Roll Up Your Sleeves

Strategies for a rosy 2011:
• Next year’s fashion trends
• Hot markets revealed
• Our exclusive sales forecast

America the Beautiful
A ‘Made in the USA’ Revival

Wrap It Up
The latest in scarves
Built Tough
Canvas’ rugged appeal
Stand by Me
Learn to value loyal clients

Cheat Sheet:
Patches & Badges
They say the U.S. apparel industry is dying a slow death, and in the past it’s been hard to argue. The clothing tags of your favorite shirts tell the story. Made in China, made in Vietnam, made in Honduras, made in Bangladesh. But made in the USA? Not so much. No country on Earth imports more clothes than the U.S. More than 90% of apparel sold in the U.S. is made elsewhere, with China alone accounting for 35% of that, according to the U.S. Department of Labor and the American Apparel and Footwear Association. It’s too expensive to produce here in the U.S., they say. People want cheap clothes, they say. Fashion trends come and go so quickly that quality supposedly doesn’t matter – price does. The high tariffs are gone now, thanks to the free trade deals of the 1990s. China is the new manufacturing king. And so it goes.

But a funny thing may have happened on the way to the funeral of the domestic apparel industry. To appropriate Mark Twain’s comment, reports of its death may have been exaggerated. While total apparel employment in the U.S. hit a 10-year low last October, the hemorrhaging of jobs also grinded to the lowest annual decrease in the past decade, according to the U.S. Bureau of Labor Statistics. What’s more, average wages have risen above $15 for the first time in at least five years.

It’s too early to tell whether the numbers reflect a self-contained industry stabilization or just a temporary bump in response to President Obama’s economic stimulus plan. But with China’s so-called “labor shortage” contributing in part to inventory shortages, higher import costs and longer shipping times overseas, American apparel manufacturers are emerging as a viable and stable alternative for buyers who say they’re seeing more competitive prices and available inventory. “The price gap has narrowed,” says Abdul Rashid, chief operating officer of AST Sportswear (asi/30244), an Anaheim, CA-based clothing manufacturer. “There’s a shortage of product in the marketplace. So it has created more of a demand for made-in-the-USA.”

With inventory troubles and more overseas, U.S. manufacturers continue to find success at home.

BY DANIEL WALSH
This isn’t merely an apparel industry phenomenon, either. Companies like General Electric and Caterpillar have passed on China for new factories and instead moved to open them in the U.S. A May survey by MFG.com found 31% of North American manufacturers are researching production moves back to or closer to the home continent.

Much like free trade agreements set in motion the offshore movement in the 1990s, another key moment may have arrived. Is this when the U.S. apparel industry gets back on top of the game?

This isn’t the story of the poor souls who got left behind. Rather, it’s the story of those opportunistic few who saw a market gap and chose to fill it.

Only in America

The new American clothing story sits in an innocuous Anaheim industrial park. When massive apparel companies like Hanes, Fruit of the Loom and others vacated their U.S. factories to move offshore in the 1990s, AST Sportswear saw an opportunity and set up shop here. “That’s when we saw the void for a made-in-the-USA product,” says Rashid, one of several principals at AST, which produces the Bayside line. Everyone was moving their production abroad, Rashid says, “But there were still people who wanted goods made in the USA.”

With six other plants in southern California, the 15-year-old apparel company’s operations are a whirl of activity. Walk through one of it’s factories and you’ll see dozens of people at work. Activity is constant. Machines hum. People are everywhere, sewing shirts and passing them on to another. Cloth runs down conveyor belts after going through a cutting machine, and then it goes to people working the hem lines to fashion it into actual clothing.

AST has reason to be busy. When it committed to producing clothing domestically, demand outstripped supply. Rashid and his partners never planned to cater so much to groups demanding made-in-the-USA products when they started the company, but the offshoring exodus opened up a market gap so wide you could drive tractor trailers full of American-made clothes through it. So that’s exactly what they did, and there were few places better to do it than southern California, where apparel workers were looking for work. In 1996, 119,000 apparel and textile workers were employed in Los Angeles County, but by last year, the number had dropped to under 60,000.

AST became, as Rashid put it while walking through one of AST’s Anaheim factories, “a one-stop shop for someone who wants American-made apparel,” producing T-shirts, sweatshirts, fleeces, socks, aprons, tote bags and more. What started out as a flyer with T-shirts in four colors has become an 80-page catalog, all of it produced in the U.S. AST doesn’t try to compete with Chinese and other foreign imports on the imports’ major selling point. “We really don’t compete in price,” Rashid says. “If someone calls us about price, I say we don’t compete on price. We compete on quality.”

It’s more profit than patriotism that drives this business model. All of AST’s investors are either immigrants or children of immigrants from Pakistan, India and England, so there was no inherent “buy American” sentiment. Every year, unions look for American-made apparel because of their stances on “free trade” and “fair trade.” Political campaigns need shirts and hats with political slogans on them. “For example, in 2008, when President Obama was running, we supplied his entire campaign,” Rashid says. “When Bush was running, he didn’t care where the garments were made. They just had to be the cheapest ones. That’s why you saw shirts from China, the Dominican Republic, places like that. Last time, McCain came and bought shirts from us. So did Ron Paul, Ralph Nader.”

Still, made-in-the-USA apparel goes beyond the left and right wings. Big companies like Microsoft, Intel and Oracle have bought AST’s wares. The supplier exports a great deal to places such as Tahiti and Japan, the latter of which often looks down upon cheap imports from China or Korea. “Japan believes the garment quality in the U.S. is very high,” Rashid says. They don’t have a textiles industry. They have technology. If they have a product made in Korea and China, they think it’s inferior. They think American is a better product.”

But there’s something else AST competes on, and it’s remarkably timely now. AST has lots of inventory and gets to market very quickly, thanks to the 14 distribution centers around the U.S. that AST shares with other firms. “We’re not afraid of inventory,” Rashid says. “Most companies don’t have the money or space to handle inventory. That’s not a problem for us. If business is slow, we build inventory. If business is slow, no problem, we’ll sell it down the road.” AST can do that because it’s

To Buy or Not to Buy American

How important is the made-in-the-USA tag when it comes to buying apparel? There isn’t a simple answer. For many customers, price rules all, and though the price gap with cheap imports may have narrowed, it hasn’t disappeared. “I would rather sell 100% made in the USA, based on my own feelings on it,” says Adam Wright of Pulse Marketing and Apparel, a distributor based in Scottsdale, AZ, “but I have to give my clients what they want. And Gil-dan, Hanes and Fruit of the Loom have better pricing.” But if your clients are willing to look beyond price, they are definite reasons to buy American. Here are three:

1. Markets: There are lots of groups that prefer or even require apparel made here. They include unions, political campaigns, patriotic committees (who might hold a Fourth of July parade) and even big companies demonstrating their commitment to domestic manufacturing. And overseas markets like Japan love it, too.

2. Quality: Yes, foreign goods can be cheaper. However, “Most people say that price is the most important thing. But it’s not always the most important,” says Howard Levine, who runs Alliance Graphics (asi/117905) and buys U.S.-made apparel. “Quality and service matter.”

3. Convenience: What takes weeks sometimes for overseas manufacturers to deliver can take days for U.S. ones. Also, other issues like customs snafus and tariff markups can be avoided easily.
An American Apparel (asi/35297) worker prepares shirts as part of a manufacturing team. Behind her, a chart tracks the team’s hourly production and how much they earn for the garments they produce.

well capitalized, according to Rashid. When the recent recession cut orders, AST built up inventory. When demand increased, AST had it available when Chinese factories did not.

“AST has massive amounts of stock,” says Howard Levine, who runs Alliance Graphics (asi/117905) in Berkley, CA, and buys primarily U.S.-made apparel to decorate and sell. “I think it’s an expanding market,” he says of U.S.-made apparel, “not a shrinking one.”

Kirby Best agrees, and that’s why the former driver of the Canadian bobsled team started Performance Healthcare Products, which produces medical scrubs in Cullman, AL. Like AST, he espouses quality over price, though he’s eschewing inventory for a production-on-demand approach, tapping longtime textiles workers in Alabama who had been out of work due to offshoring. “You can buy cheap scrubs at Walmart,” Best says, “but if you want good-quality scrubs, you come to us.” Performance skips right past the middleman by producing on direct order for hospitals, such as the local Cullman Regional Medical Center. That model is necessary because Best doesn’t realize big-enough margins to make retail sales work. But the cost to his customer ends up being about the same under this model. “It’s about the same under this model. “It’s about big-enough margins to make retail sales work. But the cost to his customer ends up being about the same.”

Manufacturing Success

Kirby Best saw a market gap 20 years ago when he started Bill’s Khakis in his hometown of Reading, PA. As a college student, he found a pair of old-school khaki pants in an army surplus store and fell in love with them. Seeing no similar product on the market, he launched an authentic throwback line. “The trends have swung back to an American look, and that ranges from preppy to what would be considered an all-American workwear type of look,” Thomas says. “The pendulum in the fashion industry tends to swing back and forth every 20 years from European to Americana.” Now may be America’s time, as a technology-raised generation comes of age in the U.S. “There’s a second generation that’s discovering the authentically American heritage brands,” he says. “They like it. They want made-in-America, and they want made-in-America because it’s authentic.”

Cal McCollum used to deal with foreign manufacturers, but not anymore. He grew tired of having foreign companies show him one quality of fabric and then send him something bunched, rough and basically unusable for the quality he wanted to produce. His decision to quit taking imported fabric came out of necessity. “The reason I don’t do it is quality and time,” he says. “Our return rate is 1%. I don’t have to worry about bait and switch.”

Now McCollum buys his fabric from American manufacturers and gives his clothing a “Made in the USA” tag. While some people buy because of that, it’s not his main selling point, and Thomas feels the same. “We don’t lead with the flag,” Thomas says. “We don’t say buy our brand because it’s made in America. Buy it because it’s good, and yeah, it’s nice that it’s made here, but here’s a product that actually is what it’s supposed to be.”

Kirby Best started in Los Angeles a little bit differently. Cal McCollum had moved from Texas to California for a job and started his own line of women’s clothing in 2002, taking on a no-frills third-floor warehouse space on the outskirts of the Los Angeles garment district, where he still works with three full-time employees in addition to contract shops. Unlike Bill’s Khakis, Cali by Cal doesn’t produce old-fashioned Americana. Instead, the firm designs camisoles, dresses, pants and shirts, all targeted toward a modern female client. Cali’s specialty is a “figure physics bra,” what others call a “shelf bra” – i.e., a bra built into the inside of a shirt. “We don’t like to call it a shelf bra because most of those are a piece of s**t,” McCollum says in his Texas accent as

he walks by racks of clothes in his warehouse. “We’ve actually put a lot of research into it.” McCollum used to deal with foreign manufacturers, but not anymore. He grew tired of having foreign companies show him one quality of fabric and then send him something bunched, rough and basically unusable for the quality he wanted to produce. His decision to quit taking imported fabric came out of necessity. “The reason I don’t do it is quality and time,” he says. “Our return rate is 1%. I don’t have to worry about bait and switch.”

Manufacturing Success

Although it has suffered from a recent spate of troubles, American Apparel (asi/35297), perhaps the biggest U.S. clothing manufacturer of them all, is also seeing an uptick in interest for Made in the U.S. apparel.

Over the summer, barely a week went by without some bad news for the Los Angeles-based company: poor financial numbers, bottoming out of its stock prices, resignation of its auditing firm, a federal investigation into that resignation, three class-action lawsuits, and various prognostications of the firm’s imminent demise and bankruptcy. And just last year, the company was forced to lay off 1,500 employees who had no legal authorization to work in the U.S.

However, the trend-setting supplier showed signs of improvement as of press time. Billionaire Ron Burkle bought a 6% stake in the company, and share prices rebounded in September and October. British lender Lion Capital offered new credit terms to keep the company afloat, and former Blockbuster executive Tom Casey joined American as its acting president soon after in October. Analysts continue to trace the company’s greatest problems to the ill-timed opening of more than 285 retail stores right as the worldwide economy tanked. But
what the news obscures is the fact that American Apparel found a workable manufacturing model that allowed it to rise so high in the first place.

American Apparel’s chief operations officer, Marty Bailey, has seen both sides of the offshore equation. He spent 15 years at Fruit of the Loom, about half of which were spent moving the company’s operations abroad and opening about 40 offshore factories for the company. “Of course, when you do that, you get to see the true cost,” he says. “It’s not just the labor. It’s the logistics. It’s the transit. It’s getting it there and getting it back. It’s the quality.” Bailey came away convinced the business model at those factories could work stateside. Upon joining American Apparel, he put Fruit of the Loom’s team model to work, and it was on display one September afternoon on a tour of one of his Los Angeles factories. “You’re in the largest apparel manufacturing facility in North America right now,” Bailey says, before conceding that Mexico might have a competitor to that title. “Back in 1995, you couldn’t have said that.”

American Apparel employees are split up into teams, each of which works on one type of garment, and they seldom switch types. One team may be on T-shirts, while another is on baby clothes. The team starts with fabric. One person hems a sleeve. Maybe the next gets a collar. They pass it on down the line. At the end, that fabric is a shirt that goes into a box, gets audited by an inspector, and then goes on a conveyor belt to the adjacent distribution warehouse. The workers are paid by the completed garment, not by the hour, and a chart at each team’s station shows how much they make every hour. In most cases, it works out to over $12 an hour per employee. “Our company’s success is based on the success of the people doing the work,” Bailey says. “The more successful they are, the more successful we are. If I pay people by the hour, I’m buying their time. If I pay by the piece, I’m buying their effort.” After Bailey joined the company in 2002 and implemented this model, production rates tripled.

What does American Apparel’s rollercoaster ride say about the state of U.S. manufacturing? If your glass is half full, it says U.S. apparel
manufacturing can still work, particularly if foreign competition can’t sustain low wages and high production. If it’s half empty, it says American Apparel’s higher wages left too little room for error.

But perhaps there’s another option – choice C, if you will. In January 2009, FIBER, an online journal of the international apparel industry, surveyed its readers to ask people’s opinions on the future of the U.S. apparel industry. Of the respondents, 21% thought production would increase due to consumer concerns about social responsibility, and 26% said domestic production was gone for good and would continue to decline. The rest – 53% – said they thought the domestic market was “stable for niche production.” “Even the big guys want some short-term fill-ins, and there continues to be a demand for U.S.-made apparel,” says Marsha Dickson, a professor of fashion and apparel studies who chairs that department at the University of Delaware, which publishes FIBER. “So there’s definitely room for a market niche.”

Dickson sees more interest for local designs and clothes produced in good working conditions. Those people who want to draw on American clothing factories don’t have as many manufacturing options as they once did. Perhaps this is another market gap that new or expanding manufacturers might exploit, but for the moment, it’s just that – a gap. “What is the area where we can keep business?” Dickson asks. “Where are the niches? And I don’t have an answer to it. I get all these e-mails from people who want to start an ethical fashion business. They say, ‘Where is this list of American factories?’ I say, it’s not that easy.” Dickson doesn’t forecast an industry comeback, but then again, she says she’s not the crystal-ball type. Like others, Dickson looks at the facts – the closing of factories, offshoring and price gap – and is left with more questions than answers. In the end, the answers will come from people either willing or unwilling to invest in the U.S. apparel industry.

Daniel Walsh is a staff writer for Wearables.