinists and other skilled workers are finding employment in other areas, which often pays more. This has a knock-on effect when companies are looking for skilled machinists as they have to offer a higher wage to make the job attractive. This then of course has an effect on the cost of the garment. The company then has to decide to either reduce their profit margin in order to compete with their competitors or to promote the product as a more exclusive and better quality piece. Only Tyndale owns their own factories and has a product development team to work on the production of new and established designs. The other four companies work with local manufacturers for their production. They work closely with the product development teams which advise on machinery and cost-efficient production techniques where needed to ensure a smooth production process. Each of the companies questioned has an exclusive edge to their product type. Whether it is designer branding, eco-friendly or purely good product reputation, they are each known for something that is not available from every other garment manufacturer. Because of their exclusivity this, in turn, does lead to smaller order quantities, which can impact where their garments are produced. This affects two of the companies in particular: Green 3 Apparel and 3fe, their quantities being too small to place orders overseas. Also, Green 3 produces in the USA because of the effect that transporting garments around the world has upon the environment. The other three have the ability to produce either domestically or offshore through their order size but choose not to for patriotic reasons and for some, moral standing. They all produce in the USA due mainly to the design elements in their pieces and the ability to monitor their products by working closely with the factories that produce them. Increased technology has improved each of the five companies' ability to provide better customer service when customers are placing orders or their ability to sell their products to customers in areas that they would not usually be able.

1.5 Theory Building for a Domestic and Balanced Sourcing Model

From the research, it became apparent that small privately owned companies were the major users of domestic manufacturing. They are able to remain competitive through their product type and the size of their company. With fewer people in control, they are able to make decisions easier as they do not have to keep multiple shareholders happy. Using domestic production they are able to make quick changes, control the quality of their product and have a quick turnaround. The research showed that for the most part companies that still source domestically and work with garments that have a low percentage change in imports are niche market producers. Porter suggests that a threat of substitute products could be a problem for the survival of companies, but an ability to have a unique product keeps the threats lower (Porter 1998). Niche market products appear to be able to withstand the high-cost price tag. Consumers are looking for something different and are often willing to pay a premium for it. The companies contacted for the case studies have uniqueness to their product. Whether it is an environmentally friendly fabric or exclusive design, they appear to be able to compete in the marketplace without their customers looking for cheaper substitutes. The companies are constantly able to quickly adapt to changes in the market and are producing products that at the moment no one else is fulfilling in this niche product area. As they are established companies, they have brand recognition and have a significant amount of customer loyalty. Rivalry within the fashion industry is prevalent. The companies that did respond were able to remain competitive due either to the uniqueness of their products or because of designer branding. They did not compete on price as each of them falls into slightly different categories to their closest competitor.

The companies are focused on their product type and customer and offer product differentiation. Differentiation provides insulation against competitive rivalry because of brand loyalty by the company's customers, therefore resulting in lower sensitivity to price (Porter 1998). In Porter's five-force model, suppliers have power over the companies that they produce for. The garment industry is classified as fragmented according to Porter, as it is an industry where there is no advantage of size in dealing with suppliers or buyers (Porter 1998). The companies contacted produce small order quantities and the supplier could therefore have a great deal of control, as the smaller orders can get pushed back when a larger order is placed. Fortunately for the companies used in this research, they have established a very good working relationship with their suppliers.

1.6 Domestic and Balanced Sourcing Model

When all of the theories and management strategies that were considered for this research had been reviewed, it highlighted a need for a new model that supported and enhanced Porter's Five Forces Model (1998). The research highlighted that previous strategies and theories have been and are being geared towards larger companies, and although it could be argued that management strategies should be able to be implemented in any size company, they did not help explain why some garment categories were resisting imports more than others and how domestic producers were remaining competitive in today's global marketplace. From the research conducted, a 'Domestic and Balanced Sourcing Model' evolved. The model presents the factors that were highlighted from the research and help to explain why smaller privately owned niche market companies are remaining competitive today and why some garments are resisting imports more than others.

The points highlighted from the research are as follows:

1. Privately owned companies.

All of the companies used for the interviews and case studies are privately owned. Being smaller and privately owned allows for greater control in the decision-making process. Time can be saved by not having to get the approval of a board of directors as the owners are the ones that make the decisions about the design and the production process. They do not have to consider a large board of shareholders and are therefore able to make decisions quickly that will suit the needs and requirements of their business.

2. Exclusive design/branding.

The companies contacted produce exclusive designs and pride themselves on good customer service, which helps give them brand identity. They also produce garments that are of very good quality and fabrics that are often perceived as luxurious. Niche market products help with designer branding as often customers are willing to pay more for something that is perceived as individual and exclusive. This was highlighted in Porter's three generic strategies and the companies do fit into Porter's theory in relation to differentiation and focus. But it does not consider point three, which are minimum order quantities.

3. Minimum order quantities.

Due to the exclusive nature of the product, mass production is not really an option. Although two of the companies do have large enough order quantities to produce offshore, they use both domestic and offshore productions. This in turn highlighted balanced sourcing which is not considered by any of the models or concepts. Minimum orders were considered by the agile manufacturing concept but this was only for domestic production.

4. Product Control.

The ability to have a hands-on approach with the production process was of great importance to most of the companies contacted for this research. As mentioned earlier, companies expressed a concern that neither domestic nor offshore production always produced the required quality. A way to monitor this was to use domestic production facilities that were easy to reach and this allowed for quality standards to be reached and maintained.

5. Quick Response and Short Lead Times.

The companies contacted expressed that one of their main advantages over their competitors when using domestic production was their ability to monitor deliveries to ensure that their garments are delivered on time. Using domestic production allowed them to change styles quickly if something was not selling well or to re-cut a style if it was selling out.

From the Domestic and Balanced Sourcing Model (Fig. 1.1), it can be seen how the size of the company is an important aspect in a company's ability to remain competitive in a domestic Market.

Smaller privately owned companies can make decisions quicker and not have to consider anyone other than themselves as they are both the owners and the Board of Directors. It allows them to be more competitive as they are able to make decisions quicker, which in turn can often mean that they have their product in stores ahead of their competition. The exclusive designs or branding gives them a unique selling point as they acquire customer loyalty due to the quality and designs of their garments. The quality of the product also gives them an exclusive edge as customers that are willing to pay more for their clothes expect them to be well made. Their ability to source either totally domestically or use balanced sourcing allowed them the opportunity to offset more expensive production costs in the USA against cheaper labour offshore. Working closely with the factories on preproduction and quality issues gives them the quality product that they are looking for. Smaller order quantities could be seen as a disadvantage, but from the research this was not the case. The smaller order quantities allowed product differentiation, which would not

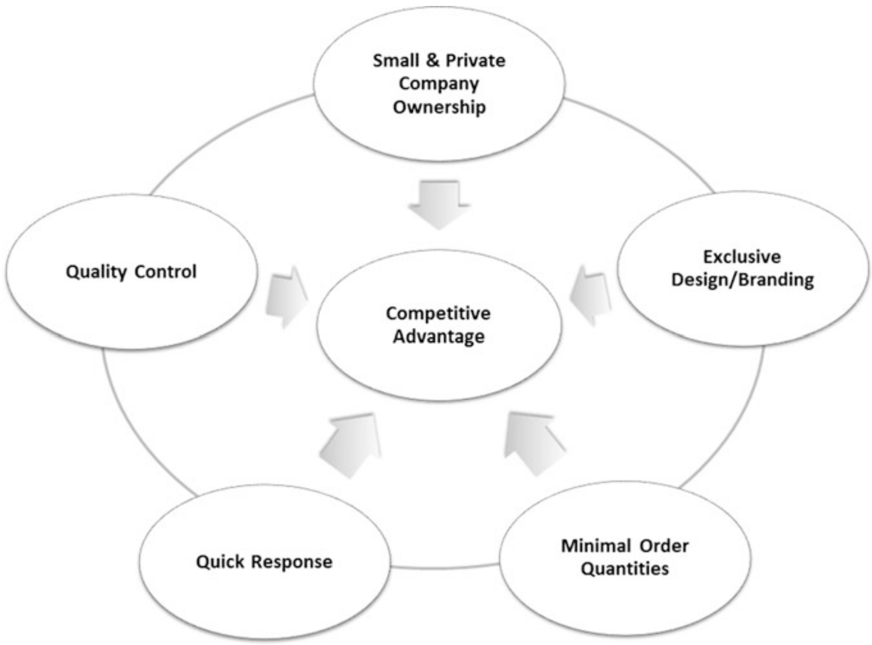

Fig. 1.1 Domestic and Balanced Sourcing Model

be achievable through mass production. Also, smaller orders allowed for a quick turnaround on a product.

Although quick response does not just mean how quickly a product can be pushed through production, the companies were able to attain a relatively quick production process of 1–2 weeks with domestic producers and 3–4 weeks with offshore. Their ability to air freight the garments, although more expensive, ensured quicker delivery times. This is really only possible due to the price point at which they sell their garments. All of the points highlighted from the research and the new model show a new way of thinking as to the reasons why some companies are able to remain competitive and produce domestically in today's market, and help explain why some garments are resisting imports more than others.

1.7 Conclusion and Further Research

A major issue that is facing companies that still wish to produce domestically is that they are running out of options to get good quality work produced. For the most part, these companies are privately owned and produce niche market products which are often more expensive. Changes in the economy could affect this sector of the industry, but due to their small size orders and their ability to make changes to orders, they are, for the most part, in a better position than companies that place large orders months in advance. Most of the companies do not wish to use offshore production. One of their main selling points is a 'Made in the USA' label. Further investigation should be made into quick response strategies and the reduction of lead times. An in-depth look should be taken at lead times to assess if they can be reduced so that companies do not have to place orders so far in advance. The availability of production space and the time taken to ship products to and from offshore locations are often the main reasons behind lengthy lead times. Several years ago, many industries embraced Quick Response Strategies (QRS), but with the movement to offshore producers, this appears to no longer be a favoured option. There may come a time in the future when the reintroduction of QRS would help alleviate the current lengthy lead times and the problems associated with them. Companies may choose to place their orders domestically to be able to have a quick turnaround without long lead times. From the research, several points were highlighted as key factors affecting competitiveness. These points could be used for future research, as they are important to the survival of the company's studied. The points were as follows:

- Small order quantities,
- Branding,
- Quick Response,
- Short Lead Times,
- Loss of skill base and
- Protectionism during the global economic slowdown.

Further research should be carried out through a 5- year longitudinal study to assess if the companies contacted for this research are still sourcing domestically and if not is it due to the fact that

1. They are no longer able to compete on price;
2. There is no longer a skilled workforce available.

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