

**GLOBAL SOURCING IN THE U.S. APPAREL INDUSTRY**

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ABSTRACT

This article analyzes the sourcing patterns of the U.S. apparel industry using a global supply chain perspective. Retailers, marketers, and branded manufacturers are the lead firms that organize the bulk of apparel imports into the U.S. market. U.S. apparel sourcing patterns are shifting, with an increased emphasis on imports from Mexico and the Caribbean Basin rather than Asia.

KEYWORDS: Global sourcing, apparel supply chain, retailers, marketers, branded manufacturers, Mexico

A fundamental restructuring is underway in the retail sector in the United States and other developed economies. The global retailing industry is dominated by large organizations that are moving toward greater specialization by product (the rise of specialty stores that sell only one item, such as clothes, shoes, or office supplies) and price (the growth of high-volume, low-cost discount chains). Furthermore, the process of filling the distribution pipeline is leading these retailers to develop strong ties with global suppliers, particularly in low-cost countries (Management Horizons, 1993). Nowhere are these changes more visible than in apparel, which is the top merchandise category for most consumer goods retailers. Between 1987 and 1991, the five largest softgoods chains in the United States increased their share of the national apparel market from 35 to 45 percent (Dickerson, 1995: 452). By 1995, the five largest U.S. retailers -- Wal-Mart, Sears,

Kmart, Dayton Hudson, and JC Penney -- accounted for 68 percent of all apparel sales in publicly held retail outlets. The next top 24 retailers, all billion-dollar corporations, represented an additional 30 percent of these sales (Finnie, 1996: 22). The two top discount giants, Wal-Mart and Kmart, by themselves control one-quarter of all apparel (by unit volume, not value) sold in the United States.

A. Lead Firms in Apparel Sourcing

From the vantage point of the U.S. apparel industry, the major significance of growing retailer concentration is its tendency to augment global sourcing. As each type of organizational buyer in the apparel supply chain has become more actively involved in offshore sourcing, the competition between retailers, marketers, and manufacturers has intensified, leading to

a blurring of the traditional boundaries between these firms and a realignment of interests within the chain (Gereffi, 1999).

Retailers. In the past, retailers were the apparel manufacturers' main customers, but now they are increasingly becoming their competitors. As consumers demand better value, retailers have increasingly turned to imports. In 1975, only 12 percent of the apparel sold by U.S. retailers was imported; by 1984, retail stores had doubled their use of imported garments (AAMA, 1984). In 1993, retailers accounted for 48 percent of the total value of imports of the top 100 U.S. apparel importers in 1993 (who collectively represent about one-quarter of all 1993 apparel imports). U.S. apparel marketers, which perform the design and marketing functions but contract out the actual production of apparel to foreign or domestic sources, represented 22 percent of the value of these imports, and domestic producers made up an additional 20 percent of the total (Jones, 1995: 25-26). The picture in Europe is strikingly similar. European retailers account for fully one-half of all apparel imports, and marketers or designers add roughly another 20 percent (Scheffer, 1994: 11-12). Private label lines (or store brands), which refer to merchandise made for specific retailers and sold exclusively in their stores, constituted about 25 percent of the total U.S. apparel market in 1993 (Dickerson, 1995: 460).

Marketers. These manufacturers without factories include companies like Liz Claiborne, Nike, and Reebok, which literally were born global because most of their sourcing has always been done overseas. To deal with the influx of new competition, branded marketers have adopted several strategic responses that will alter the content and scope of their global sourcing networks: they are shrinking their supply chains, using fewer but more capable manufacturers; they are instructing the contractors where to obtain needed components, thus reducing their own purchase and redistribution activities; they are discontinuing certain

support functions (such as pattern grading, marker making, and sample making), and reassigning them to contractors; they are adopting more stringent vendor certification systems to improve performance; and they are shifting the geography of their sourcing configuration from Asia to the western hemisphere.

Branded Manufacturers. The decision of many larger manufacturers in developed countries is no longer *whether* to engage in foreign production, but how to organize and manage it. These firms supply intermediate inputs (cut fabric, thread, buttons, and other trim) to extensive networks of offshore suppliers, typically located in neighboring countries with reciprocal trade agreements that allow goods assembled offshore to be re-imported with a tariff charged only on the value added by foreign labor. This kind of international subcontracting system exists in every region of the world. It is called the 807/9802 program or "production sharing" in the United States (USITC, 1997), where the sourcing networks of U.S. manufacturers are predominantly located in Mexico, Central America, and the Caribbean; in Europe, this is known as outward processing trade (OPT), and the principal suppliers are located in North Africa and Eastern Europe (OETH, 1995); and in Asia, manufacturers from relatively high-wage economies like Hong Kong have outward processing arrangements (OPA) with China and other low-wage nations (Birnbaum, 1993).

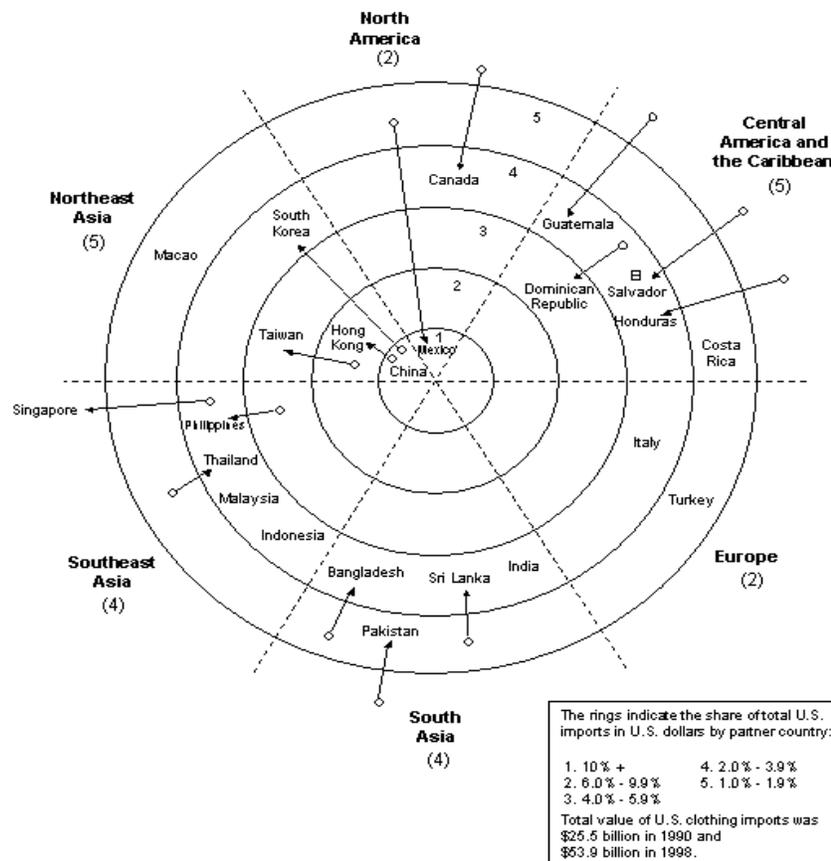
A significant countertrend is emerging among established apparel manufacturers, however, who are de-emphasizing their production activities in favor of building up the marketing side of their operations by capitalizing on both brand names and retail outlets. Sara Lee Corporation, one of the largest apparel producers in the United States -- whose stable of famous brand names includes L'eggs hosiery, Hanes, Playtex, Wonderbras, Bali, and Coach leather products, to name a few -- recently announced its plans to "de-verticalize" its

consumer-products divisions, a fundamental reshaping that would move it out of making the brand-name goods it sells (Miller, 1997). Other well-known apparel manufacturers like Phillips-Van Heusen and Levi Strauss & Co. are also emphasizing the need to build global brands, frequently through acquisitions of related consumer products lines, while many of their production facilities are being closed or sold to offshore contractors.

B. International Patterns of U.S. Apparel Sourcing, and a New Role for Mexico

Figure 1 is an import map that helps to identify trade shifts among the main suppliers to the U.S. apparel market. Between 1990 and 1998, U.S. apparel imports rose from \$24.7 to \$50.4 billion. Those nations in the innermost circle each account for 10 percent or more of the total value of U.S. clothing imports in 1998, while each of those in the outer ring makes up 1 to 2 percent of total imports. In other words, as countries move from the outer rings to the inner ones in this import map, their relative importance to U.S. apparel imports increases.

Figure 1: Shifts in the Regional Structure of U.S. Apparel Imports from 1990 to 1998¹



¹The 1998 position corresponds to the ring where the country's name is located; the 1990 position, if different, is indicated by a small circle. The arrows represent the magnitude and direction of change over time.

Source: Compiled from official statistics of the U.S. Department of Commerce, U.S. imports for consumption, customs value.

Figure 1 reveals striking regional differences in the pattern of U.S. apparel imports. The Northeast Asian economies are becoming much less important in U.S. apparel sourcing, South and Southeast Asia are growing slowly or not at all, and imports from the Caribbean Basin, China, and especially Mexico are booming. Just four economies (Hong Kong, South Korea, China, and Mexico) were core U.S. suppliers during the past decade, and only China and Mexico currently hold that distinction. While for most countries the degree of change from 1990 to 1998 has been relatively modest (they changed their position by one ring or not at all), only Mexico has improved its position substantially, moving from outside the circle (less than 1 percent of U.S. apparel imports) in 1990 to the core (over 10 percent of U.S. imports) in less than a decade.

U.S. firms have shown a strong interest in transferring missing pieces of the North American apparel supply chain to Mexico (Gereffi, 2000; Gereffi and Bair, 1998). A real problem to be confronted, though, is who controls critical nodes of the chain and how to manage the dependency relationships this implies. Thus far, U.S. firms are in clear control of the design and marketing segments of the apparel chain, while Mexican companies are in a good position to maintain and coordinate the production networks in apparel. However, textile manufacturers in the United States, and to a lesser degree Mexico, are making strong bids to integrate a broad package of apparel services that would increase their leverage vis-à-vis smaller garment contractors. For the foreseeable future, Mexico is likely to retain a mix of assembly plants linked to U.S. branded manufacturers and a new set of full-package producers linked to private-label retailers and marketers. Mexico is using networks with U.S. firms to occupy niches that previously have been the stronghold of East Asian suppliers, and the Caribbean Basin economies are trying to keep pace with Mexico. Sewing up the North American

apparel market requires Mexico to learn from U.S. lead firms in the chain, which in turn are looking to shift their global sourcing base from Asia to North America.

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