RESPONSIVE MANUFACTURING: CREATING COMPETITIVE ADVANTAGE THROUGH DOMESTIC AND INTERNATIONAL SOURCING PRACTICES

by

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Abstract

This study analyzed factors affecting production choices and resulting benefits and challenges associated with apparel production sourcing. The research focused on sourcing strategies' effect on competitive advantage. Data were gathered through interviews with production sourcing professionals in Canadian and U.S. apparel firms that use offshore, domestic, or combined offshore/domestic production methods. Findings indicate offshore production may result in lost time and profit due to lack of control, wasted materials, rising production and shipping costs, and decreased quality and consumer-perceived brand value. Localized manufacturing may increase firms' competitive advantage through improved control of production processes; enhanced customization, adaptation, and response to consumer desire; increased perceived brand value; and reduced waste level, number of failed products, and markdowns. Strategic sourcing and smaller-scale, localized production also supports the local economy, thus creating apparel firms that are strategic, responsible, and profitable.

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Chapter One: Introduction

In recent years the fashion industry has been on a steady course to faster and more disposable fashion. As fashion firms became larger corporations, quality and national identity in fashion gave way to profit margins and fast fashion. Apparel manufacturing now circles the globe seeking out the lowest production prices and the highest profit margins, without any real consideration as to the effect this has on domestic manufacturing and the economy. The move offshore was originally intended to be piecework to help offset growing production costs, but the more this became the norm the easier it was to increase. Outsourcing was adopted early by the garment industry and quickly spilled over into other job sectors. While employment in manufacturing has increased in developing countries, global sourcing is responsible for the near extinction of the North American apparel manufacturing industry. Additionally, offshore manufacturing has contributed greatly to the cycle of economic instability currently affecting the world economy. The domino effect of one economic crisis spiraling into many has illustrated just how interdependent each country is. The increase of offshore manufacturing intensifies our dependence on other countries and our inability as a nation to function as a self-sustaining entity. The current state of global finance is pushing many countries to adopt a more protectionist stance on their economic plans and reexamine manufacturing as a means of stabilizing their economies. This change in policy is just one of the numerous forces driving a renewed interest in the re-shoring of apparel production.

Many North American apparel companies are currently re-evaluating their sourcing strategies, especially in regards to manufacturing in Asia, where costs and regulations are rising. The majority of firms still favor offshore facilities in other countries for their low cost labor, but a growing number are embracing the concept of re-shoring by examining more localized facilities and alternative production sourcing strategies. The Boston Consulting Group recently

published a study stating that it is essential for corporations to cease viewing China as a primary production location simply due to habit and convenience (as cited in Sirkin, Zinser, & Hohner, 2011). They argue that many companies are too preoccupied with labor wages and cost of production, and miss the larger picture that all aspects of the production process play a role in the establishment and maintenance of their profit margin. When examining production activities as a whole, domestic based manufacturing has many cost and logistical benefits (Sirkin et al., 2011, p. 2). Frustrations with increasing costs for labor, raw materials, and transportation, coupled with large minimum orders and lengthy delivery times are motivating fashion firms to look at options closer to home or at minimum in proximity to their primary market. Apparel firms like Roots and Levis are already testing the profitability of this process through lifestyle branding, heritage collections, specialty lines with smaller runs, and signature brand items. In addition, industry leaders Cotton Inc. and North Carolina Textile Connect are conducting research to examine the issues involved in the reestablishment of local production. (Cotton Inc., 2013; North Carolina Textile Connect, 2013).

The process of localizing apparel production back to North America requires a change in business and consumer philosophy. To achieve this, apparel manufacturing will need to focus on the adoption of more socially responsible sourcing strategies, less wasteful production practices and a restructuring of global production to produce in a localized manner, while selling globally. While value and quality are something that has always been expected of a product, the importance of socially responsible manufacturing is currently gaining importance and relevance. Dickson and Eckman's model of social responsibility presents a framework for apparel businesses to evaluate their activities. Their framework addresses the obligation of a corporation to be ethical, responsible, and accountable to the environment and people involved in the creation and consumption of their commodity (Dickson, Loker, & Eckman, 2009, p. 31). If a

company does not support the economy and environment within which they operate, it is difficult to see them as being socially responsible to that economy and their consumers. The inclusion of domestic production in sourcing can be strategically profitable but is also socially responsible.

The process of re-shoring is encouraged and facilitated by a modification in consumer behavior. Today's consumer is more educated and aware of value, quality, social responsibility, and brand image. Companies that act responsibly can translate those ideals into lifestyle branding to further identify with the consumer on a positive level and translate some of those ideals onto their brand image. If successful, a localized change in production sourcing strategy could keep capital circulating within the domestic economy, increase employment and reduce the footprint involved in manufacturing. These actions could make those economies and the local fashion industry more self-sustaining. In addition, it could also decrease the levels of wasted product from over-production and increase profitability by providing corporations more internal control over their supply chain. By producing responsibly a corporation can be a model and encourage their consumer towards similar responsible consumption choices.

The majority of sourcing decisions are based on cost of production, while strategic sourcing calls for a consideration of all areas of the product production process through to point of purchase. Strategic sourcing is defined as "the disciplined and on-going evaluation, whether to source organizational processes and activities internally or externally, guided by maximizing the achievement of the business strategy and business goals" (Mookherjee, 2008, p. 7). The employment of strategic sourcing allows a company to better evaluate the needs of their business and commodity providing the opportunity to make production location decisions based on the options that will best increase their competitive advantage. By sourcing in this manner it opens

up a fashion firm to the ability to consider both offshore and domestic production without being a slave to a cost of production.

This research will focus on industry studies, and theoretical writings on production, consumption, and competitive advantage through the lens of localization. The researcher will be employing Tim Duffie and Larry Koester's (2005) Strategic Sourcing Platform, which is a tool in their business model for optimizing the activities and foundation of a business. Their business model calls for the Strategic Sourcing Platform to first analyze the activities and circumstances within sourcing practices; the results are then applied through the Purchasing and Procurement Management Stage and maintained in the Supplier Relationship Management stage (2005, pp. 13-14). For the purposes of this study, only the Strategic Sourcing Platform will be used, providing a framework to analyze the selected apparel firms to evaluate the extent of their use of sourcing strategies. This platform provides a framework within which the mitigating influences in sourcing strategy can be assessed through a comparative analysis within a case study format. The researcher primarily seeks to examine the reasons for selecting a particular production location and sourcing plan, and to determine how fashion firms strategically manage these aspects of production to maximize competitive advantage by producing domestically, offshore, or in a combination of both.

Chapter Two: Literature Review

Historical Precedent

Apparel manufacturing is an active participant in outsourcing and accountable for the growth of global sourcing practices. As a result of companies leapfrogging around the globe looking for the best deal, corporate sourcing strategies are often referenced negatively as a race to the bottom." The availability of globalized production, the desire for lean retailing and competitive pricing has led fashion firms to adopt equally competitive manufacturing strategies. "While de-verticalizing out of production, they are building up their activities in the high-value-added design and marketing segments of the apparel chain, leading to a blurring of boundaries and a realignment of interests and opportunities within the chain" (Gereffi & Memedovic, 2003, p. 31). Outsourcing in the area of apparel began with textile production in Eastern Europe and Japan in the 1950s and 1960s. This was followed by textile and apparel manufacturing relocating to China and Korea in the 1970s and 1980s. The 1990's saw the establishment of the "Big Three"— Hong Kong, Taiwan and Korea, who dominated two-thirds of offshore manufacturing until 2001, when manufacturing expanded further into Asia (Gereffi & Memedovic, 2003, pp. 17-18). The practice of outsourcing and the actions of corporations and governments have resulted in economic destabilization and growth in global trade imbalances, and the shrinking of the North American apparel manufacturing system.

Economic and trade imbalances. The protectionist response to the world wide economic crisis is influencing the current changes in manufacturing. At the center of the trade imbalances are the United States, China, World Trade Organization (WTO), and the Multi Fiber Agreement (MFA). Like many other emerging economies, countries in Asia looked to manufacturing exports as their entrance into the global economy. For American corporations, China provided access to large labor reserves with few labor barriers, the resulting trade

imbalances seemed like a small price to pay for the increase in profits. The financial effects of outsourcing were visible almost immediately. In 1987, in the rise of offshore production, the U.S. trade deficit amounted to $24 billion, 15% of their total trade deficit; 10 years earlier it was only $3.9 billion. The constant devaluation of Chinese currency contributed to a trade surplus for China and a $125 billion trade deficit for the United States. The current trade deficit between the U.S. and China is $315.1 billion (Hunter, 1990, p.7; Schaeffer, 2009, p. 200; Scott, 2013, para.6). This currency manipulation is common practice for countries looking to generate economic growth through exporting. Emerging economies regularly employ "fixed and undervalued exchange rates to run trade surpluses and to generate economic savings. …[This is] holding up the exchange rate on the U.S. dollar and thereby decreasing the calculated competitiveness of U.S. manufacturing workers" (Ward, 2006, p. 12). Currency devaluation is prohibited by these trade agreements, but has yet to be enforced (Apparel Human Resources Council [AHRC], 2004, p. 22). These trade imbalances created an artificial marketplace that prevented the domestic manufacturers from equally competing. They were employed in rise of offshore production and the establishment of China as an offshore manufacturer, and have greatly contributed to the current global economic instability while giving offshore manufacturing facilities an unfair competitive advantage.

The phasing out of quotas in the area of apparel manufacturing opened the floodgates to offshore production. The WTO Agreement on Textiles and Clothing (ATC) replaced the MFA in 1995. The agreement was to institute trade liberalization and remove all global apparel quotas by 2005. The agreement itself is difficult to enforce, as it is only binding when both parties are members of the WTO (Gereffi & Memedovic, 2003, p. 21). Trade agreements under the WTO and the MFA were put in place to govern global practices and insure that they do not destabilize nations or economies. Instead, what we see is the constant manipulation of the economic system

by governments, lobbyists, and corporations through: currency devaluation, tariffs, quotas, and questionable economic investment policies. The WTO agreement allowed for materials to be produced in one offshore facility, imported duty-free into another offshore facility, to be assembled and then imported into Canada without limitations of quotas; while the Canadian manufacturer was required to pay duty on any of the materials imported for production and sale in Canada (AHRC, 2004, p.14). When this was combined with less stringent environmental and labor laws and lower labor costs, it was impossible for the North American manufacturer to compete. A study conducted by the AHRC and published in 2004, in the final days of the quota system, found that in as early as 2002 the U.S. market imports from China had increased 826%. At the same time imports from Canada decreased 43%, leading the study to predict a loss of 41,000 apparel related jobs in the following 4 years (AHRC, 2004, p. 2). These agreements have provided apparel firms with the ability to offer product at a more competitive price, but they are also responsible for decreasing domestic employment and allowed corporations to distance themselves from responsibility in their production choices.

Rise and fall of China. The United Nations Development Organization's 2003 study concentrated on the global apparel value chain and trade agreements in relation to sourcing practices in North America, East Asia, Mexico, and the Caribbean Basin. The study states that much of the success of Asian based manufacturing is credited to their ability to adapt from simple assembly of imported parts to value-added full package assembly with high productivity (Gereffi & Memedovic, 2003, p. 10). When looking at it strictly from a cost perspective, the landed cost of an item from China was typically 26% less than a product produced in Canada (AHRC, 2004, p. 21). In terms of available labor, emerging economies represented, "one-half of the world's population and workforce. … Productivity growth (i.e., increase in output per worker) since 1990 has doubled that again" (Ward, 2006, p. 13). As Chinese wages increased

from those in less developed countries, they competed by offering higher productivity, new manufacturing technology, and increased quality (AHRC, 2004, p. 34). Domestic manufacturers had to compete with offshore facilities offering an identical commodity for approximately 26% less money, from a highly productive and largely offshore workforce.

Manufacturing success in China has lead to a rising middle class. Recently, their labor force has been shrinking, resulting in wage increases. Costs are also being affected by new labor laws, a refocus on manufacturing products for domestic sale and declining interest in manufacturing low cost apparel products (Roberts, 2008, para. 3). China has slowly been losing their competitive advantage. Salaries in China have risen an average of 15% per year since 2004. Additionally, the final generation before the one-child rule is now entering into retirement, and there has been an increase in those seeking college educations, leaving China with a growing labor shortage (Yang, 2010, para. 3). After establishing themselves as a hub for low-cost manufacturing and in the years approaching the MFA phase out, China began to transition into a new role. Their focus altered from being a base of low cost manufacturing, to subcontracting and high value production. Numerous Chinese manufacturers became sourcing points for subcontracting in lower cost countries, like Vietnam and Bangladesh, while others shifted their focus to manufacturing higher quality and higher cost items, like technology (Roberts, 2008, para. 6). China's current role in manufacturing is uncertain, as apparel firms are reconsidering sourcing strategies when faced with rising costs, changing regulations and transitioning roles.

Government involvement. Much of the growth in outsourcing can be directly attributed to the actions and often the encouragement of governments. Many emerging economies offered corporations export rebates, subsidies, and tax breaks, while the North American governments did nothing to protect domestic manufacturing; in fact they aided the process. China has carefully balanced their import and export strategies to create their competitive advantage. In

2009, imports from China amounted to 9% of Canada's commodity imports, while only 2% of Canadian made goods were exported to China. Even their materials imports came primarily from neighboring Asian countries, for assembly into product that is then exported to North America and Europe. This was a protectionist move and an attempt to preserve their consumer base for their own domestic product (Ghosh & Rao, 2010, pp. 390-391). While China protected their domestic consumer base, the U.S. government decreased tariffs on goods imported from China and delivered a tax break to corporations producing overseas; those same tax breaks were not accessible to domestic producers (Schaeffer, 2009, p. 195). In further manipulation of these agreements, the United States also introduced several trade agreements in 2000 that allowed materials from specific regions, the Caribbean and Africa, to be imported solely to the U.S. duty-free for apparel manufacturing, thus further weakening the ability of the Canadian manufacturer who had to wait until 2005 for similar agreements in NAFTA to take effect (AHRC, 2004, p. 14-15). Further examples of this are, "the African Opportunities Act, with Nigeria, Togo, and South Africa, and the Central America-Dominican Republic-United States Free Trade Agreement (CAFTADR), which includes seven signatories: the United States, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua (Abubakar, Richards, & Gladson, 2010, p. 35). Governments and corporations looked only to short-term gains and the results have lead to economic destabilization and an erosion of North American manufacturing.

In a change of policy, the U.S. government is now actively seeking to increase domestic employment through manufacturing. In his 2012 State of the Union address, President Obama presented, "a blueprint for an economy that's built to last -– an economy built on American manufacturing, American energy, skills for American workers, and a renewal of American values"(White House, 2012, para. 14). His plan proposes to remove all tax deductions for overseas jobs; while providing grants, tax incentives and credits to encourage investment in

domestic manufacturing. In addition, he is looking to add taxes on jobs and profits made from overseas production (White House, 2012, para. 21-23). In 2013, President Obama followed this promise up by offering $40 million in grants to business proposals that encourage growth in domestic employment and investment ("Made in America," 2013, para. 30).

In *State of Advanced Manufacturing: A Canadian Perspective,* an Industry Canada (2012) study spanning 2007-2009, and in the Apparel Human Resources Council's (2011) report, the Canadian government outlines a plan to support and grow the Canadian manufacturing industry through tax incentives, tariff relief, manufacturing and business development stimulus programs, education, and research into innovation (AHRC, 2011, p. 126-131; Industry Canada, 2012). Thus far the Canadian government has only executed studies on the state and future of domestic manufacturing, no supportive action has been taken in response to these studies. In December 2012, the Canadian government, while stating their commitment to the growth of the Canadian apparel industry, canceled the Federal Duty Remission Program with no prior notice. This program was assisting domestic manufacturers in providing competitive pricing; its loss is estimated to result in many factory closures and a job loss of 2,500-3,000 ("Closing of Forsyth Shirts," 2013). With the loss of so much domestic apparel production, there is genuine concern as to whether or not it can be reestablished, but as North American governments are finally acknowledging, it appears to be a necessary step in stabilizing the economy. Studies conducted by the apparel and textile human resource councils see an opportunity for renewal. "The Canadian apparel sector was a victim of its quick restructuring, and reinvention to face market globalization. … The redefined Canadian apparel industry is 75,000 strong today…it is growing, creating new jobs and opportunities" (AHRC, 2011, p. 6). These studies speak of a growing domestic apparel industry, instead of the shrinking industry they predicted in 2004. The rising

offshore costs and growing concerns over socially responsible sourcing practices have created an opportunity to once again establish competitive advantage through the use of domestic sourcing.

> In these times of rising labor costs in Asia and increased raw material and transportation costs, brands and retailers using a U.S./Western Hemisphere supply chain can offer their goods at a price that is competitive with that of goods whose components are sourced farther afield. (Rodie, 2011, p. 31)

It is unclear whether the government will step up and support domestic apparel production, or if the industry itself will be offering the much needed support to manufacturers, or if domestic manufacturing will continue to shrink as it tries to find its own competitive offering in response to offshore production.

Possibility of Re-Shoring

The Canadian apparel industry is in a period of fluctuation right now. For many years it has been viewed as a shrinking industry, but with Canadian designers like Joe Fresh and Roots partnering with larger international department stores like J.C. Penney and Target, Canadian brands are beginning to receive increased recognition within the Canadian, U.S., and global marketplace. A study conducted by the Textile Human Resource Council (THRC, 2010) confirms that there is a new concentration on a domestic market, as well as export opportunities, leading many companies to rethink their export policies (p. 1). This evolution presents an opportunity for companies to reconsider their business strategies. Key issues facing apparel companies will be profitability and productivity, both of which are directly affected by their production sourcing choices. The competitive advantage for domestic manufacturers is proximity and flexibility. The ability to produce in smaller runs with shorter delivery times provides their clients with flexibility, responsiveness and the ability for customization (Rodie, 2011, p. 31).

In an interview with Textile World, Bill Tenenblatt (owner of Antex) brought up a strategic advantage that domestic sourcing would also provide:

> If there were a strong strategic commitment to make ten to twenty percent of goods in this hemisphere, there would be a tremendous resurgence in the whole supply chain, and in the long run, it would be a much safer position. Now, retailers are at the mercy of Asian suppliers, and if there's not another supply chain here, very little can be done if those suppliers decide to raise prices. (As cited in Rodie, 2011, p. 32)

The studies and articles all outline future success for the Canadian apparel industry as flexibility and willingness to adapt to new processes. The researchers for the AHRC (2011) concluded for continued growth in a global market place, the Canadian apparel industry needs to develop a strategic plan for future business development, with a focus on skilled employee recruitment and new business policies (p. 6). Even the Chinese government is recognizing that establishing domestic manufacturing for domestic sale is essential to the survival of the manufacturing sector. In 2009, the Chinese government launched a stimulus package to develop and manufacture domestic brands for the Chinese consumer; interestingly, the U.S. government has challenged this package with the WTO as a form of illegal subsidizing, which contravenes WTO regulations (Frederick & Gereffi, 2009, p. 1). Observing the development in the American, Canadian, and global apparel markets, it is apparent that while we need to operate in a global manner it is also essential to protect domestic industries.

The apparel industry is a key employer in Canada. According to employment statistics, the majority of textile and apparel firms are located in Ontario and Quebec and are estimated, in 2012, to employ between 60,000 to 86,000 people (AHRC, 2011, p. 105). According to the AHRC (2011) study, 71% of companies do not have a strategy relating to recruitment for their future business development (p. 12). The study also found that the Canadian fashion industry

might be facing a deficit in workforce. The lack of a skilled and affordable workforce is often the first contention given against the viability of domestic production. The fashion industry is approaching the upcoming retirement age of a large percentage of its work force. Thirty percent of the fashion companies surveyed are family based businesses with no successor in place, and it is estimated that 7,000 design and production workers are approaching the age of retirement. Due to years of downsizing, there are a limited number of replacements (AHRC, 2011, p. 12). In a shrinking industry this was not an issue, but if a significant portion of production is looking to incorporate localized options into their production mix, the industry is looking at a limited supply of trained skilled workers, with many of the more traditional and technical skills being lost all together. Both the AHRC and the THRC predict that the apparel industry is heading towards an increased need for skilled employees. An industry growth forecast conducted by Sageworks (2011) for Workopolis Canada listed cut and sew apparel as number one in the "Top 10 Fastest Growing Industries in Canada." There is evidentiary proof that the apparel industry is in a time of growth and the opportunity is there, success hinges on whether or not producers receive the outside support to develop into a redefined manufacturing industry. There is an increased importance for educational and government support to train and recruit the necessary personnel needed to sustain a continued and growing domestic apparel manufacturing presence.

The European model of clothing production is an excellent example to consider when assessing the plausibility of re-shoring apparel production. They have maintained a competitive presence in apparel, but have not moved production offshore to the extent that North America has. A study conducted by the European Foundation for the Improvement of Living and Working Conditions (EFILWC, 2008) found that

> several factors—such as consistent investment, emphasis on upmarket products and being the world leader in the fashion industry—have all contributed to the fact that Europe has

> become the world's largest exporter of textiles and the second most important exporter of clothing. The E.U. is also the world's second largest importer of textiles and clothing goods, just behind the U.S. (European Commission, as cited in EFILWC, 2008, p. 9)

The European textile and apparel industry employs over 2.5 million people, while the American and Canadian apparel employment rates are under 1 million combined (Bureau of Labor Statistics, 2011; Lutz, Kartsounis, & Carosio, 2009, p. 1; Statistics Canada, 2012). To stay competitive, apparel firms invested in new technology, research, and product development, while refocusing concentration on the high fashion and luxury market (Lutz et al., 2009, p. 1). European fashion firms and governments chose to put their priorities in long-term investment and maintaining a domestic production presence, instead of focusing on profits generated by short-term planning and political position gained through offshore manufacturing. European firms have put much of their focus into promoting the idea of domestic quality over offshore quality, while European fashion receives recognition from their own government as an economic and cultural export.

The consumer recognizes the brand identity and value added perception of quality. For this reason the sales of European brands like Gucci and Fendi have risen in high fashion as well as in the middle market sales. While the majority of European brands do some offshore production, especially in the area of licensees, a large percentage of their production remains domestic (Made In Italy Online, 1994). Offshore production is used strategically by European firms to offset the domestic production cost of items produced in limited quantities or retailing at a higher price point to a more discerning consumer. There have been a number of European government and industry sponsored programs to cultivate domestic industries; the following are just two examples of such programs. In 2003 the Tuscan government, trade associations, and unions created a program servicing the textile, clothing, shoe leather, and jewelry industry, and

in Spain the Association of European Textile Collectives, the Spanish Textiles Council, and the Integrated Services for Textiles created projects to assist in the relocation of displaced textile workers while also developing new innovative opportunities for textile-based, value-added manufacturing (EFILWC, 2008, pp.30-31). These programs offer support to domestic producers and communicate a commitment with the domestic industries to the consumer.

The idea of domestic quality is so essential to most European fashion brands that in 2005 225 companies signed a petition asking for an E.U. law that would require a mandatory label of origin for all apparel products in place of the current "made in…" label which has many loop holes allowing for offshore producers to conceal the true origin of production (Galloni, 2005, p. A6). Recently this law went before the European parliament where it was argued that this law was essential to protect consumers from being deceived by inaccurate labels regarding the true production location of commodities. The law is up for a second reading after receiving thirty votes in favor and only two against (Harbour, 2011). European brands have prioritized innovation and quality, while maintaining a national manufacturing identity. Producing domestically has associated their brands with the ideals of excellence, design, luxury, and quality. A product labeled "made in Italy" has a much different perception than one that was labeled "made in China" and the consumer accepts the higher price associated with that label of origin and the increased perception of quality.

The European government and manufacturing industry have tried to move forward with a more hybrid approach, acknowledging the place for offshore manufacturing while trying to also protect domestic industries. European polices on preserving domestic manufacturing recognize that while producing offshore can increase the competitive advantage and global recognition of their corporations, there also exists a social responsibility to their economy, the recognition of fashion as a cultural entity and the employment of their people. "The textiles and clothing sector

does not exist in isolation but is part of a socioeconomic system where it both drives change and is affected by change" (EFILWC, 2008, p. 10). The Lisbon Council for Economic Competitiveness and Social Renewal conducted a report in 2007 warning of an upcoming "brain drain" in developed nations. They stated that, "economic performance and rise in prosperity in central and eastern European (CEE) countries is threatened by adverse demographic developments and underutilization of human capital, as well as a persistent brain drain and inadequate investment in education and skills" (EFILWC, 2008, p. 20). Similar issues exist in North America, as the educational focus has been more on intellectual pursuits and less on technical skills development and trades. Many technical based industries are now beginning to face succession issues as the baby boomers are entering retirement and many trades based jobs now have a degraded perception of what a career should be.

The study by the EFILWC outlines that government and industry supported education and training are essential to sustaining the domestic industry. The report acknowledges that the job force must grow along with advancements in technology, organization and communication, while vocational and continuing education programs with industry partners are essential to future growth. The study cites several such examples in Belgium and Denmark (EFILWC, 2008, pp. 21, 23). The European governments and apparel industry experienced the same challenges as those faced by the Canadian and American industries; only they chose to make preserving a domestic industry a national priority. By following a value added, quick to market philosophy and through a government commitment to industry support and education, they have been able to maintain a significant presence as a textile and apparel manufacturer and exporter.

Mechanization. Citing a 2007 policy brief by the Lisbon Council for Economic Competitiveness and Social Renewal, the EFILWC found that in regards to manufacturing and sourcing, European competition with China and India is no longer based on labor cost, but

instead on the ability to provide manufacturing that features the latest developments in innovation and technology for textiles and apparel. The ability to offer mass customization at lower costs due to automation can provide Europe an increased competitive advantage (EFILWC, 2008, p. 17). Advanced apparel manufacturing appears to be taking priority in sourcing practices around the globe. A North American investment in new automated technology in the area of garment production would circumvent the need to compete with low overseas labor costs. Through technology and mechanization, a manufacturer can bridge the gap in labor costs by providing the opportunity to increase productivity and quality while reducing the number of staff needed, therefore reducing labor costs (Hunter, 1990, p.148). While this would eliminate the possibility of a large scale increased employment in this sector, the additional employment and tax dollars that North American production would provide would be a major step towards supporting our domestic industries and economy. This step would also be an answer to the issue of a shrinking workforce and rising demand for domestic production. At present, numerous researchers are studying the technological advancements necessary to increase productivity and provide domestic manufacturing with a more competitive edge. Technology like CAD, UPS, and LEAPFROG are helping manufacturers to cut long term labor costs, increase productivity, and increase quality lost to human error.

Technological advances are nothing new to the area of apparel and textile manufacturing. Most apparel firms now operate using some sort of Computer Aided Design (CAD) program in the areas of pattern making, cutting, product development and actual production. In 1992, 40% of apparel companies surveyed acknowledged using some form of CAD in the design process because the programs offered the ability to apply design changes at a moment's notice (Abernathy, Dunlop, & Weil, 1999, p. 133). These programs can provide huge leaps in productivity, but they also require a significant financial output that is prohibitive to most

apparel firms. One study observed that prior to 2000, the mechanical investment for a sewing machine operator ranged $720 to $3,720 depending on specialized attachments needed, while an automated assembly system began at $20,000. These systems required a large capital output, but resulted in higher productivity due to their ability to work in multiple shifts (Abernathy et al., 1999, p. 163). The frontrunner in these programs has been Gerber technology and their division Gerber Sewn Goods Business: "Gerber Technology offers a complete portfolio of hardware and software automation solutions for the apparel and retail industry to enable collaboration and speed to market while upholding brand quality and maximizing profitability" (Gerber Scientific, 2013, para. 1). In 1995, the Chicago Manufacturing Center partnered with Gerber and the Apparel Industry Board encouraged American manufacturers to adopt these technologies in an effort to remain competitive against low cost offshore manufacturing (Baker, 1999, p. 19). These technologies were a large part of the restructuring process during the MFA phase out.

This technology eventually made its way into both offshore and domestic production in the form of CAD and fully integrated product development hardware and software:

> Gerber's Web version of such a system (WebPDM) allows worldwide access to designated users with information stored on a single host server about relevant apparel products…once a change is made in a garment design, then everyone involved will have access to and can work from the identical information base. The system can store design, costing, measurements and detailed construction information, all in multiple languages. (Abernathy et al., 1999, p. 134)

Another Gerber innovation is the Unit Production System (UPS). This system is a

> mechanical overhead transportation system that moves a unit of clothing from one work station to the next. The mechanical device generally carries all parts of the finished garment. After a sewing operator finishes one step, the carrier is sent on its way to the

> next…With a UPS delivery system, factory throughput time can be dramatically reduced. (Abernathy et al., 1999, p. 162)

This system was designed to deal with productivity issues regarding the levels of in-progress work necessary to maximize assembly labor when a producer is utilizing the Progressive Bundle System (PBS) method of assembly. Here, each step in apparel assembly takes different amounts of time, to keep the production line "balanced" a certain level of work always needs to be waiting and productivity can be thrown off by the speed of just one operator. The UPS system senses productivity and distributes the work accordingly (Abernathy et al., 1999, pp. 161-162). CAD has been instrumental in increasing productivity and quality through the incorporation of technology and automation.

Technology is now developing in a new direction and looking at further automation within the assembly process. An example would be the fully automated three-dimensional apparel assembly system designed by Philipp Moll GmbH & Co. and is known as the LEAPFROG project:

> The goal of LEAPFROG is to achieve a steep change in productivity and competitiveness of Europe's clothing Industry and to decrease its dependence on the labour cost factor… It aims at a technology breakthrough in the clothing industry by researching on new materials, technologies and processes enabling: innovative fabric preparation, automated garment manufacturing, and 3D virtual garment prototyping. (Lutz and Fisher, 2008, p. 1)

Walter Lutz's study proposes the adoption of this method of production as the response to the arguments relating to the ability to keep production domestic. The research examines the inclusion of automation in the prototyping, preparation, manufacturing stages of apparel. (Lutz et al., 2008, p. 1). Lutz states "the goal of LEAPFROG is to achieve a step change in productivity

and competitiveness of Europe's clothing industry and decrease its dependence on the labor cost factor" (2008, p. 1). This manufacturing system attempts to cut down on human error while eliminating sewing issues that are a result of the inadequacies of the human operated sewing machine. The system can provide a quality garment, free of human error, at a competitive cost, with the fastest possible turnaround time. (Lutz et al., 2009, p. 10). The adoption of automation would enable manufacturers to cut down on labor costs, produce at an accelerated speed, and increase quality control. When you are reliant on human producers, you are subject to hourly work cycles and human error.

Some of the more recent technologies, currently available to the designer, could increase productivity and competitive advantage. The first is the inclusion of virtual prototyping. Several companies offer new software that allows the fashion firms to design, produce and test their initial samples in a 3D digital format through the use of avatars as fit models. On their website, Opitex illustrates that their program can increase productivity for offshore producers as you are no longer waiting to receive samples in the early stage of design. Instead, their program offers the ability to design, produce and test a virtual prototype in one place and almost immediately after the design is conceived (Opitex, 2013, para. 2). This technology would assist offshore producers in strategically managing the extended timeframes experienced in the development period and as a means of reducing the time spent waiting on preliminary samples. Another current technology would be use of body scanning with CAD. Companies like Brooks Brothers employ in-store body scanners and pattern making technology to offer their consumers a perfected fit and the ability to customize the product to suit their desires (Cornell University, College of Human Ecology, 2011, p. 3). Both Brooks Brothers and Levis use this technology to differentiate their offering from that of their competitors. This technology could strategically increase the competitive advantage of domestic producers in particular because they are not

subject to the large minimum orders that offshore facilities require. The inclusion of these and the previously discussed technological advances would provide companies the ability to make more strategic choices in their sourcing by reducing many of the issues associated with both offshore and domestic manufacturing.

Productivity and Quick Response. According to Seppo Saari's (2006) work on productivity in business,

> *Efficiency*, in general terms, speaks about the relation between producing *a value* and *sacrifices* made in doing so. ... Productivity and profitability are typically such specified concepts of efficiency. The basic idea of efficiency of the tools is that the value they produce is larger than the sacrifices made to provide and use them. (p. 1)

There is a great deal of debate around the idea of the efficiency and productivity of offshore production. The long lead times create efficiency issues and while offshore productivity rates can be high, they can also be unstable, falling victim to

> unnecessary activities due to absence of work methods, lack of technical knowledge among the direct labour and poor levels of supervision… factories are unknowingly investing significant amounts of resources into unprofitable product lines or activities, rather than concentrating efforts on more profitable products and value-added activities... absenteeism ratios of up to 11% and high employee turnover of up to 10% have been reported. This leads to increased number of employees in training and reduced contribution to production. (Lezama, Webber, & Dagher, 2004, p. 127)

A 1999 study found that by

> decreasing lead time of the quick-line plant makes it competitive at a lower inventory carrying cost. cycle plant becomes competitive for two reasons: (1) there is less work in process; and (2) the finished goods inventory level necessary to satisfy retail demand for

> each SKU is less because the short-cycle plant can respond to actual demand more quickly. (Abernathy et al., 1999, pp. 124-125)

Increased efficiency translates into increased profits as it shortens the lead times and reduces wasted product. While cost is still a primary determinant for sourcing choices, productivity, efficiency and lead-time are increasing in importance.

In reaction to inadequacies in domestic productivity and the growing popularity of "lean retailing," the Quick Response (QR) method was the focus of a study conducted by the American apparel industry in 1990 and is currently the core philosophy of most domestic producing apparel companies and North American apparel organizations, like the Carolina Apparel Cluster. By definition QR is "having the products the customer wants in the right place, at the right time and at the right price. ... QR depends on the integration of all the parts- fiber, textile, manufacturing and retail- into one consumer responsive whole" (Hunter, 1990, p. 1). It employs the quick-to-market response time favored by trends of fast fashion, but combines it with profitability and value recognition of high fashion.

Fast fashion is frequently referenced in opposition to high fashion, which represents the design elite. It is usually inspired by the runway, but is made in the fastest and cheapest method. The apparel company Zara is often referenced as an example of the success attributed to the QR method. By producing in small batches, keeping their factories at 50% capacity and taking advantage of localized manufacturing when possible, they are able to decrease wasted time, and materials while responding to trends within two weeks. Stock-outs from smaller batch production create a sense of urgency to buy the product resulting in reduced markdowns (Desai, Nassar & Chertow, 2012, p. 58; Lampson-Hall, 2013, para.4). Fast fashion is intended to be: produced, consumed, and disposed of within one fashion cycle. One of the issues faced by fast fashion is producing as cheaply as possible without sacrificing turnaround time. The quick

turnaround that fast fashion provides has established the expectation of seeing an item in the store only weeks after a trend hits. Offshore production requires that goods are ordered and produced months in advance and in large quantities. This is mostly due to the necessary shipping time. Fashion firms constantly battle to strike a balance in the ability to respond quickly to trends like fast fashion, but also to take advantage of the cost benefits of offshore production. QR acknowledges the fast pace of fashion and that the current system of production is wasteful and does not maximize profitability. The flexibility and responsiveness of QR is essential to creating competitive advantage for both the fast fashion production model, as well as localized production.

The Carolina Cluster is using QR as their model for business reform. Their business platform states that

> survival depends on developing a new marketplace in which globalization is embraced and leveraged towards its advantage, rather than attempting to run from it. ...The end result will be the industry's focus redirected toward the end consumer and the building of brands supported by just-in-time, state-of-the-art supply systems. (Stone, 2005, p. 3)

The Carolina apparel and textile industries have banded together to act as a cluster to support each other. QR provides them with the ability to deliver end product manufacturing domestically, in a minimal turnaround time. This manufacturing model was proposed in the 1990s but it appears to be just as relevant to production issues today. An article on U.S.-targeted budget sourcing concludes that with the proximity to the U.S. market, apparel firms have the ability to respond to the needs of an educated and discerning consumer and therefore increase the possibility of profits (Rodie, 2011, p. 31). Domestic manufacturing has the competitive advantage of speed to market allowing apparel firms to produce in smaller batches, eliminating

waste, and maximizing productivity and with the elimination of long lead times the ability to better respond to the needs of the consumer.

Profitability. Profit margins are an essential tool that most companies employ to determine their fiscal health. These margins are affected greatly by the costs of materials, labor, and transportation, all of which are influenced by the choice of production location. These factors are essential in the planning process and are calculated based on the assumption that the garment will sell within the season and at full price or within the projected margin for markdown. Alan Hunter (1990), one of the principal supporters of QR, argues that the difficulty of predicting fashion trends makes the current system of production difficult, as it does not provide the opportunity to react to consumer response to colour and style (p. 31). Due to extended lead-times, clothing is currently ordered with the built in knowledge that a portion of the line will fail and need to be marked down, resulting in losses. Traditional offshore sourcing practices required that

> orders were, by necessity, relatively large, requiring retailers to carry significant inventories and causing them to operate well outside more responsive supply and demand cycles. Over-ordering made retailers especially vulnerable in the event of unexpected financial down turns, shifts in commodities pricing, poor trend forecasting or unseasonal climate. (Desai et al., 2012, p. 55)

Due to the large minimum orders, companies tend to play it safe on styles and decrease costs to the lowest amount to offset these losses, this also limits diversity in the offering presented to the customer. If production is domestic, the fashion firm has the option to produce in smaller runs, make changes to slow selling items, and ultimately reduce markdowns and waste. Markdowns can be reduced by shortening the timeline and shipping distance and by moving design production and buying nearer to the time of sale. This would allow the retailer to be more

responsive to consumer desire, trends and purchasing habits (Hunter, 1990, p. 32). This model would allow fashion firms to increase their profit margin by eliminating the need for large markdowns and produce in a more sustainable manner. By producing locally and delivering out of distribution centers, a retailer could avoid having to stock so many retail locations and smaller runs permit the ability to make changes to a product that is not performing well.

A more recent issue relating to profitability is overproduction or over-ordering. Overproduction is the manufacturing of quantities of clothing to meet factory minimums, instead of actual consumer demand. If production were to immediately stop in China there would be enough inventory from overproduction to meet current demand for 3 years ("Overproduction," 2012, para. 1). Fashion firms receive better pricing for larger orders and as stated earlier, many of the vendors, especially in China, are being more particular about what orders they wish to take. This leads companies to increase their orders to meet factory minimums or to appear more competitive when searching for a vendor. In an article in *Bloomberg Businessweek* a designer interviewed expressed that factories offshore wanted minimum quantity orders of one thousand units and that quality issues and transportation expenses increased his costs by $40,000 (Klein, 2012, para. 4). Ordering larger numbers to meet these minimums increases the financial burden on a company and leaves them with additional product that will need to be marked down further reducing profits. Even with reduced sales, companies have continued to increase their order sizes creating increased issues with inventory costs ("Overproduction," 2012, paras. 5-6). Proper inventory management is essential to the ability of a business to turn a profit. The consideration of the length of time the inventory will be in your possession from production to sale and the careful monitoring of the quantities of product ordered can be used strategically to reduce the need for markdowns and to lower inventory carrying costs, thereby increasing profitability.

Brand quality and perceived value. While a change in corporate philosophy is necessary in the return of domestic manufacturing, this would not be possible without a change in consumer behavior and demand. Corporations rarely make changes unless driven by sales and profits. The popular media today focuses a great deal on the principals of sustainability, social responsibility and responsible consumerism. If this is a permanent way of life and not just a passing lifestyle trend, then society has reached a point where it is necessary to leave behind the mass consumption of the 1980s and 1990s and look back to the previous models of consumerism, which placed a premium on brand image, value, quality, and social responsibility over price. A study on competitive advantage of the U.S. textile industry found that the ability to offer product consistency, quality, and product differentiation were key to successfully reaching the consumer (Berdine, Parrish, Cassill, Oxenham, 2008, p. 17). The present concept of consumerism no longer fits within the current ideals of sustainability and consumption. A desire for a more responsible form of consumerism and more socially responsible products is beginning to appear into marketing and branding. Companies like Patagonia and H&M are making social responsibility part of their brand identity. Patagonia's "Common Threads" and "footprint" programs provide the consumer with transparency and textile recycling options (Patagonia, 2013). H&M presents their commitment to transparency and sustainability on their website and even their hangtags. They are open about their production processes, levels of waste, production locations and commitment to social responsibility and sustainability (H&M, 2013). Both of these companies have recognized that the consumer is educating himself or herself before making choices and by identifying with the ideals of your consumer allows you to reach them on an additional level.

The connection between consumption and production has drastically changed since the advent of mass production. Manufacturing in the industrial revolution grew out of a need to provide products to satisfy consumer desire. According to Baudrillard (1988),

> the truth is not that needs are the fruits of production, but that the system of needs is the product of the system of production. ... By a system of needs we mean to imply that needs are not produced one at a time in relation to their respective objects. Needs are produced as a force of consumption. (p. 42)

Today branding and advertising is used to create a desire to satisfy the quantity of products that manufacturers are producing, where in the past products were produced to fill a pre-existing need. This mass consumption reached its peak in the 1990s, when it was no longer enough to obtain the product, the consumer needed multiple products and this created a need for lower cost production. In truth, how much status can a product have when it is made to fall apart? In an open editorial for *The Business of Fashion,* Patrick Lampson-Hall (2013) explains that through traditional sourcing practices, apparel firms "make the same fast fashion goods, poorly, on a time line that misses the demand peak. It has worked so far because they can offer the apparel at lower cost. But consumers are quickly losing interest" (para. 8). The consumer is more educated on fashion trends, brand, and quality than any other time in the past. This has created a more discerning customer who wants immediate trend response, and the greatest brand value for her/his dollar. Lampson-Hall predicts that the only way to move successfully forward is to reimagine a sourcing strategy of mixed method and location that is centered around servicing the needs of the consumer (2013, paras.10-11).

Sociology and consumption theorist Peter Corrigan (1997) argues that clothing is essential as a tool in social communication and responsible for communicating status and social standing (p.176). This expression of importance and identity through clothing is at the heart of

consumerism. The belief system of the consumer is even more prevalent in the minds of corporations now, as the process of achieving brand penetration into these consumer groups has recently become very reliant on lifestyle branding. This is a form of marketing that is dependent on brand image and a projected lifestyle or concept of self that the consumer can achieve or participate in, through the purchase of a commodity (Center for Brand Research, 2012). If socially responsible products and responsible consumerism continue to gain importance to the consumer, they will continue to gain footholds in lifestyle branding. Lifestyle branding is in almost every product we purchase and the acquisition of status is associated with many of these commodities. American fashion was built on the concept of quality mass production, but in the 1980s we lost track of this in favor of lower prices and greater quantities. This consumer mentality does appear to be changing again. A survey conducted by *Consumer Reports* found that 78% preferred to buy American, with 80% believing the product to be of superior quality and citing a support of domestic employment and economy as the motivation; additionally, 60% stated that they were more likely to purchase a product that was produced in a socially responsible manner and free of human labor abuses ("Made in America,"2013, paras. 1-2). As part of their "Made in America, Again" research, the Boston Consulting Group (2012) has determined, through extensive consumer surveys, that 80% of U.S. consumers and 60% of Chinese consumers prefer and would pay more for a product made in the United States over the product produced in China because they recognized them as having higher quality and brand value (para.1). Even in China, the idea of lifestyle and quality resonated more with the American produced commodity over an identical Chinese produced object. Whether the quality is better, worse, or the same due to the location of production is immaterial; surveys repeatedly state that the consumer not only perceives that the domestically produced product is of higher quality, but that they also locate a greater value in it due to the location of production.

The recent generation of young urban professionals, known as generation Z, is leading a movement towards more responsible consumerism. According to the *Consumers of Tomorrow* study conducted by Grail Research, "generation Z was born into an environmentally conscious world, and with greater exposure to a wide range of resources, they are expected to be more socially responsible" (2011, p. 7). They have grown up with the concept of sustainability and the idea that less is more. At the same time they were also raised with the images and ideas associated with lifestyle branding. While supporting the ideals of responsible consumerism, they also desire the branded status a product can provide. In this new model of consumerism, the publicized activities of a corporation and the identity of the product itself can have equal effect on the consumer's decision to purchase (Grail Research, 2011, p. 7). In the case of Goodwear Apparel Corp., consumer desire was the reason they maintained production in the United States. Founder Steve Liquori explains, "We made a conscious decision years ago to continue to manufacture domestically and not go offshore. People want to find Made in USA labels. The goods may cost a little more but they are local and of better quality" (as cited in Rodie, 2011, p. 32). Consumers are no longer blindly purchasing products based on the sales pitch, instead they are favoring products that provide both quality and brand identity. *Bloomberg Businessweek* found that in the United States there are 130 cities participating in buy local incentives (Weisul, 2010, para. 5). This began within the organic food market, where growing numbers of consumers are favoring organic, locally grown, quality products, preferably grown within 100 miles. This desire grew into a trend that now also applies to fashion, textiles and home furnishings (Hustvedt & Bernard, 2008, p. 491). A study conducted in Texas on consumer interest in sustainability and localization demonstrated that the consumer is willing to pay an additional cost for these features. The study showed that consumers were willing to pay the greatest premium for apparel items that were produced of a fiber and production of local origin over the item certified organic

but not local. This led the researchers to conclude that; production method was of greatest importance to the consumer (Hustvedt & Bernard, 2008, p. 496). These changes in consumer behavior support a supposition of this research, that the desire of the consumer is also the driving force behind a renewed interest in domestic production. By utilizing the philosophies of fast fashion with high fashion and combining with technological advancements to operate in today's global environment, it is possible to produce in a more localized method that will benefit our local economy without sacrificing profitability. The above surveys and studies all confirm that there is an interest in purchasing domestic and socially responsible products. The question remains will the consumer actually purchase based on country of origin? While the researcher found extensive data confirming the interest of the American consumer to buy American, there was no data confirming if the made in America label actually compelled them to purchase the higher priced item.

The current system of apparel production is doing little to respond to concerns related to domestic economic development and renewal. Past trade agreements and corporate policy focused solely on international and corporate development, with no concern for protecting our domestic industries. These actions have led our economy and our corporations dependent on relationships with other countries and corporations. The system these policies created is less responsive to fast pace consumer trends and does not align with a growing interest in socially responsible and sustainable commodities. Over-production to meet offshore minimums creates inventory levels that do not match the corresponding consumption levels, leaving the apparel firms with wastage in product and profit. The consumer has become more discerning, demanding better quality goods, which are more socially responsible for a fair price that is not currently recognized in inflated profit margins. It is time for governments and corporations to protect and rebuild our domestic industries, increasing the level of choice in sourcing production location.

The support of domestic industries decreases our reliance on offshore facilities allowing apparel firms to select their production mix based on the overall needs of their business and commodity. The more production options that are available, the better a fashion firm can make strategic choices to increase their competitive advantage.

Chapter Three: Methodology

The purpose of this research is to understand the motivation behind production choices and the resulting positive and negative effects of offshore and domestic production locations, specifically in regards to the use of strategic sourcing to create competitive advantage. The exploration of this topic followed a qualitative approach combined with theories on competitive advantage, strategic sourcing, consumption, and localization. This study observed apparel production from an economic and sociological perspective, permitting the researcher to examine what influences production choices and what effect those choices have on the final perception and consumption of the product. An examination from this perspective provided an outlook relating to current and future trends in sourcing and production.

Preliminary observations and exploration of this topic by the researcher, illustrated that consumption and production patterns appear to happen due to collective changes on the part of the apparel firm, retailer or on a collective demand of the consumer. The level of consumer demand and the perception of quality can influence the choice of location in which a product is produced. Similarly, the production method will also affect the consumer's identification with that product; all of which will influence the perception of quality and ultimately the profitability of the final product. As the literature review examined, perceptions on quality, localization, costs, and product response time have all become interrelated, and in many cases are defined by the manner and location in which the product is produced. By approaching the inquiry in this manner, it was the goal of this researcher to understand what influences sourcing personnel to favor a domestic, offshore or combined production locations.

Research Design

The research design for this study is based on a case study method. In *Case Study Research: Design and Methods,* Robert Yin (1989) defines a case study as "an empirical inquiry

that investigates a contemporary phenomenon within its real life context; when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used" (p. 23). This method provides the opportunity to compare the benefits and challenges experienced by apparel companies as they relate their choice to produce offshore, or domestically. The research began with an extensive review of relevant literature and trade publications to create a context in which to understand the precedents and current trends in production sourcing choices. This was followed up with a series of interviews with production sourcing personnel to generate the case study. The interview method in a case study is useful when examining the "learning the thinking, feeling and doing processes of the informants" (Woodside, 2010, p. 263). The questions were to encourage the participant to discuss their personal opinions in relation to company policies and to identify which factors affect their decision making process. The case study method provided the ability to collect qualitative data and then examine it through a comparative analysis. The goal was to answer the influencing factors behind production choices, strategies used in sourcing and the effects these decisions have on creating competitive advantage. This study hypothesizes that production choices are made based on the ability to provide sizeable profit margins, causing apparel companies to focus on production cost and not necessarily on all of the additional areas that affect profit margins. The researcher intends to highlight what factors motivate production location choices and if an expansion of the factors considered in sourcing strategies could increase competitive advantage, whether a company was producing offshore, domestic or combined.

Sourcing professionals are influenced in their decision making process by the costs associated with labor, raw materials, and transportation, minimum order quantities, delivery times, and response time to market trends. These factors are motivating companies to examine production options with the benefits of a close-to-market proximity. The case study format

provided a framework to illustrate the advantages and disadvantages to each production method and illuminate how these could relate to the ability to generate an apparel firm's competitive advantage through strategic sourcing. A second research question developed out of the primary findings regarding the viability of domestic production. All preliminary research pointed to the inclusion of domestic sourcing as a growing trend and possible means to increase competitive advantage, but a large percentage of the participants did not believe that a return to domestic manufacturing was viable. To respond, a second set of interviews was conducted with two named participants to respond to the question of the viability and profitability of domestic apparel production.

Instrument

Interviews provided the primary research instrument upon which the case study was developed. Ten interviews were conducted for this study with the first three selected for a case study analysis, while the remaining interviews provided perspective on whether or not the answers represent industry wide or personal opinions. The individual interviews were conducted with a production sourcing representative from four domestic, four offshore, and two combined companies. A context of previous and current production trends was developed out of the literary review and assisted the researcher in creating a series of interview questions to gauge the motivation and effects of production sourcing decisions. The interview method was chosen as a tool instead of surveys, because they provided a more expansive view of the motivation and external and internal influences behind production choices. Methods of production are decided upon and put in place by people; it would be impossible to obtain an accurate and all-encompassing study without including opinions of the individuals who make these decisions. Apparel production decisions affect people from the corporate level, to employment in manufacturing, to the consumer who chooses what clothing to buy. People influence the choices

made by manufacturers. Understanding the factors that guide their decisions, coupled with their personal opinion was essential to this research project.

Participant Characteristics and Selection Criteria

Accessibility was one of the defining characteristics of the selection process. Companies were first selected based on whether they favor domestic, offshore, or a combination of both. To obtain a comprehensive look at the motivation for production choices it is essential to examine companies based on the benefits and challenges associated with both types of production location. The selection process was further limited by only including companies that share a consumer base of adults between ages of 18 to 45 and companies that produce in quantities large enough to provide them the choice of producing in offshore or domestic facilities. It was essential that all interviewees be currently employed by an apparel firm and in a position of making production sourcing decisions, specifically regarding production location, on a daily basis. The selection of companies was finalized by the accessibility of their specialist employee and the availability of information relating to their sourcing practice. The second phase participants were chosen out of the first interview pool. They were selected to conduct a named interview due to their support of and success from domestic production. These interviews were used in response to the question of the viability of domestic production.

Data Collection

This study was conducted under the approval of and in regulation with the Ryerson University Ethics Review Board. (See Appendix for documentation.) Due to the possible exposure to sensitive information, every attempt was made on the part of the researcher to ensure the protection of any confidential material. Participants were contacted by telephone and email where they were provided with a short synopsis of the study, security protocols and invited to participate in the study. During the recruitment process, perspective participants were only

contacted once, with one follow up communication to verify whether or not they wished to participate. No perspective participants were pressured or coerced and were free to withdraw from the study at anytime. All interviews were conducted solely by the researcher and in a neutral and private location. All subjects and companies were provided pseudonyms and the research was coded to ensure that the researcher was the only person able to link the interviewee, company, and data, with any identifying information stored in a safe and to be destroyed upon completion of the study. All interviews were transcribed by the researcher and went through a two-phase approval process allowing the interviewee to clarify, correct, or remove any information deemed unsuitable for publication. The researcher made every effort to ensure that the participants felt no risk in participating and that no confidential information be included. The named interviews were conducted in the same manner with no information linked to the participant until they had the opportunity to review their contribution and grant their permission through signed release forms.

Data Analysis

The collected data underwent multiple levels of comparison and was then analyzed using the Strategic Sourcing Platform proposed by Tim Duffie and Larry Koester (2005). They define Strategic Sourcing as

> the process of evaluating, selecting and aligning suppliers or consortiums of suppliers to achieve operational improvements in support of an organization's strategic objectives. … It is an ongoing endeavor to evolve both internal and external processes to obtain the highest level of strategic benefit for a business. When done correctly, the results are immense and ultimately position an organization to achieve competitive advantage in the marketplace through its suppliers. (pp. 14-15)

The Strategic Sourcing Platform is utilized as a method of analyzing the critical activities of a

company to determine the essential elements of the corporation's organization that require consideration within the sourcing practice. This platform provides the data used to generate strategy based on the identification of operational improvements and strategic objectives (Duffie & Koester, 2005 p. 14). Operational improvements are cost, service levels, cycle time, inventory turns, logistics, warranty, returns, transaction reduction, and asset utilization (Duffie & Koester, 2005, p. 14). Strategic objectives were identified as profitability, financial stability, business growth, brand image, competitive positioning, new products, and new services (Duffie & Koester, 2005, p. 14). This platform allows a company's strategic sourcing activities to be analyzed in comparison to the achieved objectives that are a result of those actions. Due to the size and scope of this study, the researcher chose to only focus on a few areas of this platform in the case study analysis. For operational improvements, the companies were questioned on cost, cycle time, inventory turns, logistics, while warranty and returns were addressed under value perception. For strategic objectives, the companies were questioned on profitability, business growth, brand image, and competitive positioning.

After the initial collection and transcription period, the data was first analyzed in relation to the company, to draw connections between production choices and the influences behind their sourcing strategy. The second phase of analysis was to examine published statistics on the profitability of the apparel company. This method allowed the researcher to create links between the location of production, sourcing strategy, the productivity of the production process and the profitability of the final product. The third stage of analysis was to compare the results of companies by their location and, within the Strategic Sourcing Platform, to evaluate the extent to which they used strategic sourcing and if their sourcing choices could be utilized strategically to create competitive advantage for their apparel line. The second interview phase addressed the industry wide opinion that domestic manufacturing was no longer viable as the primary

production location within a production mix. The interviewees provided perspective on the strategic sourcing methods they employ to create competitive advantage while remaining 100% domestic.

Chapter Four: Case Study

In his book, *Strategic Sourcing for Competitive Advantage*, S. N. Mookherjee (2008) argues that competitive advantage is determined by a corporation's capacity to strategically regulate all business activities. By employing strategic sourcing, they can step beyond the concern of just cost and endeavor to reduce costs, decrease waste and increase production flexibility, consumer loyalty, and value perception, all of which will impact profitability (Mookherjee, 2008, p. 7). To understand trends in production sourcing strategy, one must first identify and understand the factors that influence them. The following companies were interviewed and underwent a comparative analysis within the Strategic Sourcing Platform, proposed by Duffie and Koester (2005), to determine what elements influence production sourcing choices and to what extent strategic sourcing is utilized in this process. The participants were asked questions based on the operational elements: cost, production cycle time, inventory turns, logistics, and consumer value perception. The data collected were then compared to determine how they impacted the company's strategic objectives, specifically: profitability, brand image, business growth, and competitive positioning. For the analysis process, three companies were chosen out of the 10 interviews to act as representatives for each production location category, with the remaining interviews supporting the validity of their answers to be considered as industry wide opinion. In examining these three companies, it was interesting to observe that despite their differing methods, many of them had similar concerns and perspectives, just different strategies for managing their production choices and profit margins.

Company Profiles

The first company, referenced as Domestic A, manufactures for their own retail locations. They have a yearly sales range of $1,000,000 to $4,999,999 and their products retail in the mid to upper level price point. After trying offshore production, they returned to 100% domestic and

have remained so. In a previous attempt at offshore production, they experienced challenges with communication, incorrect assortments, and found they valued the flexibility of not having to order garments so far in advance. The company also maintains as part of their corporate identity, a sense of pride in producing a domestically manufactured, and designer quality product. The sourcing representative from this company selects facilities and production location primarily based on the reliability of the facility and their ability to deliver on time, quality and price.

The second company, referenced as Offshore A, manufactures solely for the purpose of wholesale. They have a yearly sales in the range of $5,000,000 to $9,999,999 and retail in the mid level price point. The company originally produced 100% domestically in Ontario, but made the shift to offshore. Originally reluctant to go offshore, the company was finding it difficult to match prices with competitors producing in the Far East. Offshore production has provided ease, low-cost labor, and in many cases technical skills that can no longer be found here. This company sources offshore facilities based on their ability to deliver on time, quality and price.

The third company, referenced as Combined A, manufactures for their own retail locations, as well as wholesale. They have a yearly worldwide sales range of $5 billion to $9.9 billion and retail from a lower discount to a high designer price point. They currently produce 96-98% offshore with 2-4% domestic production and the domestic amount is rising each year. The company and sourcing team prefer a combined production method because it is more responsive to needs of the business, product and consumer. They appreciate domestic for ease, speed, flexibility, agility, and creativity; and offshore for cost of materials and labor rates. When selecting a facility and location they weigh the benefits and challenges associated in each method in relation to the needs of the commodity. For both domestic and offshore production, the priority is placed on ethics in the workplace, price and their relation to profit margins, and eliminating waste.

Operational Elements

Operational Elements represent the elements and conditions that make up the activities of the company as they take a commodity or service from inception to delivery. Understanding these elements and the requisites of the business, enables the implementation of strategic sourcing to generate plans of action that address the needs required to meet the corporation's strategic goals (Duffie & Koester, 2005 p.15). The use of this platform requires a company to consider beyond the scope of just the immediate production costs and evaluate the effectiveness of all areas of their production process. “Having a clearly defined sourcing strategy will significantly improve both the quality of the results and the speed required to achieve an organization's objectives" (Duffie & Koester, 2005, p. 15). For the purpose of this study the researcher will be concentrating on the Operational Elements of cost, cycle time, inventory turns, production logistics, and consumer value perception.

Cost. Domestic A considered price of labor to be the greatest challenge in producing domestically, especially when attempting to compete at the retail level with someone who is producing offshore. Additionally, with a lack of domestically available raw materials, they are required to source their fabrics, trims and notions offshore. They benefit, cost-wise, from a savings in materials, but are also subject to many of the challenges associated with offshore production while waiting for materials to be ordered, shipped and passed through customs. Even with these challenges, the identity they gain from being wholly designed and manufactured in Canada is an essential part of their brand identity, and the benefit of not over ordering and possessing the ability to respond to consumer demand in a matter of days, is essential to establishing their competitive advantage.

Offshore A, and all of the other offshore companies interviewed, found that cost is currently their greatest benefit and their greatest challenge. The shift to offshore was made to

achieve greater ease, less fiscal responsibility in the production process and to take advantage of an abundance of low cost labor with fewer restrictions. In the last five years, this company has seen prices double in almost every offshore country in which they produce. Additionally, as these countries have become more industrialized, the factories and workers have been afforded greater choice in what they are interested in producing. As a result, their factories have seen a 20% decrease in operators, which has extended the lead-times and in some cases caused a factory to refuse their business for more sizable or lucrative orders.

For Combined A, offshore sourcing is still their primary method of production. It is preferred for the products that do not necessitate a shortened lead-time and those which can benefit from the increased cost savings. When examining the cost aspect of the their sourcing strategy, offshore facilities provide them increased savings in terms of lower labor rates, cheaper real estate, and inexpensive raw materials, as well as the added benefit of access to apparel technology that is not currently available in North American manufacturing. With those benefits also comes a great risk to their profits due to the necessity of ordering large quantities so far in advance. They also lose the flexibility of making a last-minute order, as most offshore producers require 30 to 35 days, plus transportation time, to execute an order. The addition of domestic manufacturing to their production mix brings an increase in production costs, but it has provided flexibility and the ability to carry a lower inventory, which decreases their overhead operating costs. By producing in the vicinity of their distribution center, decisions on cut, color, and size do not have to be made until the very last minute. This enables them to never be out of stock on certain sizes or colors and the ability to respond so quickly means that they are never missing out on a possible sale. While they have gained flexibility and increased control over their supply chain, they still face the same challenges in domestic sourcing of achieving competitive pricing and the availability of raw materials; both of which are difficult to locate domestically. When

examining the financial aspect of their sourcing strategy, Combined A prefers to look at production cost in relation to final profit margins. When considering their production options from this perspective, the company found that the cost associated with producing onshore is far more affordable when compared to the loss of a missed opportunity to sell that garment at full price. The combined manufacturer shares the same challenges and benefits as the other two companies but makes a choice based on the overall needs of each commodity and prospective consumer.

Cycle time. All of the participants referenced lead-times as one of their utmost concerns. Length of the production cycle appears to be one of the greatest challenges associated with offshore production, while also being one of the greatest benefits to domestic production. All of the companies acknowledge that the production department sets the calendar for the company timeframe from design to delivery; many of them recognizing that most of their issues come from waiting for the arrival of either materials for domestic production, or the finished garments from offshore production. All of the offshore companies were required to constantly be aware of the calendar, yet many of them admitted to not being aware of the productivity rates within their manufacturers or whether or not offshore production affected internal corporate productivity. Each of the respondents believed that their method of production was sufficient in providing the finished garment in the timeframe needed with only the domestic and combined companies having actual control over that timeframe. In fact, only Combined A appeared to be considering productivity as an essential part of devising the company calendar and selecting production location. This company has incorporated productivity into their sourcing strategy and sustainability mandate, with the actual production time an essential area to reduce waste. They currently have a program that is striving to increase the productivity rate in all of their offshore factories in an attempt to bring all of their manufacturers as close to 100% efficiency as possible.

Their sourcing representative explains that, "everything is mathematical and perfect. We can teach these factories how to be more internally profitable and we can grow together. It is the future and definitely leads to eliminating waste and reducing cost." Offshore production requires the relinquishing of control of your calendar to a facility on the other side of the world. By producing solely offshore a significant number of resources and time can be wasted if productivity is not closely monitored and that monitoring effort costs a corporation in time and overhead, further eroding the final profit margin.

Inventory turns. Inventory turns refers to the amount of time your stock sells through within a sales period, it also covers whether or not that stock was sold at full price or at a discounted rate. Markdowns are a fact of retail; the longer stock remains in your possession, the less money it makes you. With increasing lead-times to facilitate offshore production, an increase in markdowns and seasonal sales is also occurring. Offshore producers rely heavily on trend forecasts because they purchase anywhere from four to eight months before the selling season. The National Textile Center in the United States found that these forecasts often miscalculate by over twenty percent and that the cost of holding this superfluous inventory can cost a company more than the savings achieved through offshore production (Warburton, 1999, p. 3). Each of the companies interviewed were asked a series of questions to understand the role that markdowns play in their sourcing strategy.

Domestic A acknowledged that while they do experience some markdowns, those have been reduced due to their domestic production. If something is not selling, they are not replenishing it. They can respond very quickly and have the opportunity to cancel or change a design if it is required. Offshore A did not consider markdowns as an issue for their commodity and therefore not a consideration in production planning. Combined A has made the elimination of markdowns a major part of their current waste reduction mandate. Combined A estimates that

they currently average thirty percent waste in finished garments, which they define as items sold at a discounted rate. The company has set a goal of implementing rapid replenishment in both their North American and offshore facilities. In North America it centers on their higher priced product. One of the motivations for doing this was an increase in department stores wanting to collect off the top a percentage of the buy-back money that an apparel producer owes a department store. Buy back money refers to the amount fashion firms guarantee to pay to retailers or department stores in compensation for discounts they may be required to take to sell the product. In the case of Combined A they found that department stores were insisting on collecting this, even before a single markdown was required. Combined A has looked beyond the standard concepts we have of waste, which is usually focused on water, energy, and refuse, and expanded their strategy to also include markdowns due to excess product as product waste, understanding that any type of waste is usually associated with lost profit. The elimination of markdowns allows an apparel company to increase profits through full price sales, as well as eliminating wasted productivity on managing the liquidation of merchandise, all of which can only increase competitive advantage.

Production logistics. As addressed in the literature review, many of the arguments against domestic production state that North America no longer possesses the necessary logistics to be capable of competing with benefits associated with offshore production, specifically the ability to compete at a retail level due to their production cost and the availability of a trained workforce. To explore the viability, the interviewees were asked a series of questions addressing these concerns in an attempt to gauge if the implementation of technology and automation, skills training, government and industry incentives could decrease the logistical challenges and increase the competitive advantage of a more localized production method.

When asked about the use of technology, all of the respondents admitted to using as much apparel related technology as their business could afford. Items such as computerized pattern systems, Web Product Data Management, Computer Aided Design, and laser cutting tables were all widely used. The participants were presented with the concept of increased automation in apparel production as a means to lower the cost of labor, increase output with the ability to run 24 hours and increase quality with a reduction of human error. Domestic A agreed that technology is essential to efficiency, and is an essential part of their ability to respond in a reduced time frame. They also felt that technology is something that should be used with restraint, as you do not want it to diminish the craft aspect of what you create and replace it with cookie cutter items. Some participants felt that the small differences and minor flaws reflected the handcrafted nature of clothing. Offshore A had a similar view to the use of technology. They were very interested in the use of automation as an option to reduce domestic labor costs, but at the same time they appreciate the fact that their garments are made by human hands. Combined A is very interested in the use of automation, especially in the area of basics and commodity items. Their primary concern would be price and the ability to have a technology that is adaptive enough to respond to the speed in which garment detailing changes. While they acknowledge that this sort of investment in machinery can be prohibitive but also consider that it could be offset by the gaining increased production speed, flexibility, and quality. In addition, the lowering of labor costs could be a means of increasing the competitive advantage of North American production.

The participants were all asked if they were aware of or participated in government assistance or incentive programs, and if an increase in these programs would have any influence on their sourcing practice. Through the interviews, it became abundantly clear that all of the interviewees felt that actions of the governments, in both the U.S. and in Canada, have done

nothing but support the move to offshore manufacturing. The other noticeable finding was that most of the interviewees had little or conflicting information, about what type of assistance was available, and most were not taking advantage of any government programs because they were too difficult to access. Domestic A has taken advantage of one government policy that allows Canadian designers to sell their import rights to bring garments into Canada to other companies that are importing in larger quantities and have already used up their tariff relief import quantities. They use this to help fund their domestic production, but it does not close the gap on competition at price point. Offshore A acknowledged that with the uncertainty over tariffs, rising costs and stretching lead-times, domestic production is looking more and more attractive to them. They believe it would be a positive move for the government to support domestic production and that for Canada to have a viable economy it is essential to bring some apparel manufacturing back. Combined A explained that for them to prefer domestic over offshore, the government would need to make all their raw materials duty free. Currently most of their materials come from China, Malaysia, Italy, Turkey, and Portugal, where they pay between 9% to 15% duty. The ability to bring these goods in duty free, combined with tax breaks, would make it possible to offset some of the labor costs. Combined A also expressed that, in their opinion the growth and support within localized production was going to occur more through internal apparel industry support, rather than by government support.

The American and Canadian apparel industries are frequently referred to as shrinking industries. In considering a return to domestic production, there is a serious concern as to whether we even have the available workforce to support localized production. All of the interviewees believed that there are definite “holes” in the current training and education system when it relates to employment in the apparel industry. Domestic A has yet to face any issues in securing the skilled technicians necessary for their domestic production, but they have noticed a

shift from preparing students for successful and rewarding apparel based careers, to focus on creating designers. Offshore A had a similar view point citing the lack of a labor force possessing necessary skills they require for their commodity, as one of the main reasons they could not return to one hundred percent domestic production. They believe there is a general lack of investment and support from the government for trades-based careers. Combined A also agreed that a lack of skilled labor is an important issue to them. They found that once again it appears to be falling more to the industry than the government to correct this. Combined A is working with a North Carolina based vendor who has reached out to local trade schools to update their programs and bring a portion of the program right into the factories. Another industry led program is the Makers Coalition (2013); they define themselves as,

> a coalition of businesses, educational institutions, non-profit organizations and service providers coming together to build a trained cut and sew industry for the Upper Midwest. We know from our collective experiences that there is a reshoring trend occurring in America. Therefore, we want to ensure the businesses that need high quality cut and sewing industrial production have the talent they need to grow. (para. 2)

By participating in education, the industry is able to increase their work pool, recruit the top students right away and issue marketable job skills to people who need them. Combined A recognizes the importance of trades training and the support of a vocational economy as necessary for the support of certain economic levels in North America. All of the participants expressed concern and interest in the current state of the shrinking domestic industry, noting that it is prohibitive to competing at price point and no longer able to facilitate large-scale apparel manufacturing.

Value perception. Value is determined in many ways, but most commonly in apparel, it is assessed by quality of the product in comparison to cost. Quality was considered by all

interviewees to be an essential factor in selecting a production facility. All of the companies interviewed sell at a mid to upper level price point and are brands that pride themselves on offering a high level of quality. A series of questions relating to quality and perceived value were asked in order to understand the challenges they face in controlling quality and what they believe is their consumer's perception of quality and value in relation to their product.

In regards to quality, in a previous attempt at offshore production by Domestic A, the product produced offshore was well made. However, the issue they experienced was with challenges in communication that often resulted in receipt of incorrect assortments. They found these issues to be a barrier that posed too much of a challenge to continue. Offshore A agreed that they are always facing issues with quality control and believe these are probably greater than what they faced when producing domestically. They accept this as part of large-scale fashion production, and rationalize that in a factory of three thousand employees, you cannot inspect every garment. In these cases they rely on their relationship with the supplier and work with them to correct the situation. Combined A found that they face quality control issues with both their domestic and offshore production, which is why they make it an essential part of their sourcing criteria to ensure that they are working with the highest quality manufacturer, no matter what country they are in. While quality was an essential motivating factor for choosing a particular factory, none of the respondents viewed the quality related challenges as enough of an issue to encourage them to choose one method of production over the other.

When examining quality, there are two sides that need to be considered. There is the actual quality of the construction of the garment; then there is the quality or value as the consumer interprets it. The early research for this study pointed to the opinion of the consumer as becoming an influencing factor in sourcing choices. The participants were each asked to provide their opinion on their consumer's perception and reaction to quality and value. Domestic A

expressed that while they would like to believe that country of origin plays a role, in their opinion the current customer is so influenced by brand, that the product could be made wherever the designer chooses without seeing a reflection in sales. Domestic A's choice to produce domestically was more about a desire for control and flexibility in the production process, than consumer perception of their product. Offshore A believed that the consumer today is oblivious to country of origin and concerned more with price, especially price in relation to quality. The consumer today is educated and will price compare your product with others before making the choice based on quality, price or both. The company felt that with fast fashion, people are not actually spending less on clothing; they are just purchasing larger quantities of items with a shorter obsolescence and at a lower price point. Combined A considered consumer value perception to be dependent on the brand and how educated the consumer is. It was their opinion that the consumer who is buying a lifestyle brand would only be concerned with country of origin when it is tied into the marketing as part of that brand's identity. Combined A's consumer research has shown that when competing at a higher price point the consumer is more educated in regards to value, quality and the conditions associated with offshore production. When they are comparing products, a North American or European label of origin does provide a more inherent value, in the mind of the consumer, when sitting next to a similar product that was made offshore. With the exception Combined A, none of the participants believed their customers would be willing to pay an increased price for a domestically produced product. Combined A was of the opinion that this is dependent on the branding, marketing and the consumer. They believe that if, through marketing, a fashion firm can educate the consumer that this is important to them; there will be a consumer out there who will want to buy into that lifestyle identity. All of the participants acknowledged that consumer perspective and demand for their product does

factor into production choices, but at the moment those choices are related more to price than country of origin.

Strategic Objectives

Strategic objectives are used to identify the goals of the corporation. They are often the measure by which a business evaluates its success, whether it is determined by expansion, profitability or market share. The formation of clearly identified goals and the understanding of what is required of your operations to achieve those goals reduce inefficiencies and outmoded activities that can slowdown corporate growth (Duffie & Koester, 2005 p. 15). It is essential to strategic sourcing to have a clear objective or goal for the future of a product and the company. Strategic sourcing focuses on the larger picture and requires the involvement of all areas of a business. For the purpose of this study the researcher will be concentrating on the Strategic Objectives of profitability, brand image, business growth, and competitive positioning.

Profitability. Each of the companies was presented with a theory of reducing markdowns through rapid replenishment and QR manufacturing. They were asked if the ability to control and reduce the amount of product they markdown would be enough of a profit based competitive advantage for them to consider incorporating localized manufacturing into their production mix. Domestic A is already utilizing this system and would welcome the opportunity to source their fabrics and trims through local sources. Offshore A acknowledged that with shorter lead-times they would not need to hold the level of stock they currently do and that rapid replenishment would remove a lot of the guess work. Due to the necessity of still ordering fabric in large amounts from offshore, if they misinterpreted a trend, they would still incur risk by holding a large quantity of fabric; but a quantity of fabric is far more useful than a quantity of finished merchandise. Combined A, like Domestic A, is greatly influenced in their sourcing practice by these theories. While acknowledging that approximately 30% of their product is marked down,

they strategically plan for it and as a result are very profitable. They have found that, "by reducing our calendar and being able to better control our inventory level, there is benefit to be gained. Being domestic does not necessarily solve these problems; being very strategic everywhere in the world solves it." The production calendar sets the schedule of when materials, samples, and finished products are needed and in what location. Companies are always attempting to control and even reduce this calendar to ensure that production is as efficient as possible. Combined A has taken the theories of QR and ideas on sustainability and waste that are usually associated solely with domestic manufacturing, and is utilizing them in both their local and offshore facilities to create an overall competitive advantage based on their ability to be strategically responsive in the most efficient time frame possible.

Brand image. Consumers today prioritize brand image and personal identification with lifestyle brands. This level of branding extends from the product to the store design and often even the corporate image is affected by it. The Reputation Institute (2013) strategizes that business competitive advantage is achieved through an "ecosystem of influence, where the behaviors and links between multiple stakeholders directly affect your business outcomes" (para. 1). The perception of a brand can have just as much of an influence on the success of a company as the profit margin. Brands have taken notice of a growing concern on the part of the consumer as to where things are made. Packaging for the iPad mini® states that the product is, "Designed by Apple in California, assembled in China" ("Made in America," 2013, para. 13). While it is not made in America, Apple is attempting to identify with a consumer desire to purchase products with an American identity while also being socially responsible, by not misleading the consumer as to the country of origin. In addition, Apple recently announced that next year they will begin domestic manufacturing for one of their computer lines ("Made in America," 2013, paras. 28-29). Through surveys, studies, and consumer reports, the consumer has expressed a

desire to have the option to purchase domestically made products. The inclusion of country of origin in marketing could increase brand identification, especially in a time when there is genuine concern with the state of the domestic economy.

While they favor domestic production, Domestic A believes that fashion has become less focused on quality and where something is produced and more focused on the brand. They see this happening at both low and high price points, with brand association also extending to the store the where the item is purchased.

> The Canadian consumer has become so influenced by price and brand and not so much by quality. They may wear something that is heavily branded even though it is an inferior product and paying a premium for that heavily branded product, even though it is made at the same factory as a discount product.

Domestic A brands themselves as offering a quality designer garment from a Canadian designer that happens to be produced in Canada. While domestic production is part of their image, it is not a central focus in their brand marketing. Offshore A is of the opinion that the consumer is educated enough that they are going to shop based on price and brand. The company admits to a desire to incorporate a more national and responsible identity into their product, but until there is a perceivable interest from consumers or retailers, they cannot justify the cost of restructuring. They carry many lines under their corporate group with design and price taking more prominence in their brand strategy than any particular lifestyle branding. Their marketing follows what is current in trends more than subscribing to a particular brand identity. Combined A produces and markets lifestyle brands and incorporates the perception of their brand into all business decisions. They survey their consumers on a regular basis to ensure that they possess the consumer's opinion on price, quality, brand image, country of origin, and this knowledge is then applied to many areas of business planning. Lifestyle branding features extensively in all of their

product lines and has proven to be a key aspect of their brand recognition and success. They do feature made in America within their marketing, but its use is evaluated on a product needs basis.

In this current fashion climate, knock-offs have become an unfortunate byproduct of both high and fast fashion. The participants were asked if control over their brand image, intellectual property and the possibility of lower quality knock-offs played a role in their sourcing choices. All of the interviewees expressed that as much as it is a concern, they accept the difficulty associated with copyrighting and enforcing intellectual property when it comes to a garment. Domestic A considers it a problem in the industry in general, but they worry less about it due to the proximity of their contractors. The ability to visit a contractor provides an additional sense of security that their garments are not being reviewed or copied by competitors while in production. Offshore A has come across the situation and considers it a chance you take in producing and operating in a global market, where the overall primary concern is making money. Combined A has built their business on lifestyle brands, so for them it is a great concern. To combat the loss of control, they have strict agreements with their factories relating to confidentiality and have an entire department that tracks and monitors counterfeit products. The general view from all interviews was that this was just a risk that you accept in global production, and that the agreements and personnel put in place to monitor this have become essential. While it is a concern, most of the participants agreed the only role it has in their sourcing practice is in the monitoring and confidentiality clauses required in their contracts and the employment of regulatory personnel.

Business growth and competitive positioning. Each company believed they are currently utilizing a sourcing strategy that meets the goals of their business growth. Domestic A is currently producing one hundred percent of their designed product in Canada. They stock their retail locations with some accessories and knitwear from offshore, but these are items that they

are unable to source domestically. In their opinion, the Canadian industry has shrunk to a point where they are unsure what could be done to help sustain it and increase the use of localized production. Domestic A favors a localized domestic method of production but is unsure of its future growth. They continue to remain domestic because it suits the nature of their business and their corporate identity. While the company is unsure if they have achieved any additional sales due to their made in Canada label, they do believe that the gains from flexibility and responsiveness have been key to their business growth, providing them with a means to compete with offshore produced product.

Offshore A currently produces 100% of their product offshore. They are quite happy with their facilities and the quality of the work, but admit to considering the possibility of bringing some of their less technical products back to a domestic facility, thus enabling them to produce in a combined method. In their opinion everything is dominated by cost and profits and what they are witnessing is labor costs and regulations rising everywhere. "There are a lot of underdeveloped countries we can go to and teach them to sew, but if I could do it here as cheaply as there, I would do it here." In their opinion everyone is pulling out of China, partially due to rising costs, but also due to the recent shift in the willingness of Chinese manufacturers to assume risk and their desire to pass most of that risk on to the apparel firms. A lot of the concessions that were made before are no longer accepted. Presently, cost is the biggest roadblock to them returning to domestic sourcing, but if costs continue to rise and if the final cost of producing offshore becomes comparable to the cost of domestic, then the ability to be identified as Made in Canada would be an influencing factor. It is the opinion of Offshore A, that their business has remained competitive due to their move offshore. At the same time, they have observed a dramatic increase in prices and are concerned about rising costs and their dependence on offshore facilities.

Combined A currently produces the majority of their products offshore, with a small but growing percentage produced within North America. Producing in a combined method is essential to their future business growth in both profit and sustainability. They believe there is a customer for a growing domestic market and that customers may not necessarily know that they want a domestically produced product. For this company, it is all about acting in tandem. They create their product in a highly efficient, less wasteful and social responsible manner that can provide immediate response to the consumption needs of their consumer, while their marketing uses lifestyle branding to educate the consumer of the importance of sustainability and social responsibility being incorporated into the product. As a company, they are always looking toward the future and the next trend and they believe that having a foothold in domestic manufacturing really is the future.

> Labor rates around the world are going up, materials costs are very likely to go up, petroleum prices are unstable and go up and down, the cost of moving raw materials from country to country; it is never going to stabilize. If we can do it here, locally for a good portion of our business then it benefits us in more ways than just price. For us it is really about balancing the amount of offshore production we do to find the right balance of cost vs. end of day savings.

They are seeing an enormous shift away from China, and while there are many emerging second and third-world countries, with that comes increased local demand for product. If the gap in price with local manufacturing continues to close and if they can increase their competitive advantage with flexibility, shortened turn around and other incentives, then it will be hard to ignore the benefits to a higher percentage of domestic manufacturing. Combined A believes that for continued success in a global market the only option is a production strategy that is based on a combination of offshore and domestic production facilities. By producing in this manner, they

have access to the benefits of both locations and can maximize the efficiency and effectiveness of all activities from production to point of sale.

Named Interviews

For the past few decades, offshore production has dominated sourcing practices. Apparel companies select a production mix based on an evaluation of the ability to create competitive advantage for the product through price. As illustrated in the previous interviews, production choices are most commonly dominated by the cost of manufacturing and materials. Secondary in the decision-making process are associated costs, lead-times, quality, and waste. Profit margins can be greatly affected by the unpredictable fluctuations these areas are prone to. A dramatic change in one or more can result in a loss of the savings gained through offshore production. Each company chooses their production mix based on what is in the best interests of their business. While most of the participating apparel companies are concerned about the future of Canadian and American fashion, few are actively participating in the growth of their home industry. Nearly all of the participants expressed an interest in the possibilities of more localized production options, but almost all of them did not believe that domestic production could sustain itself and be profitable as a majority of their production mix.

The researcher followed up the primary interviews with a second phase, conducting two named interviews with an American and a Canadian apparel firm to explore if localized production was viable and if it could provide competitive advantage. The purpose of these interviews was to examine the common industry opinion that domestic production does not enable a firm to compete at the retail level and identify how these companies are able to achieve that competitive level while maintaining 100% domestic production. The companies were asked to explain their mission statement and address how they manage costs, retail competition, profit margins, sourcing, marketing, business growth, and the role of social responsibility. They provided an example of how the inclusion of social and economic responsibility as part a corporate mandate can build a brand identity while allowing their businesses to grow and be

profitable.

Tilley Endurables Inc. Tilley Endurables Inc. is recognized as a Canadian heritage brand and an immense part of that identity is their "Made in Canada" label. They are a business that was built on a hat and has expanded into men's and women's wear, as well as travel inspired accessories. They are a retailer and wholesaler and are in the yearly sales bracket of $10,000,000- $24,999,999. Their primary sales market is in Canada but their product is sold in over 2,600 retailers in 18 countries worldwide.

Social responsibility. The Tilley Endurables brand was built on the pillars of quality, durability, and Made in Canada. For the last 33 years, this identity has remained at the core of their corporate philosophy and expanded to also represent their involvement with social responsibility and sustainability. "We believe we have a responsibility to support Canadian manufacturing and in our small way to stimulate and support the economy. Although we import our fabrics from overseas, we buy Canadian/North American when we can." Producing in Canada allows the company to maintain complete control over their entire production process. Proximity to factory ensures that they can maintain a high level of quality in all of their products, while controlling the entire process. It provides the ability to regulate all of their costs and guarantees the customer is receiving value and quality. Additionally, they are able to immediately respond to unexpected factors like a dip in the economy, seasonal abnormalities, and consumer fluctuations. They face challenges in sourcing like all other domestic producers, they have just chosen to act strategically and not sacrifice the ideals they began with. The main challenge they currently face is sourcing local materials; with a lack of fabric mills, supply options have become limited. Whenever possible Tilley will purchase from a local supplier over import, but these options continue to shrink:

> We believe we would be "selling out" if we, a Canadian company, did not buy and manufacture Canadian wherever possible. Another important component of our company values is integrity. If a company does not make all their products in Canada, it is a misrepresentation to imply or say that they do.

Cost and profit margins. The most common challenge and concern for all apparel producers is the cost of production. It is a concern from the onset and usually considered a determining factor in creating competitive advantage and safeguarding profit margins. In combination with quality, it is one of the primary determinants in selecting a production location and facility. When Tilley Endurables weighs cost versus quality, quality always wins out. Their concern in sourcing is not generating the highest profit margin; instead they are more focused on providing high quality and longevity of the product, at a profit margin that is fair to the consumer:

> We provide the value for the price, with the intent that the products have a 'life' and the consumer a long term loyalty, not a seasonal turnaround. The advantage I think is that we control the production and manage the costs of all of the elements that go into a garment or hat. That makes it easier to manage our margins in a more immediate way.

Strategic sourcing is a common theme that has come out of interviews with the companies who incorporate localized production. Each of the companies interviewed discussed utilizing creative problem solving, the importance of negotiation in all materials, and the importance of reducing all forms of waste. The necessity of acting strategically has forced these companies to become more efficient, sustainable and fiscally and socially responsible. Tilley protects their competitive advantage through diligence in their negotiation and sourcing strategies. They negotiate the best possible price on all materials. Tilley has a very skilled team of negotiators who value continued relationships with these suppliers as much as price. They have earned a reputation of loyalty and

commitment with their suppliers and would rather work with a supplier rather than shop around for lower cost options. In addition to strategic negotiation, Tilley is extremely conscious that they do not over-inventory, overprice, or overspend. This level of control eliminates levels of wasted product and productivity. The elimination of extended lead times allows the company to be more responsive to the economy, trends, product needs and concerns of their customer; thereby providing them with multiple areas of competitive advantage instead of just establishing it through cost.

Quality, consumer response, and their role in marketing. Quality is the paramount concern for Tilley Endurables. By focusing on providing a product with a longer lifecycle they have increased the competitive value of their product compared to the lower priced offshore product that has been designed with a built in obsolescence. The majority of clothing a consumer purchases does not come with any form of warranty after it has been worn or cleaned once. Many of Tilley's products have extended or life time warranties:

> For a segment of the population, it is not about disposable clothing, the fact that the products are made in Canada, does mean that the quality standards are higher. That is part of our mission statement and our clients are some of the most loyal clients in the industry. We deliver on our promises and that speaks to peoples core values and belief in the company.

Their dedication to quality offsets their price point and increases consumer loyalty and perception of value. Cost has always been a concern with consumers, but with the consumer now being more educated than ever before, cost in relation to value has taken on a greater importance. This is not saying that consumers only want the high price, high quality product. With the inundation of fast fashion, high trend items into the retail market, the consumer is just more

discerning. They do associate price with value and do not want to over pay for items with a minimal life cycle.

Made in Canada is at the core of this company's 33-year history. It was originally a primary platform in their marketing and continues to be an essential value in their identity:

> It isn't all about pride, "Made in Canada" is a selling feature and a powerful one. Canadian made quality is recognized around the world as top notch. We believe there is a segment of the population that care about made in Canada. The support of the internal economy of a country is very important. The debate occurs in all areas of the economy, not just the clothing business. Having said that, it is important to educate and encourage Canadians to buy Canadian and keep Canadian industry alive and thriving.

The company acknowledges a decrease in concern over country of origin on the part of the consumer, but in their mind this is more about the busy and global nature of our current lives than a lack of interest in Canadian made products. Made in Canada features more or less prominently in their marketing depending on the current interests of their consumer and the economy. They have built this business on consumer responsiveness and tailor their campaigns to educate and respond to their consumers' needs. They have branded themselves as a distinctly Canadian product and company. For this company, the country of origin creates part of that value and quality perception. Whether or not the consumer sees this as a selling feature, it is essential to their corporate identity.

Future of production. As a heritage Canadian brand, Tilley Endurables believes it has a responsibility to continue to grow and support the Canadian apparel industry. Education and industry development are an essential part of their corporate philosophy. At the moment, they participate in apprenticeship programs with a number of local colleges. The program allows them to provide hands-on skills training to the next generation while also having the opportunity to

recruit some of these students into full-time positions. The company and their manufacturers have embraced the incorporation of technology into the apparel design and production process, but in many cases they have chosen to retain the older, tried and tested methods. For example, they still make all of their patterns by hand, a choice that continues employment and in their opinion, protects a skill that many view as a dying art.

When asked if remaining 100% domestic has inhibited their growth or global expansion, the company replied that they have not felt any form of restriction from it. Instead, they believe it has helped to define their brand, which is essential in a retail market so over saturated with brands offering a chance to buy into an identity or lifestyle. The company also believes that being domestic has played a significant role in their success. The ability to be so responsive to changes in the economy, industry, and consumer make them far more effective and limit their waste of resources, product, and finances. It has also provided them the opportunity to produce in a manner that limits their environmental footprint. They produce ethically, sustainably, and responsibly, and by prioritizing quality and product lifespan, they create a product that lasts a lifetime and reduces the amount of product that ends up in a landfill. They have made a commitment to support the Canadian Industry and provide a good model for other companies to examine, whether they are producing offshore or domestic. By thinking strategically long term, they have been able to profitably produce in a manner that does not require them to sacrifice quality, price or social responsibility and they are in complete control of their entire design and manufacturing process. In conclusion, the company representative was asked to offer their opinion on the future of apparel production and sourcing: "I would truly like to think that domestic manufacturing will become more prevalent, but the truth is that without government support the likelihood is not great. It would be great to think that the industry could be self-sustaining domestically"

Jolie and Elizabeth. Jolie and Elizabeth is a young company already leaving a distinctive mark on American Fashion. Jolie Bensen and Sarah Elizabeth Dewey launched the company in 2010. Their clothing features classically American design aesthetics and a mandate to produce a socially responsible, locally made product. In 2011 the White House listed them on the Top 100 Entrepreneurs in America list (Jolie and Elizabeth, 2013, para. 4). They operate in a yearly sales bracket of $100,000-$499,999 and wholesale to retailers across the United States, as well as selling directly to their customers through E-tailing.

Social responsibility. The label of origin serves as a cornerstone of Jolie and Elizabeth's corporate beliefs and mandate to support their industry and local economy. Their product not only states that it is made in America, but specifies that it is a "Product of Louisiana":

> Jolie & Elizabeth prides itself in contributing to the rebuilding, revitalization and redevelopment of New Orleans and the great state of Louisiana. The positive economic impact of keeping dollars circulating within our local economy, utilizing untapped local labor resources to create jobs and using innovative strategies to create sustainable businesses (and pretty dresses) are our key objectives.

Operating their business in the same vicinity as their manufacturing has not only been the foundation of their company, but also the key to success for Jolie and Elizabeth. It has provided complete control over their entire production process allowing them to dramatically reduce the waste that occurs from quality and communication based mistakes made in the production process. Waste is a vital concern to the company, especially in regards to overproduction. They are very conscious that they are not part of the cycle of estimating consumer desire and overproducing garments to meet factory minimums and imagined need. By producing domestically they are able to respond to actual consumer demand and do not need carry inventory based on factory minimums or estimated sales. This production and consumption

based sourcing behavior of estimating and overproducing, results in a significant number of garments ending up on a sale rack or ultimately in landfill. “When twenty apparel corporations overproduce to meet a demand that just isn't there, the impact a garment can make has been forgotten. Call it overproduction, a global macroeconomic imbalance or corporate carelessness; the ironic result is unemployment and generic apparel” (Bensen, 2012, para. 23). They understand that this level of waste erodes profits, dilutes fashion and that overconsumption is irresponsible.

Where most companies struggle to launch a new fashion business, after only two years they had increased their revenue by 65% and contributing $250,000 to the New Orleans economy (Lopez, 2012 p. 1).

> By manufacturing our products here, we are providing paychecks to Americans…When you buy a dress at Target, while it’s cheap, the money goes directly to a factory overseas. Whereas when you buy a Jolie and Elizabeth dress, the money goes directly to a seamstress’s paycheck, who then goes to her local bakery to buy food, that money goes to another. The money stays here and further enriches our own economy.

They see it as a responsibility of their generation to set an example for responsible production and consumption. When sourcing their facility, offshore manufacturing was not considered to be a viable possibility. Their production began in Dallas but quickly transitioned into the New Orleans area where they located a factory on the brink of closing after Hurricane Katrina. In addition, the size of their orders have allowed several local factories to update and double in size, increase employment and open up localized production options to other local designers (Bensen, 2012, para. 26; Lopez, 2012, p. 1). Their direct involvement in the supply chain allows the owners to have full control over all aspects of their line, while witnessing first-hand the effect their business has on their local economy.

Cost and profit margins. A new business has little or no room for lost revenue. After working for large-scale apparel firms in New York, Bensen and Dewey witnessed first-hand, the level of waste due to the amounts of incorrect or rejected product generated from offshore production errors. They also developed an understanding of all the additional costs that a company incurs in trying to manage quality, time frames, and communication from the other side of the world. Through strategic sourcing, inventory, and cost management, the company has been able to close the gap on domestic and offshore production costs. "Our costs are the same as our competitors. We are proud of this. We just formulate our costing a bit more precisely." Even more impressive is the fact that the start-up company has broken even and regularly sells out the collection, while also producing domestically and keeping the price point under $200 (Fenn, 2011, paras. 5-7). They created their own competitive advantage by managing all of their costs and reducing wasted product from over inventory, while offering a timeless product at a high level of quality. They do not carry excess inventory, anything not sold through wholesale channels is available for the customer to purchase directly from their website. By utilizing E-tailing they are able to manage inventory levels and have increased their consumer base without incurring the overhead of a bricks and mortar location or warehousing large quantities of inventory. Additionally, the ability to turn around flexible quantities and have them to the consumer in a shortened time frame ensures that they are not missing out on a sale. By managing all areas of their business in a strategic manner that reduces overhead and wastage, Jolie and Elizabeth has been able to transfer those savings into their cost assessment and close the gap on the ability to compete at price point for value.

Quality, consumer response, and their role in marketing. Quality is an essential part of the company's mission statement. "We aim to design dresses that surpass forced trends and uphold the standards of a true high quality garment, one that will stay in your closet for years to

come." As part of their socially responsible mandate they value the importance of not producing disposable garments and the value to a consumer of possessing something well made that will last. Garments have a timeless design aesthetic and are not dictated by short-lived trends. The company also expands their sales bracket by including a variety of shapes and hem lengths that appeal to a broader age demographic. They view the ability to produce quality American made clothing as a social responsibility in response to the flood of disposable fashion. "In today's world of fast fashion, it is forgotten that a garment is an investment. The selection of fabric, the stitch in every seam and design of how it's worn—we give attention to every element that comprises each and every Jolie and Elizabeth garment" (Jolie and Elizabeth, Company Mission, 2013, para. 3). The addition of quality and longevity at a competing price point communicates an image of value added to the consumer and increases their competitive advantage while allowing them to play a role in encouraging sustainable consumption practices.

Bensen and Dewey recognized the consumer shift in understanding the value and benefit of purchasing locally made products, and view it as a privilege to educate the consumer on the value of made in America through their socially responsible lifestyle branding. "In this current world of fast fashion, I don't think the consumer appreciates the "made in…." status. It isn't an overnight change. It will take time. But we are definitely headed in the right direction." They acknowledge that the key to growing the importance of made in America is through consumer education and their reevaluating the importance of operating in a socially responsible manner:

> What most consumers don't understand is that most dresses stay the same cost, profits just changed and quality went down. Companies got greedy. For example, that dress from [the department store] stayed $156 but that designer started manufacturing overseas, so the cost to make the dress didn't increase the cost to buy the dress, the designer just started making a LOT more money, i.e. profit margins drastically increased

Prices of offshore goods became inflated to protect corporate profit margins from the multitude of additional cost that could be incurred from the time of production to the time of sale. As lead times were extended, prices inflated to offset the increased risk that was a result of offshore production. Offshore production requires a large gamble and depending on the final success of the commodity, the consumer or apparel firm is financially affected by that risk through the final price point. Jolie and Elizabeth has reduced their production and overhead costs through their use of strategic sourcing; by eliminating the risk they do not require inflated profit margins and are able to compete at price point with offshore producers.

Future of production. Jolie and Elizabeth prioritize remaining as local as possible. They are actively involved in the development and growth of the local fashion industry and the education of the next generation of apparel employees. They regularly speak at high schools, colleges, and entrepreneurial events, as well as operating a Junior Design Challenge where university students enter dress designs and the winners are manufactured and sold under the Jolie and Elizabeth label (Fenn, 2011, para. 6). They have spent the past few years working with Delgado Community College to develop a program that focuses on a skills based technical education: "If anything, we need more innovation and young bright minds to speed up and better utilize our systems and processes." A commitment to education is an essential part of their commitment to the local and domestic apparel industry. Growth in the industry is dependent on having the creative people with the skills set to step into these positions and to continue to invest in future development. Jolie Bensen recently wrote a series of articles outlining the need for government and industry support to re-invigorate the industry in response to the continued economic and employment crisis. She warns about the dangers of the United States being so dependent on offshore apparel production and offers several scenarios of lower cost, non-trend based apparel items that could be manufactured through government endorsed domestic

production programs, thereby bolstering the industry and the economy (Bensen, 2012, 2013). Jolie and Elizabeth design, manufacture, and sell in a socially responsible manner. They prove that it is possible and profitable, and challenge the government and other fashion firms to accept the same responsibility to the local economies within which they operate.

In the interview Jolie and Elizabeth were posed the same final question, has remaining 100% domestic inhibited your growth or global expansion? The company replied that being domestic has "150%" supported their success. They acknowledge that there will always be a place for offshore production, but that the decision should be made based on the needs of the company and the commodity and not solely on profit margins. "Americans have always excelled at producing—they should and will return to domestic manufacturing. There isn't any other way to fix our unemployment issue." The owners have witnessed the increasing dependence on offshore materials and finished goods and have chosen to structure their company in a manner to be part of the solution. After only a few years in business, their company has received nationwide recognition for their forward thinking entrepreneurial actions. They have proven that with strategic sourcing and a mandate to produce in a manner that limits all forms of waste, one can compete at value, quality and price with an offshore producer.

Discussion

The researcher was surprised to learn that whether producing offshore or domestic the majority of the participants face many the same concerns and similar challenges. One hundred percent of the companies interviewed found that cost of production and retail price were a constant concern for them. Quality was also an essential consideration when all of the companies were sourcing facilities. The participants frequently referenced the consumer's increased level of education when it came to quality and a growing apprehension of paying more than a garment is worth. All of the companies interviewed were concerned with striking the right balance of quality to price, whether they produced offshore or domestically.

Where the interviews differed was in terms of control and lead times. The domestic manufacturers still experienced offshore related lead times while waiting for the arrival of materials, but once the fabric entered the country production could turn around product very quickly. The reduced lead times also limited the amount of risk they had to assume when it came to selling product at full price. The offshore producing participants had extended lead times but many accepted this as the cost of doing business and acknowledged that these markdowns were built into their costing and most of the time any losses were offset by their offshore production cost savings. Control was an area that also had a great difference between the participants. The domestic producers felt more secure in their production cost and acknowledged that their product passes through fewer hands in the design and manufacturing stage because of its proximity to the selling market. Producing locally allows them to protect their intellectual property, to closely manage their inventory levels and take advantage of sales opportunities. The offshore producers acknowledge that they have less control and it is a concern, but they also benefit from not having to supervise a large portion of their production process, which provides a certain amount of ease to their production process.

The case study and the named interviews are prime examples of the differences in standard production sourcing practices and strategic sourcing. The researcher found that all of the participants utilized some form of strategy in their sourcing practice, but most of them used it in a very limited way. Only Combined A, Tilley Endurables, and Jolie and Elizabeth were examining the implications of all areas of their business activities when it came to making sourcing choices. These companies actively analyze all aspects of their operation and make it a mandate to eliminate all forms of waste and inefficiency, while they rely on building loyalty-based relationships with their suppliers and consumers. These actions have increased their profits while lowering their costs to a competitive level. In the case of Combined A, they keep all of their commodity and classic items offshore and then use that cost savings to offset domestic production costs and allow them to manufacture their more trend driven products in proximity to the market. Each of these companies could serve as an excellent example for a firm looking to maximize the responsiveness of their manufacturing by being more strategic in their sourcing choices.

Chapter Five: Conclusion

There will always be a consumer who wants the lower-cost disposable item that fast fashion created, just as there will always be a place for offshore production in a country that can offer lower wages, newer technology, or differentiated skills than are domestically available. This research did not set out to convince apparel manufacturers to abandon offshore production. The researcher sought to understand what the motivation was behind production choices and to isolate what could be incorporated into strategic sourcing to create competitive advantage at the domestic, offshore and combined production location choices.

Each of the participating companies had areas of agreement and areas of disparity. The researcher found overall that price and quality still determine most production decisions. The researcher was intrigued to find that within the offshore and domestic interviews, nearly all of the companies were content with their choice of production location, but that all of them saw benefits in the other choice that they were not receiving. The only companies that were completely satisfied with their selection of production location was Combined A, Tilley Endurables, and Jolie and Elizabeth. Based on the observations made throughout the case study, the researcher has concluded that there is no universally beneficial production location choice. The literature review and case study illustrated the vital affect that production sourcing decisions have on the formation of competitive advantage within an apparel firm. Yet within the interviews, the researcher observed that the majority of the companies surveyed made their production choices primarily based on the competency of the facility and the cost of production. The observations in the case study, lead the researcher to conclude that there are many areas within strategic sourcing that are not given the same priority as cost. If strategic sourcing can be employed in all areas of planning, it could allow apparel companies to increase their competitive advantage, whether you are producing offshore, domestically or in a combination of both. This

could also allow the corporation to be more responsive to the needs of their consumer and their local economy.

The research provided insight into the influencing factors behind sourcing strategy but has also resulted in new research questions. This study covered a limited area of a very broad subject. The researcher intends to expand upon this subject in a larger study, which will include a greater sample group to examine all aspects of the strategic sourcing platform and the following additional areas of study. In addition, the researcher would expand the study further to include the role of country of origin in consumer value perception. There was extensive research on consumer desire for domestically produced products, but almost nothing as to whether or not the consumer will actually pay more for the product at time of purchase. A final area of research would be to examine the effects of a global re-organization of apparel production. The researcher is interested in the effects of apparel manufacturing pulling out of regions that have become dependent on it for their economic growth and if North America is able to make the shift back to being a manufacturing base. These research questions can only provide a clearer picture as to what a company's social responsibility is the local economy and to encourage corporations to act responsible as well as profitably.

Apparel companies, like other corporations, can no longer ignore the effects of their actions on their local and national economy. Fashion is in a period of transition, as the consumer is more educated and discerning than any time before and many apparel firms are finding themselves over producing and over-extended, in an attempt to reach everybody. A large percentage of retailers are currently closing locations and reducing and homogenizing the product they produce in an attempt to deal with a decline in domestic sales. The wastefulness of the current manner of production makes it inherently unprofitable. This study has shown that the majority of the apparel firms, while believing they are strategic in their sourcing, tend to focus on

immediate costs and overlook the amount of profit and efficiency that is lost to wastage in product and productivity. The quantity of clothing that requires markdowns to clear and that changes hands through different levels of specialty discount retailers, illustrates the level in which apparel is currently over-produced.

The two named companies present an example of the ability to create competitive advantage within domestic sourcing, by being strategic and eliminating unnecessary waste and overproduction. It is a fact that waste and inefficiency erode profits. If companies consider how production choices relate to all areas of their corporate planning and utilize this information in a strategic sourcing platform, choices can be made that will benefit the business in multiple areas, therefor increasing their competitive advantage. While these principals were explored in relation to domestic localized production, the same principals can be applied to both an offshore and combined method of production, as is illustrated by the use of strategic sourcing by Combined A. By adopting this sourcing strategy, apparel firms can become more responsive and produce in a socially responsible manner while also protecting their profit margins and hopefully participate in the re-development of their own domestic industries.

Appendix

Interview Consent Form

Factors Influencing Domestic and Offshore Apparel Production Choices

Researcher: Tarah Burke
Contact: 416-456-9258
tarah.burke@ryerson.ca

Faculty Advisor: Dr. LuAnn Lafrenz
Contact: 416-979-5000 x 7077
lalafren@gwemail.ryerson.ca

You are being asked to participate in a research study. Before you give your consent to be a volunteer, it is important that you read the following information and ask as many questions as necessary to be sure you understand what you will be asked to do.

Investigators

Investigator: Tarah Burke, a graduate student in the Ryerson Fashion Masters program, is conducting this research for her graduate thesis. Ms. Burke has also completed studies in the International Fashion Design program at the Fashion Institute of Technology, and holds a Bachelor of Arts from the London College of Fashion.
Faculty Supervisor: Dr. Lu Ann Lafrenz

Purpose of the Study

The purpose of this study is to determine the benefits and challenges associated with domestic and offshore production, and to identify the factors influencing these production choices. The researcher will be interviewing two members of three to five fashion firms. These companies are being selected based on the type of production they favor- domestic, offshore, a combination of both. The companies will also share a similar client base and produce at a level that provides the ability to choose between offshore an domestic production.

Description of the Study

The protocol for this major research paper is centered on a case study structure. The case study will be developed out of literary research, and interviews with production managers and sourcers and members of related departments. This research is seeking to answers the question of why a significant number of companies are returning to domestic manufacturing: specifically, the motivation behind production choices.

In your interview, you will be asked a series of questions relating to your own observations, actions and opinions relating to your work. The questions can be answered at your own pace with the interview taking approximately 45 min with up to one and a half hours allotted. There interview will be comprised of 18-30 questions. The questions are a starting point to keep to the relevant topic, but please feel free at any time to expand upon the topic to issues that you feel relate.

Risks or Discomfort

Through the interviews the researcher may be exposed to sensitive business information such as corporate policy, profit margins production facilities and contract details. The researcher is taking steps to ensure that no information is used without the approval of the individuals involved. All participants will be asked to sign a consent form allowing me to interview them and gather information with the condition that none of the gathered information will be utilized without their prior review and permission. The gathered data will be coded immediately after gathering and stored on a single computer under encryption and password protection. The code and interviewee contact information will be stored in separate locked locations, with only the researcher having access. All participants will have the opportunity to review the information pertaining to themselves and their company and consent or refute the use of the data. In addition participants will be listed under a pseudonym and the researcher will not disclosing the name of the company or themselves, instead to be referred to as company A, B, C... After final review of the interviewee will be asked to sign a final release for the use of the data. Whenever possible the researcher will make every attempt to support the information of the interviewee with statistics and public company information. The information will be stored for a period of one year, if the researcher wishes to go further with the study the interviewee will be contacted and have to opportunity to consent or deny the future use of the data. If the data is no longer it use it will be destroyed. The interview will be a series of questions that relate the interviewee's professional experience. If there are any questions that you cannot answer in a professional or personal capacity please feel free to indicate this and we will move on to the next question. The interviewee can terminate the interview at any time they no longer wish to participate

Benefits of the Study

The benefit to the participant in this study would be to have their views on production and sourcing recorded and expressed in a manner that supports their position as an expert on the topic. Should the study go on to be published or presented in conferences, they would gain greater exposure for their expertise. For corporations this study will highlight the positive and negative effects of offshore and domestic production. For society as a whole, this study is examining a change in apparel production that will make methods more environmentally friendly due to the lower carbon footprint and less wasted product that comes with localized production. In addition this move will increase employment and economic development in the local area of the participants.

Confidentiality

The data will be collected solely by the researcher and stored within a computer that is only accessed by the researcher. The data gathered in this interview will be stored for a period of one year, after which it will be destroyed or the participant will be contacted to address future use. Should the researcher wish to continue with further research the participant will be contacted and provided the opportunity to consent to further use of the data in future studies or request its removal and destruction. The data will be collected, transcribed and reviewed solely by the researcher. The data will be stored in locked files under a coded name with the code stored in an alternate location. The data will be transcribed and offered for review by the participant before any person in a support or advisory capacity in this study views it. When being reviewed by an adviser the data will always be in a coded system to protect the interviewees right to anonymity until the participant gives the final approval.

Incentives to Participate.
There will be no incentive to participate provided to the interviewee. The researcher will make every attempt to minimize any inconvenience on the part of the interviewee.

Voluntary Nature of Participation: Participation in this study is voluntary. Your choice of whether or not to participate will not influence your future relations with Ryerson University. If you decide to participate, you are free to withdraw your consent and to stop your participation at any time without penalty or loss of benefits to which you are allowed. At any particular point in the study, you may refuse to answer any particular question or stop participation altogether.

Questions about the Study: If you have any questions about the research now, please ask. If you have questions later about the research, you may contact.

Tarah Burke
tarah.burke@ryerson.ca

If you have questions regarding your rights as a human subject and participant in this study, you may contact the Ryerson University Research Ethics Board for information.

Research Ethics Board
c/o Office of the Vice President, Research and Innovation
Ryerson University
350 Victoria Street
Toronto, ON M5B 2K3
416-979-5042

Agreement:
Your signature below indicates that you have read the information in this agreement and have had a chance to ask any questions you have about the study. Your signature also indicates that you agree to be in the study and have been told that you can change your mind and withdraw your consent to participate at any time. You have been given a copy of this agreement.

You have been told that by signing this consent agreement you are not giving up any of your legal rights.

_____
Name of Participant (please print)

_____ _____
Signature of Participant Date

_____ _____
Signature of Investigator Date

Note: If this consent agreement is being developed to obtain parental permission, the signature line should be labeled "Parent/Guardian of Participant." In addition, include a line that

would be used by the parent/guardian to indicate the name of the child for whom they are giving permission.

_____ _____
Signature of Participant or Parent/Guardian Date

Information Release Form

Factors Influencing Domestic and Offshore Apparel Production Choices

Researcher: Tarah Burke
Contact: 416-456-9258
tarah.burke@ryerson.ca

Faculty Advisor: Dr. LuAnn Lafrenz
Contact: 416-979-5000 x 7077
lalafren@gwemail.ryerson.ca

Release of Information Form:
I _____, have reviewed the final transcript from my interview and give permission for **Tarah Burke** to share any of its contents in her major research paper. I understand that any of this information may be published or presented at conference.
_____*(initial)*

I verify that all of the information provided is true to the best of my knowledge and represent information gathered through my experience and represents my opinion.
_____*(initial)*

I, _____, give permission to **Tarah Burke** to reference myself and my contribution to this study by:
____ My first name only
____ My full name
____ Just a pseudonym

I am participating in this study with the knowledge of my employer who can be referenced in the study. (*Please provide written consent from employer confirming this status.)*

_____ consent _____decline

_____*(initial)*

I understand that my consent to use the data I provided is valid for a period of one year at which time the researcher will either destroy the data or contact me to request a new release to continue to store and used said data.

I confirm that _____has explained the purpose of this form to me and I understand its content. My signature below indicates my consent.

Signature _____
Date _____

Ethics Approval

RYERSON UNIVERSITY
RESEARCH ETHICS BOARD

To: Tarah Burke
Fashion MA

Re: REB 2012-252: The Localization of Apparel Production: The Key to Producing Profitably in North America

Date: January 7, 2013

Dear Tarah Burke,

The review of your protocol REB File REB 2012-252 is now complete. The project has been approved for a one year period. Please note that before proceeding with your project, compliance with other required University approvals/certifications, institutional requirements, or governmental authorizations may be required.

This approval may be extended after one year upon request. Please be advised that if the project is not renewed, approval will expire and no more research involving humans may take place. If this is a funded project, access to research funds may also be affected.

Please note that REB approval policies require that you adhere strictly to the protocol as last reviewed by the REB and that any modifications must be approved by the Board before they can be implemented. Adverse or unexpected events must be reported to the REB as soon as possible with an indication from the Principal Investigator as to how, in the view of the Principal Investigator, these events affect the continuation of the protocol.

Finally, if research subjects are in the care of a health facility, at a school, or other institution or community organization, it is the responsibility of the Principal Investigator to ensure that the ethical guidelines and approvals of those facilities or institutions are obtained and filed with the REB prior to the initiation of any research.

Please quote your REB file number (REB 2012-252) on future correspondence.

Congratulations and best of luck in conducting your research.

Nancy Walton, Ph.D.
Chair, Research Ethics Board

Interview Schedule—Production and Sourcing

Opening

1. **Introduction.**
   Thank you for your time and participation in this study. I am going to ask you a series of questions that pertain to your experience in the field of (enter job title). The interview will take between 45 minutes to an hour and a half, please answer at your own speed. If at any time you feel uncomfortable with any question please ask me to move to the next and you have the right to end the interview at any time. Have you reviewed and signed the consent form? Is there any portion of the form that you do not understand, or do you have any questions before we begin?
2. **Outline the purpose of the study and motivation behind conducting it.**
   The purpose of this study is to determine the benefits and challenges associated with domestic and offshore production, and to identify the factors influencing these production choices.

   Definitions in relation to the study
   Localized/ local- can be considered within the country or the continent for the purpose of this study
   Domestic- all production done within the continent, please specify if it is Canada, USA, Mexico or a combination
   Offshore- anything outside of North America

Production Sourcing Interview
The following questions are based on your opinions and experience with production sourcing. Please answer in as much detail as you are comfortable and if possible. Any identifying information or direct references to your company will be removed to protect anonymity.

Interview Questions

1. What is your current job title and how long have you held this position?

2. How many total years experience do you have in this field?

3. What percentage of production do you source offshore and percentage is domestic? Is there one method you prefer over another and why?

4. What are the three most important factors that you consider when sourcing production facilities?

5. The following questions are on the benefits and challenges associated with each method. Answer what applies to you.
   a. What is the greatest issue you face in domestic sourcing?

b. What is the greatest benefit to the company from domestic sourcing?

c. What is the greatest issue you face in offshore sourcing?

d. What is the greatest benefit to the company from offshore sourcing?

6. Are you required to consult with or consider the actions and timeframe of the product (samples, specs…) requires in other departments (design, tech, marketing)? Does this factor into your decision making process when selecting a production facility?

7. How does factory productivity rates and/ or the resulting corporate productivity and lead times enter into your decision making process? (do you experience greater productivity with one method?)

8. Do you see yourself ever returning to domestic sourcing either wholly or in a higher percentage?

9. What factors (cost, government support/ incentives, duty, lead time...) would have to happen to make domestic sourcing your preferred and primary method of sourcing?

10. Have you ever experience significant markdowns due to the long production time of producing overseas? Can you estimate how much product is wasted to an inability to promptly respond to trends or consumer desire?

11. Do you face quality control issues with overseas or domestic production?

12. Can you estimate how much product on average you need to refuse return or markdown due to poor production quality? Is this more prevalent with offshore or domestic manufacturing?

13. Does the knowledge that a portion of the line will need to be marked down lead you to source cheaper production options?

14. Would the ability to respond faster to consumer trends, eliminate markdowns and increase quality be enough of a reason for you to increase your domestic production?

15. If local manufacturers were able to mechanize with automation and new technology, allowing them to reduce human error and produce in a shortened turn around time, would that influence your choice of offshore and onshore production?

16. Does control of intellectual property and design aesthetic influence your production choices?

17. How much control do you feel you sacrifice from not having the ability to regulate and oversee your production process?

18. Do you believe that your sourcing choices have an influence on the consumer's value perception of your product and why? Does that consideration play a role in your decision making process?

19. Do you believe that consumers would be willing to pay an increased price for the value added perception of a locally produced, higher quality product that is essentially the same product you were originally producing?

20. Do you participate in any government or manufacturer incentives to keep production local? If they were available to support domestic production, to what degree would that effect your decision making process?

21. In considering domestic sourcing, do you face succession and issues with available skilled labor? What are your opinions of the current state of education and industry training in relation to the support of a domestic industry?

22. If you were presented with a situation where everything aligned to your benefit, what methods and location of production would you favor?

23. What trends do you see happening in production and sourcing? Where do you think you will be manufacturing in 5-10 years?

Closing

1. Summarize key points covered in the interview to be sure there have been no interpretative discrepancies.
2. express gratitude for the time and participation in the interview
3. obtain permission to follow up with any further questions that may arise from the data

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